Invesco Perpetual UK Smaller Companies Investment Trust plc

Annual Financial Report
Year ended 31 January 2020

Invesco Perpetual UK Smaller Companies Investment Trust plc

Annual Financial Report 2020

CONTENTS

The Company is a member of
aic
The Association of Investment Companies
www.theaic.co.uk

If you have any queries about Invesco Perpetual UK Smaller Companies Investment Trust plc, or any of the other specialist funds managed by Invesco, please contact our Client Services Team on

☎ 0800 085 8677

www.invesco.co.uk/ipukscit

Front Cover: Abstract granite, Cornwall.

THE COMPANY IN BRIEF

Nature of the Company

The Company is a public listed investment company whose shares are traded on the London Stock Exchange. The business of the Company consists of investing its funds according to the investment objective 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.

The Company has contracted with an external investment manager, Invesco Fund Managers Limited (the 'Manager'), to manage its investments and for 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 objective below and policy as set out on page 12 are adhered to. The Company has no employees.

Investment Objective

Invesco Perpetual UK Smaller Companies Investment Trust plc is an investment trust whose investment objective is to achieve long-term total returns for shareholders primarily by investment in a broad cross-section of small to medium sized UK quoted companies.

Benchmark

The Company aims to achieve long-term total returns which are in excess of its benchmark, the Numis Smaller Companies Index (excluding Investment Companies), with income reinvested.

Dividend Policy

The Company's dividend policy is to distribute all available revenue earned by the portfolio in the form of dividends to shareholders. In addition, the Board has approved the use of the Company's capital reserves to enhance dividend payments. Therefore, the total dividend, paid to shareholders on a quarterly basis, comprises income received from the portfolio, with the balance coming from capital reserves.

The Company's Investment Style

The Company's investment style is:

– to seek to identify well managed, financially strong companies which have unique propositions or clear competitive advantages, and whose share prices are reasonable in relation to their quality and potential for growth;

– to moderate risk by investing in a wide range of companies; and

– to take advantage of anticipated market strength or special situations by the careful use of borrowings.

The Company's shares qualify to be considered as a mainstream investment product suitable for promotion to retail investors and are eligible for investment in an ISA.

FINANCIAL HIGHLIGHTS

AT 31 JANUARY	2020	2019	CHANGE
Net asset value(1) per share (NAV)	606.7p	481.8p	+25.9%
Total shareholders' funds (£'000)(2)	205,243	158,285	+29.7%
Share price(1)(3)	606.0p	465.0p	+30.3%
(Discount)/Premium(1)	(0.1)%	(3.5)%	
Gearing(1):			
– gross gearing	nil	nil	
– net gearing	nil	nil	
– net cash	2.7%	6.6%	
Maximum authorised gearing	7.3%	9.5%	

FOR THE YEAR ENDED 31 JANUARY	2020	2019	
Total return (with income reinvested):			
NAV(1)(3)	+30.4%	–7.8%	
Share price(1)(3)	+35.2%	–6.8%	
Benchmark Index(1)(3)(4)	+13.7%	–7.4%	
FTSE All-Share Index(3)	+10.7%	–3.8%	
Return(1) and dividend per ordinary share:			
Revenue return	10.13p	10.72p	
Capital return	133.21p	(51.50)p	
Total return	143.34p	(40.78)p	
First interim dividend	3.75p	3.65p	
Second interim dividend	3.75p	3.65p	
Third interim dividend	3.75p	3.65p	
Final dividend	7.35p	7.65p	
Total dividends	18.60p	18.60p	–
Dividend payable for the year (£'000):			
– from revenue	3,340	3,521	
– from capital	2,879	2,589	
	6,219	6,110	
Capital dividend as a % of year end net assets	1.4%	1.6%	
Ongoing charges(1)(5) – excluding performance fee	0.97%	0.88%	
Performance fee(6)	n/a	0.07%	

Notes: (1) Alternative Performance Measure (APM). See Glossary of Terms and Alternative Performance Measures on pages 68 to 71 of the financial report for details of the explanation and reconciliations of APMs.

(2) For the year to 31 January 2020, 975,000 ordinary shares were issued from treasury for net proceeds after issue costs of £5,872,000 (2019: nil).

(3) Source: Refinitiv.

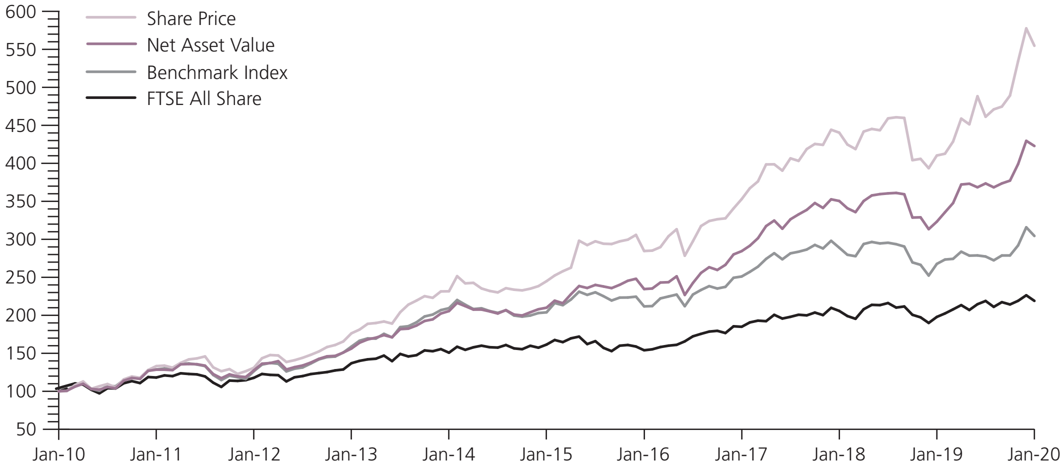
(4) The Benchmark Index of the Company is the Numis Smaller Companies Index (excluding Investment Companies) with income reinvested.

(5) The ongoing charge for the year has increased due to the new investment management fee arrangements from 1 February 2019 where the performance fee arrangement was removed and the base management fee was increased from 0.65% per annum to 0.75% per annum of gross funds under management. Under the old management fee arrangement, for the year ended 2020, the ongoing charges would have been 0.87% and the performance fee would have been 2.09%. Hence, there was a reduction of 1.99% in total costs to the Company under the new fee arrangement.

(6) The performance fee arrangement was removed with effect from 1 February 2019, resulting in no performance fee for the current year. Previously, the performance fee was calculated on the outperformance of the NAV against the Benchmark Index; both excluding income reinvested.

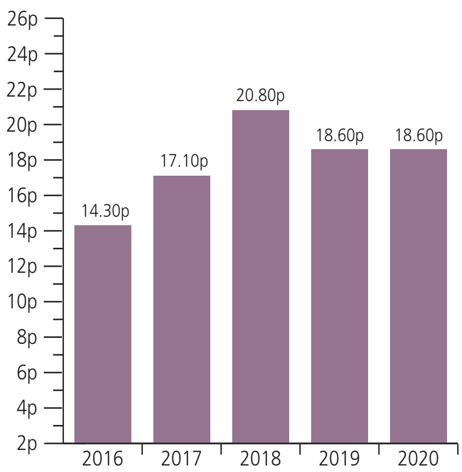
Cumulative Ten Year Share Price and NAV Performance vs Benchmark (Total Return)

Figures have been rebased to 100 at 31 January 2010



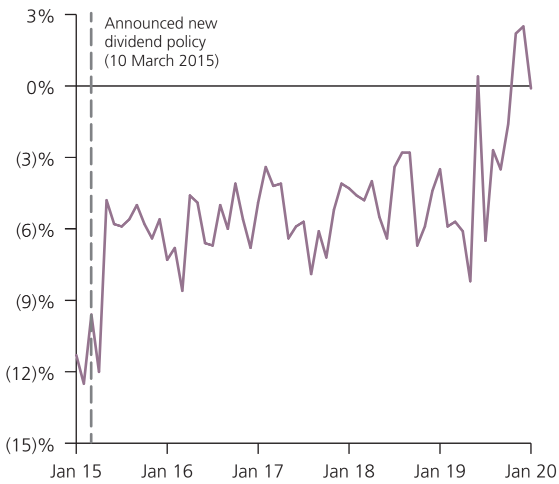
Source: Refinitiv.

Five Year Dividend History



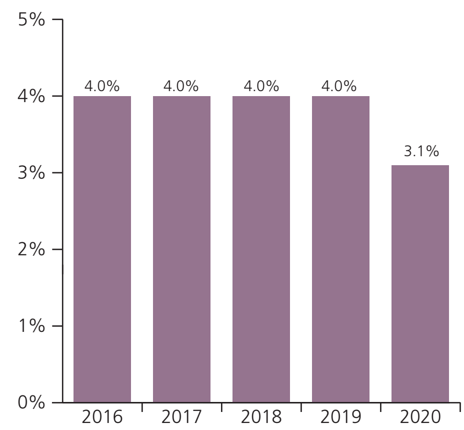
The dividends shown above are those proposed in respect of each year, and are in pence per share.

(Discount)/Premium Since 31 January 2015



Source: Refinitiv.

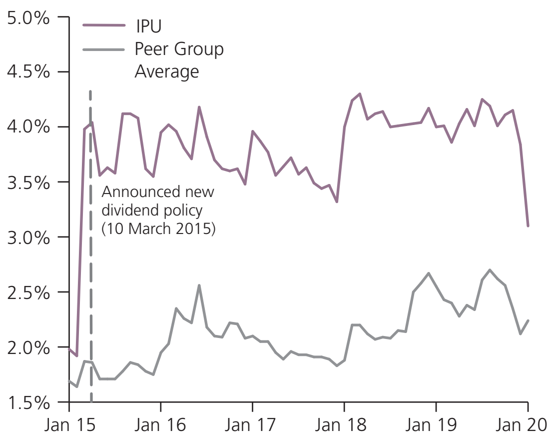
Five Year Dividend Yield History



The dividend yield is based on the share price as at 31 January each year. See the Chairman's Statement for further explanation of the 2020 dividend and yield.

Yield Since 31 January 2015

Peer Group Average vs Company



Source: Refinitiv.

Ten Year Historical Record

TO 31 JANUARY	GROSS INCOME £'000	NET REVENUE RETURN AVAILABLE FOR SHAREHOLDERS £'000	DIVIDENDS ON SHARES[1] COST £'000	RATE p	TOTAL SHARE-HOLDERS FUNDS £'000	NET ASSET VALUE PER SHARE p	SHARE PRICE p	ONGOING CHARGES %	PERFORM-ANCE FEE %
2011	2,985	2,312	2,399	4.30	133,999	242.9	195.0	0.86	–
2012	3,590	2,852	2,676	5.00	126,771	237.6	187.5	0.89	0.31
2013	4,123	3,370	3,193	6.00	152,034	285.7	246.5	0.87	–
2014	4,555	3,673	3,459	6.50	195,749	367.9	316.8	0.83	–
2015[2]	4,468	3,930	7,316	13.75	196,914	370.1	328.3	0.83	0.73
2016	5,331	4,779	7,609	14.30	207,657	390.3	362.0	0.82	1.01
2017	4,523	3,924	9,099	17.10	241,603	454.1	432.0	0.82	0.44
2018[3]	4,116	3,573	6,833	20.80	178,571	543.6	520.0	0.82	1.27
2019	4,080	3,521	6,110	18.60	158,285	481.8	465.0	0.88	0.07
2020[4]	**3,924**	**3,340**	**6,219**	**18.60**	**205,243**	**606.7**	**606.0**	**0.97**	**n/a**

(1) The dividends shown above are those proposed in respect of each year.
(2) Dividend policy changed 2015.
(3) The 38.26% take-up of the tender offer in June 2017 is reflected in the decrease in shareholder's funds at the year end.
(4) The performance fee arrangement was removed with effect from 1 February 2019 and the base management fee was increased from 0.65% to 0.75% per annum.

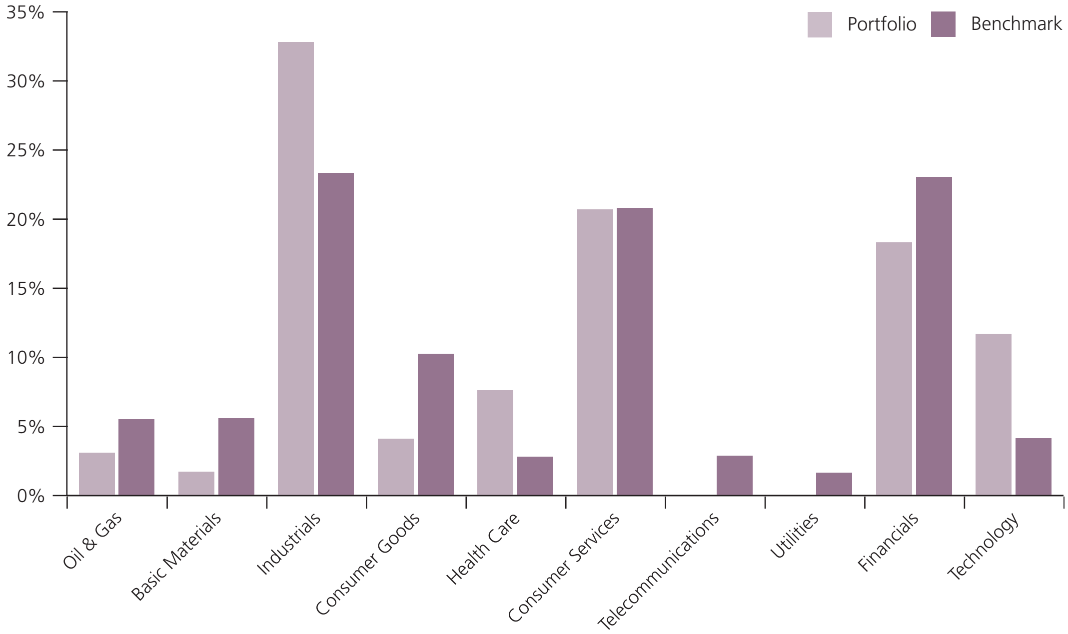
Ten Year Total Return Performance

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	ANNUALISED THREE YEARS	ANNUALISED FIVE YEARS	ANNUALISED TEN YEARS
Share Price %	33.2	–1.7	34.6	31.4	5.8	16.2	24.0	24.8	–6.8	35.2	16.3	17.8	18.7
Net Asset Value (NAV) %	28.2	–0.4	22.6	31.3	2.4	10.6	20.6	23.9	–7.8	30.4	14.2	14.7	15.4
Benchmark Index %	28.7	–1.8	25.6	31.8	–2.6	3.8	18.6	15.1	–7.4	13.7	6.6	8.3	11.8
Variance (NAV to Index) %	–0.5	1.4	–3.0	–0.5	5.0	6.8	2.0	8.8	–0.4	16.7	7.6	6.4	3.6

Source: Refinitiv.

Industry Allocation of Portfolio vs Benchmark

As at 31 January 2020



Source: Refinitiv.

STRATEGIC REPORT

FOR THE YEAR ENDED 31 JANUARY 2020

CHAIRMAN'S STATEMENT

Dear Shareholders,

This is my first year reporting to you as Chairman of your Company. Detailed below is a summary of the performance and other information for the financial year ended 31 January 2020.

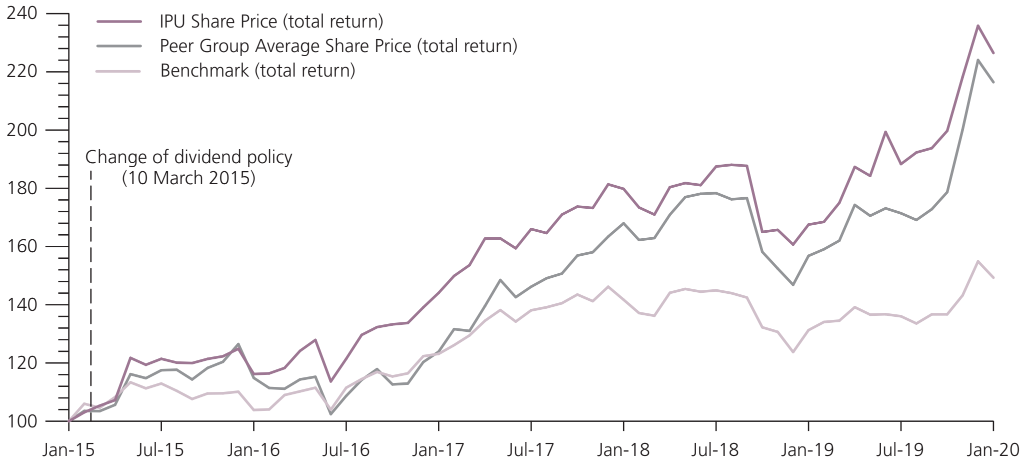
Performance

Just when we thought the backdrop of difficult market conditions and economic uncertainty was at an end, we have been proven wrong and COVID-19 has brought both back to the forefront of investors' minds. However, I am pleased to report that for the year ended 31 January 2020 your Company returned +30.4% in net asset value (NAV) terms, outperforming its Benchmark Index, the Numis Smaller Companies Index (excluding Investment Companies), which returned +13.7%, (in each case measured on a total return basis). Within the UK Smaller Companies Investment trust peer group, the average NAV return over the same period was +25.1% (source: JPM Cazenove). The Company's share price total return for the year was +35.2% (2019: –6.8%).

Against the wider UK stock market (as measured by the FTSE All Share Index), which returned +10.7%, the Company outperformed it by 19.7% over the same period.

The following graph shows the Company's five-year total return results; which were well in excess of both the benchmark index and the Company's peer group average.

Share Price – Company versus benchmark index and peer group average



Source: Refinitiv.

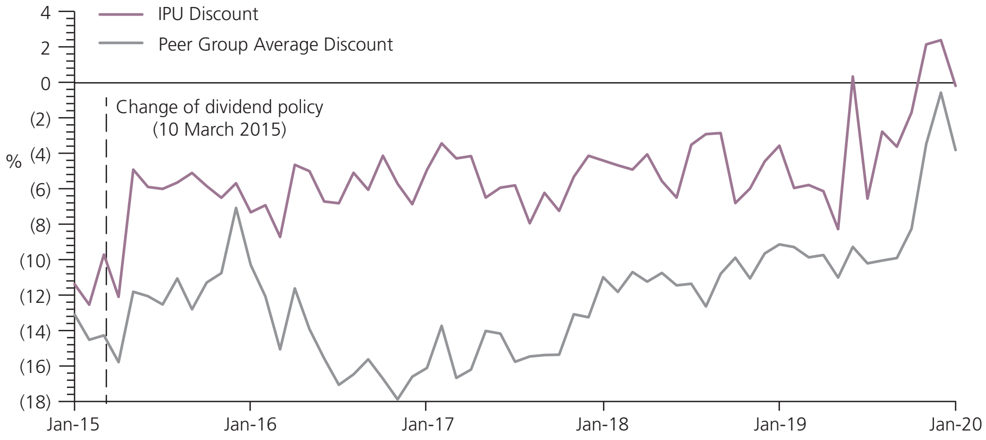
Discount/Premium and Share issuance

During the year the shares traded within the range of –8.2% (discount) to +3.9% (premium). In order to satisfy market demand, the Company issued 975,000 shares from its treasury account, at an average price of 604.61p and in each instance at a small premium to the then prevailing cum income NAV, so as not to dilute the interests of existing shareholders. In aggregate, this provided an uplift to the NAV of 0.04%.

As at the latest practicable date prior to the publication of this report, being 14 April 2020, the discount stands at 7.1% and Shareholders will no doubt be acutely aware that the Company's share price has fallen by 31.1%, the NAV has fallen 25.9% and the Benchmark Index is down 27.4% over the period between 1 February 2020 and 14 April 2020. While the Company's recent performance is in line with its UK Smaller Company Investment Trust peers and the wider market, that is of little comfort.

CHAIRMAN'S STATEMENT continued

Premium/(discount) – Company versus the peer group average



Source: Refinitiv.

The Board continues to monitor the discount level at which the Company's shares trade and may seek to limit any future volatility through the prudent use of both share issuance and share buybacks, as the circumstances require.

Dividend and dividend policy

Following the Board's commitment in 2015 to pay out all income earned within the portfolio and to enhance it annually through the use of a small amount of realised capital profits, your Company's dividend yield has exceeded most of its peers and is a distinguishing feature of the Company within the UK Smaller Company investment trust sub-sector, particularly in the prevailing low interest rate environment.

The 2015 initiative significantly increased the annual dividend level to an initial yield target of 4% (based on the then prevailing share price) and from 2016 onwards, in normal circumstances, the 4% target yield has been calculated on the year end share price.

The Board is aware how important dividends are to shareholders. Since mid-February 2020 and as a result of COVID-19, the outlook for many UK smaller companies has changed from paying out excess cash by way of dividends to conserving cash in order to survive. This, together with the significant reduction in the Company's net asset value and share price since the year end, has led the Board to consider carefully the amount of the Company's final dividend.

The Board has decided that the Company will propose a final dividend of 7.35p to bring the total dividend paid for the year to 18.6p (2019: 18.6p). In line with the Company's current dividend policy, this represents all of the available revenue earned by the Company's portfolio over the year, together with 8.47p from realised capital profits. While this amount is lower than had the total dividend been calculated using the target yield based on the 31 January 2020 share price, the Board believes it is a prudent basis on which to proceed, in the current far from normal circumstances, and balances the interests of shareholders and the Company.

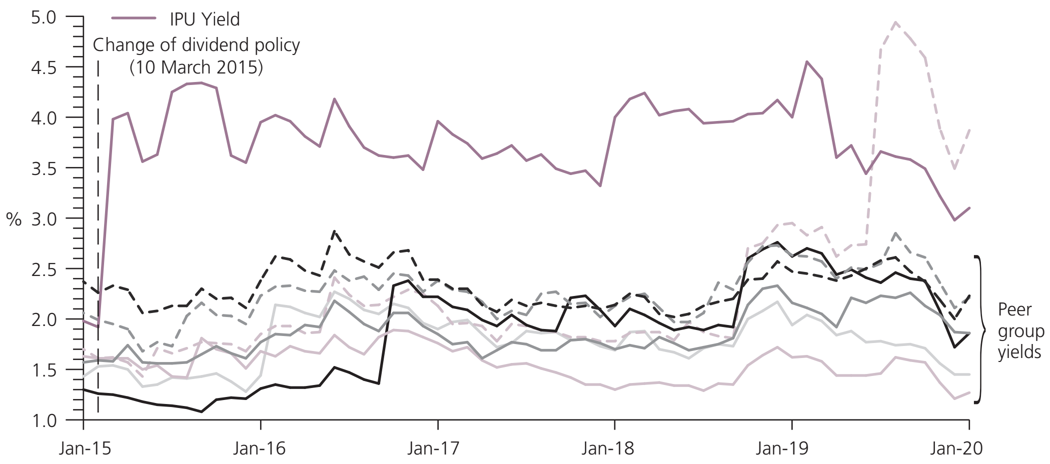
The Company's dividends are paid quarterly in September, December, March and June. For the year ended 31 January 2020, three interim dividends of 3.75p each have already been paid and the Board has announced a proposed final dividend of 7.35p per share, making a total for the year of 18.6p per share. The final dividend will be payable, subject to shareholder approval, on 12 June 2020 to shareholders on the register on 15 May 2020 and the shares will go ex-dividend on 14 May 2020.

Revenue per share has decreased marginally from 10.72p last year to 10.13p this year, which means that the resulting balance of dividend being paid from realised capital profits represents 1.4% of net assets at the year end and it continues to represent only a small proportion of the longer-term returns achieved by the Manager.

Turning to the financial year ending 31 January 2021, while there is no clarity on what the economic impact of COVID-19 will be on the Company's portfolio and consequent uncertainty about income (especially in the light of recent announcements of dividend cuts) and capital returns in the portfolio, the Board believes that targeting a dividend yield of 4% of the year end share price is no longer appropriate in these circumstances since it might require a material distribution out of capital which would not be consistent with the Board's approach of paying out a small amount only from capital profits. Accordingly, we are removing the 4% target yield but the Company will continue its policy to distribute all available revenue generated by the portfolio, together with an amount from realised capital profits.

The Board believes that shareholders need to know what they might expect as a minimum by way of yield in the year ahead. For 2021, the Company will continue to distribute all available revenue generated by the portfolio, together with an amount from realised capital profits, which in aggregate will amount to not less than 2% of the Company's 31 January 2021 share price with the aim that the Company returns to delivering a higher yield than its UK Smaller Company investment trust peers once the impact of COVID-19 has abated. As the Board is better able to assess the impact of COVID-19, further revisions to the Company's dividend policy may be required and updates will be made to shareholders.

Dividend Yield – Company versus peer group yields



Source: Refinitiv.

Future of the Company

Prior to the 2015 initiative in relation to dividends, the Board made a commitment in 2012 to offer shareholders an opportunity to realise their investment at close to NAV in 2017. This took the form of a tender offer for up to 40% of the Company's shares which was undersubscribed at 38.2%. The tender offer allowed several institutional investors, which had built up significant positions and which had supported the Company during the period when its shares traded at a wide discount to NAV, to dispose of their shareholdings in an orderly manner at close to NAV. Given that many of the Company's other shareholders chose not to participate in the tender, this resulted in a positive rebalancing of the shareholder register toward supportive, long-term shareholders.

At the time of the tender offer in 2017, the Board committed to put a further range of options to shareholders at the Company's 2020 AGM. During 2019, Directors reviewed the Company's position and prospects and consulted major shareholders. As a result, the Board put a continuation vote Resolution to shareholders at the AGM in 2019 which was passed with 99.84% of votes cast in favour.

The Directors intend to put further options to shareholders at the AGM in 2024, or sooner, if the Board believes this to be in the interests of shareholders. The precise nature of these options will depend upon the circumstances prevailing at the time.

Board Composition and Succession Planning

As reported in the Half-Yearly Financial Report, during the year the Board reviewed its composition and succession planning and consequently engaged Trust Associates Limited, an external search consultant, to conduct a search for a new Director. As a result, Graham Paterson was appointed a Director of the Company with effect from 15 October 2019 and will accordingly stand for election by shareholders at the forthcoming AGM.

Graham is a chartered accountant with extensive experience in the fields of private equity and other early stage investment vehicles and his skills will complement those of the other members of the Board.

CHAIRMAN'S STATEMENT continued

Having served on the Board for over 32 years, Richard Brooman will retire as a Director of the Company at the conclusion of the forthcoming AGM. The Board and I would like to thank Richard for his years of excellent service to the Company. In addition to his skills in chairing the Audit Committee he has been a valuable resource for 'corporate memory', which cannot be underrated for entities such as this Company, where many changes have occurred through its considerable history.

I am pleased to announce that Graham Paterson will be appointed as Chairman of the Audit Committee and Christopher Fletcher will be appointed as Senior Independent Director with effect from the conclusion of the AGM. Following the AGM, the Board will consist of four Non-Executive Directors with a range of skills which the Board considers is an appropriate mix for your Company at this time. We will review whether this remains the case on a regular basis.

Annual General Meeting

In response to COVID-19, the Stay at Home Measures were passed into law in England and Wales on 26 March 2020, with immediate effect. These measures dictate that gatherings of more than two people are not permitted.

However, the Company is still legally required to hold an AGM which will be held on 11 June 2020 at 12 noon. As the attendance of more than two people at an AGM (other than where this is essential for work purposes) is not permitted and shareholders should not attend the AGM. Anyone who ignores the Stay at Home Measures and attempts to join the meeting in person will not be admitted. Given the restrictions on attendance, shareholders are encouraged to appoint the 'Chairman of the Meeting' as their proxy rather than another person who will not be permitted to attend the meeting. Should the Stay at Home Measures have been lifted prior to the AGM, the Directors will consider whether it is possible to make arrangements for shareholders to be admitted as usual to the AGM and will make further announcements if necessary.

This year's AGM will be restricted to the formal business of the meeting as set out in the Notice of Meeting. There will be no presentation by the Portfolio Managers. All Directors will be standing for re-election, with the exception of Richard Brooman. The Directors have carefully considered all resolutions proposed and believe them to be in the best interests of shareholders and the Company as a whole. Accordingly, the Directors recommend that shareholders vote in favour of each resolution, as will the Directors in respect of their own shareholdings. Shareholders are strongly encouraged to submit their proxy votes in advance of the meeting.

We encourage all investors who have any questions or comments to contact the Company Secretary who will relay your comments to the Board, and we will respond in due course. The Board would like to thank all shareholders for their understanding during these unprecedented times. We will return to full shareholder engagement as soon as possible.

Outlook

At the time of writing there remains considerable uncertainty as to the full impact of COVID-19 in terms of both health outcomes and its effect on companies in your Company's investment universe. This, combined with the collapse in the oil price has fuelled volatility across the market.

Your Portfolio Managers' views of the investment horizon are set out later in this document. The Board has reviewed the Portfolio Managers' initial portfolio analysis relating to the effect of COVID-19 related measures including 'lock down' on investee companies and we draw comfort that while many will have to defer dividends and furlough staff, such measures are being undertaken in order to ensure these companies are in the best possible position to resume normal operations when conditions allow.

In this fast changing and worrying environment, your Portfolio Managers continue to invest into businesses with returns and profit margins that are sustainable and which offer great products or services, are in higher growth areas and where they are able to take market share from competitors. The investment trust structure of your Company means that they are able to do so without having to be concerned about managing the portfolio to allow for redemption outflows as is the case for open-ended companies.

The Board remains confident that an investment in the Company will serve shareholders well over the longer term.

Jane Lewis
Chairman

16 April 2020

PORTFOLIO MANAGERS' REPORT

Investment Review

The year under review was a positive one for global stock markets. Following a softer year last year, central banks resumed monetary easing, which combined with hopes of a resolution to the US trade dispute with China, created a positive backdrop for investors. In the UK, the decisive election result in December 2019 provided some much needed stability to the political outlook, and the "Boris bounce" carried markets higher in the month. Whilst activity data for the UK economy remained weak, there was a distinct pick-up in a number of forward looking indicators at the end of the period.

Over the 12 months to 31 January 2020 the UK stock market, as measured by the FTSE All-Share Index, gained 10.7% on a total return basis. Smaller companies, as measured by the Numis Smaller Companies Index (excluding investment companies) fared better, gaining 13.7% on a total return basis over the year. The smaller companies sector has a greater exposure to the UK domestic economy, and therefore received a greater benefit from improved sentiment towards the UK following the UK election result.

Invesco Perpetual UK Smaller Companies Investment Trust plc

Performance attribution for the year ended 31 January 2020

	TOTAL ABSOLUTE %
Net asset value total return[1]	30.4
Less: Benchmark total return[1]	13.7
Relative outperformance	16.7

Analysis of Relative Performance

Portfolio total return including cash and excluding expenses	31.4
Less: Benchmark total return[1]	13.7
Portfolio outperformance	17.7
Net gearing effect	—
Management fees	(0.8)
Other expenses	(0.2)
Total	16.7

(1) Source: Refinitiv.

Performance attribution analyses the Company's net asset value performance relative to its benchmark.

Portfolio (under)/outperformance measures the relative effect of the Company's investment portfolio including cash and excluding expenses against that of its benchmark.

Net gearing effect measures the impact of borrowings less any cash balances on the Company's relative performance. This is nil where there is no gearing in a year.

Management fees and other expenses reduce the level of assets and therefore result in a negative effect for relative performance. There are no fees or expenses imputed to the benchmark index.

Portfolio Strategy and Review

Against this background, your Company generated a net asset value total return of +30.4% for the fiscal year. Positive contributions came from the Media, Support Services and Technology sectors, while the portfolio's exposure to the Consumer Goods sector negatively affected performance.

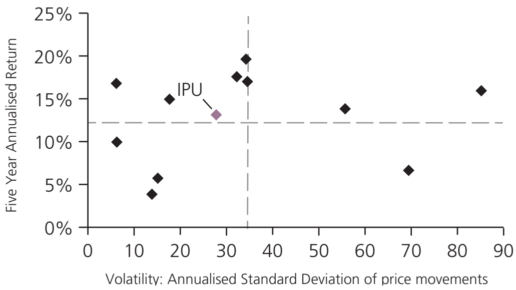
At the individual stock level, the best performers included: **Future** (+186%), a publishing business which owns titles such as Tech Radar and What Hi-Fi, and is transitioning from printing magazines to a predominantly online business model. Management have significantly increased margins by generating new revenue streams from their content via online advertising and e-commerce. **CVS** (+179%), the leading veterinary services business, bounced back strongly following a poor performance last year. New management brought a renewed focus on operational efficiency, which has led to a margin recovery. We continue to believe the business could be a takeover target. **Ultra Electronics** (+74%) is a defence business with a focus on marine and electronic warfare. The business has performed well under new management and looks well placed to benefit from an increase in defence spending. **4imprint** (+70%) which sells promotional products in the US, saw a larger than expected uplift in trading from its decision to increase TV marketing spend to improve brand recognition. The company is now the market leader in the US but still has significant room to take market share.

Inevitably we had some disappointments in the period, the most significant of which was **Staffline** (–90%). The blue-collar recruitment agency was the subject of a whistleblowing letter on the eve of publishing its annual report. The report was delayed, resulting in a suspension of trading in the stock. Although the allegations made by the whistle blower proved false, the uncertainty was off-putting for potential

PORTFOLIO MANAGERS' REPORT continued

customers and led to a significant loss of revenue and profitability. The company has been refinanced and can hopefully prosper from here, but it is not yet out of the woods. We have retained a small position in the stock. We also lost money on **Ted Baker** (–72%) following a difficult period of trading. We bought the stock because it has a strong brand and a loyal customer base. However, the difficult consumer environment and increasing trend to shop online did not favour the business. We no longer own the stock.

Returns vs. Volatility† Over Five Years – UK Smaller Companies Investment Trust Peer Group (12 trusts)



IPU = the Company.

– – – – represents the average performance (vertical) and the average volatility (horizontal) of the peer group.

† Defined in the Glossary of Terms on page 71.

Source: JPMorgan Cazenove

Investment Strategy

Our investment strategy remains unchanged. The current portfolio comprises 72 stocks with the sector weightings being determined by where we are finding attractive companies at a given time, rather than by allocating assets according to a "top down" view of the economy. We continue to seek growing businesses, which have the potential to be significantly larger in the medium term. These tend to be companies that either have great products or services, that can enable them to take market share from their competitors, or companies that are exposed to higher growth niches within the UK economy or overseas. We prefer to invest in cash generative businesses that can fund their own expansion, although we are willing to back strong management teams by providing additional capital to invest for growth.

The sustainability of returns and profit margins is vital for the long term success of a company. The assessment of a business's position within its supply chain and a clear understanding of how work is won and priced are key to determining whether a company has "pricing power". It is also important to determine which businesses possess unique capabilities, in the form of: intellectual property; specialist know-how; or a scale advantage in their chosen market. We conduct around 300 company meetings and site visits each year, and these areas are a particular focus for us on such occasions.

The five largest holdings in the portfolio at the beginning of the new year are:

- **4imprint** sells promotional materials such as pens, bags and clothing which are printed with company logos. The business gathers orders through online and catalogue marketing, which are then routed to their suppliers which print and dispatch the products to customers. As a result of outsourcing manufacture, the business has a relatively low capital requirement and can focus on marketing and customer service. Continual reinvestment of revenue into marketing campaigns has enabled the business to generate an enviable long term growth record whilst maintaining margins.
- **Future** is a media business which is successfully transitioning from publishing magazines to running a diverse range of niche interest websites such as Tech Radar, What Hi Fi, Period Living and Digital Camera World. The business aims to produce relevant, high quality content and monetise it via subscriptions, advertising and ecommerce. Management have been successful in revitalising numerous brands, and the company has grown revenue and profit both organically and via acquisition.
- **CVS** is a leading veterinary services business, which owns over 500 vet surgeries and specialist centres, predominantly in the UK. The scale of the business gives it purchasing power, allowing it to generate a higher margin than individual surgeries. Management successfully consolidated the UK market and have recently entered continental Europe. The business is relatively unaffected by the economic cycle, and with ever more being spent on the wellbeing of the nation's pets, can continue to grow for many years to come.
- **Johnson Service** is one of the UK's leading linen hire and workwear businesses, supplying bed linen, tablecloths and uniforms to businesses around the country. It has a scale advantage over

smaller competitors, reducing the cost of procurement and giving it a greater density of customers in its geography, enabling it to serve those customers more cheaply. It leverages its scale advantage by acquiring smaller competitors and integrating them into its network. Management invest heavily in modern, efficient equipment to further entrench their cost advantage.

- **Clinigen** is a healthcare business which is a world leader in the specialist distribution of drugs to geographies outside the standard regulated North American, European and Japanese markets. These activities give management insight into drugs that could potentially be used on a wider basis. This enables management to acquire the rights to compounds where they can increase profitability by achieving further approvals for new categories of patients.

Outlook

The previously downbeat prospects for the global economy are currently being compounded by stringent actions put in place to limit the spread of the Coronavirus. While the health impact will hopefully be limited, the disruption caused to economic activity and therefore company profitability will be severe. Whilst we always aim to be invested in businesses with strong balance sheets and sustainable business models, even these companies will have to take drastic action to ensure they emerge from this crisis intact.

However dire the current predicament, there are already investment opportunities emerging. Company valuations are approaching historic lows and the massive monetary easing currently underway will ultimately provide a strong impetus to the equity market. Weaker companies will fail, thereby providing some growth opportunities in time for stronger businesses. We will be ready to invest in companies such as these when the time is right.

We have spoken to many of the businesses within the portfolio and assessed their ability to withstand a sustained period of weak trading. Thankfully, our policy of avoiding companies with weak balance sheets and fragile business models means that in the vast majority of cases the companies we own should be in a solid financial position when we finally exit lockdown. Where such businesses become financially stretched or have an opportunity to invest for growth, we will consider supplying them with the capital they need.

Whilst we are all reeling from the recent market falls, we can assure you that we are fully focused on capitalising on the opportunities these present on your behalf.

Jonathan Brown
Portfolio Manager

Robin West
Deputy Portfolio Manager

16 April 2020

BUSINESS REVIEW

Purpose, Business Model and Strategy

Invesco Perpetual UK Smaller Companies Investment Trust plc is an investment company and its investment objective is set out below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are also set out below and have been approved by shareholders.

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

The Company has contracted the services of Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. The Portfolio Manager responsible for the day to day management of the portfolio is Jonathan Brown, assisted by Robin West, Deputy Portfolio Manager. The Manager has delegated portfolio valuation, fund accounting and administrative services to The Bank of New York Mellon, London Branch.

In addition, the Company has contractual arrangements with Link Asset Services Limited to act as registrar and The Bank of New York Mellon (International) Limited (BNYMIL) as depositary and custodian.

Investment Objective

The Company is an investment trust whose investment objective is to achieve long-term total returns for shareholders, primarily by investment in a broad cross-section of small to medium sized UK quoted companies.

Investment Policy

The portfolio primarily comprises shares traded on the London Stock Exchange and those traded on AIM. The Portfolio Manager can also invest in unquoted securities, though these are limited to a maximum of 5% of gross assets at the time of acquisition.

The Manager seeks to outperform its benchmark, the Numis Smaller Companies Index (excluding Investment Companies) with income reinvested. As a result, the Manager's approach can, and often does, result in significant overweight or underweight positions in individual stocks or sectors compared with the benchmark. Sector weightings are ultimately determined by stock selection decisions.

Risk diversification is sought through a broad exposure to the market, where no single investment may exceed 5% of the Company's gross assets at the time of acquisition. The Company may utilise index futures to hedge risk of no more than 10% and other derivatives (including warrants) of no more than 5%. In addition, the Company will not invest more than 10% in collective investment schemes or investment companies, nor more than 10% in non-UK domiciled companies. All these limits are referenced to gross assets at the time of acquisition.

Borrowings under this investment policy may be used to raise market exposure up to the lower of 30% of net asset value and £25 million.

Dividend Policy

The Company's dividend policy is to distribute all available revenue earned by the portfolio in the form of dividends to shareholders. In addition, the Board has approved the use of the Company's capital reserves to enhance dividend payments. Therefore, the total dividend, paid to shareholders on a quarterly basis, comprises income received from the portfolio, with the balance coming from capital reserves.

As explained in the Chairman's Statement on page 6, the Board believes that targeting a dividend yield of 4% of the year end share price is no longer appropriate. For 2021, the Company will continue to distribute all available revenue generated by the portfolio, together with an amount from realised capital profits which in aggregate will amount to not less than 2% of the Company's 31 January 2021 share price with the aim that the Company returns to delivering a higher yield than its UK Smaller Company investment trust peers once the impact of COVID-19 has abated.

Performance

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

- the movement in the net asset value (NAV) per share on a total return basis;

- the net asset value and share price performance relative to the benchmark index and the peer group;
- the discount/premium to net asset value;
- dividend per share; and
- the ongoing charges.

The ten year record for the NAV and share price performance compared with the Company's benchmark index can be found on page 4, and the five year discount record is on page 3. The ten year record for dividends and ongoing charges is shown on page 4. Returns versus volatility are shown on the graph on page 10.

Results and Dividends

In the year ended 31 January 2020, the net asset value total return was +30.4%, compared with a total return on the benchmark index of +13.7%, an outperformance of 16.7%. The discount at the year end was 0.1% (2019: 3.5%). The Portfolio Managers' Report shows an analysis of the relative performance in a table on page 9.

For the year ended 31 January 2020, three interim dividends of 3.75p per share were paid to shareholders in September and December 2019 and March 2020. A final dividend of 7.35p per share will be paid on 12 June 2020 to shareholders on the register on 15 May 2020. This will give total dividends for the year of 18.6p (2019: 18.6p), representing a yield of 3.1% based on the share price as at 31 January 2020. Further details are provided in the Chairman's Statement on pages 6 and 7. Of the total dividend, 54% (2019: 58%) was generated from revenue in the year. The remainder was funded from realised capital reserves and represents 1.4% (2019: 1.6%) of the year end net assets.

Financial Position and Borrowings

At 31 January 2020, the Company's net assets were valued at £205 million (2019: £158 million), comprising a portfolio of equity investments and net current assets, with no borrowings (2019: £nil).

The Company currently has a facility with The Bank of New York Mellon under which borrowings are limited to the maximum of the lower of 30% of net assets and £15 million.

Outlook, including the Future of the Company

The main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Portfolio Managers' Report. Details of the principal risks affecting the Company are set out under 'Principal Risks and Uncertainties' below.

Principal Risks and Uncertainties

The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Most of these risks are market related and are similar to those of other investment trusts investing primarily in listed markets. The Audit Committee reviews the Company's risk control summary at each meeting, and as part of this process, gives consideration to identify emerging risks. Any emerging risks that are identified, that are considered to be of significance will be recorded on the Company's Risk Control Summary with any mitigations. In carrying out this assessment, consideration is being given to the market and possible regulatory uncertainty arising from Brexit and the potential impact from the Coronavirus (COVID-19) outbreak.

Market (Economic) Risk

Factors such as fluctuations in stock markets, interest rates and exchange rates are not under the control of the Board or the Portfolio Manager, but may give rise to high levels of volatility in the share prices of investee companies, as well as affecting the Company's own share price and the discount to its NAV. To a limited extent, futures can be used to mitigate this risk, as can the judicious holding of cash or other very liquid assets. The risk could be triggered by unfavourable developments globally and/or in one or more regions, contemporary examples being the market uncertainty in relation to Brexit during 2019 and the current COVID-19 pandemic. As detailed in the Portfolio Managers' Report on page 11 and on page 15, the Directors have more recently assessed the market impact of COVID-19.

Investment Risk

The Company invests in small and medium-sized companies traded on the London Stock Exchange or on AIM. By their nature, these are generally considered riskier than their larger counterparts and their

BUSINESS REVIEW continued

share prices can be more volatile, with lower liquidity. In addition, as smaller companies may not generally have the financial strength, diversity and resources of larger companies, they may find it more difficult to overcome periods of economic slowdown or recession.

The Portfolio Managers' approach to investment is one of individual stock selection. Investment risk is mitigated via the stock selection process, together with the slow build-up of holdings rather than the purchase of large positions outright. This allows the Portfolio Manager, cautiously, to observe more data points from a company before adding to a position. The overall portfolio is well diversified by company and sector. The weighting of an investment in the portfolio tends to be loosely aligned with the market capitalisation of that company. This means that the largest holdings will often be amongst the larger of the smaller companies available.

The Portfolio Manager is relatively risk averse, looks for lower volatility in the portfolio and seeks to outperform in more challenging markets. The Portfolio Manager remains cognisant at all times of the potential liquidity of the portfolio.

There can be no guarantee that the Company's strategy and business model will be successful in achieving its investment objective. The Board monitors the performance of the Company and has guidelines in place to ensure that the Portfolio Manager adheres to the approved investment policy. The continuation of the Manager's mandate is reviewed annually.

Shareholders' Risk

The value of an investment in the Company may go down as well as up and an investor may not get back the amount invested. The Board reviews regularly the Company's investment objective and strategy to ensure that it remains relevant, as well as reviewing the composition of the shareholder register, peer group performance on both a share price and net asset value basis, and the Company's share price discount to net asset value per share.

The Board and the Portfolio Manager maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying net asset value; both share buy back and issuance facilities are in place to help the management of this process.

Borrowings

The Company may borrow money for investment purposes. If the investments fall in value, any borrowings (or gearing) will magnify the extent of any loss. If the borrowing facility could not be renewed, the Company might have to sell investments to repay any borrowings made under it. All borrowing and gearing levels are reviewed at every Board meeting and limits agreed.

Reliance on the Manager and other Third Party Providers

The Company has no employees and the Directors are all non-executive. The Company is therefore reliant upon the performance of third party service providers for its executive function and service provisions. Third party service providers are subject to ongoing monitoring by the Manager and the Company. The Company's operational structure means that all cyber risk (information and physical security) arises at its third party service providers, including fraud, sabotage or crime against the Company. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company successfully to pursue its investment policy. The Company's main service providers, of which the Manager is the principal provider, are listed on page 67. The Directors have reviewed the operational readiness, effectiveness and efficiency of the Company's main Third Party Providers in relation to the potential impact of COVID-19 and have sought and been provided with assurance from them all insofar as possible that measures are in place for them to continue to provide contracted services to the Company.

The Manager may be exposed to reputational risks. In particular, the Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Damage to the reputation of the Manager could potentially result in counterparties and third parties being unwilling to deal with the Manager and by extension the Company, which carries the Manager's name. This could have an adverse impact on the ability of the Company to pursue its investment policy successfully.

The Audit Committee reviews regularly the performance and internal controls of the Manager and all third party providers through audited service organisation control reports, together with updates on information security and business continuity plans and testing, the results of which are reported to the Board. The Manager reviews the performance of all third party providers regularly through formal and informal meetings.

Regulatory Risk

The Company is subject to various laws and regulations by virtue of its status as an investment trust, its listing on the London Stock Exchange and being an Alternative Investment Fund under the Alternative Investment Fund Managers Directive. A loss of investment trust status could lead to the Company being subject to corporation tax on the chargeable capital gains arising on the sale of its investments. Other control failures, either by the Manager or any other of the Company's service providers, could result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews the level of compliance with tax and other financial regulatory requirements on a regular basis. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Manager's Compliance and Internal Audit Officers produce regular reports for review at the Company's Audit Committee.

Further details of risks and risk management policies as they relate to the financial assets and liabilities of the Company are detailed in note 17 to the financial statements.

Pandemic (Coronavirus) Risk

As the spread of COVID-19 continues, the Directors are monitoring the situation closely, together with the Manager and third-party service providers. A range of actions has been implemented to ensure that the Company and its service providers are able to continue to operate as normal, even in the event of prolonged disruption. The Manager's business continuity plans are reviewed on an ongoing basis and the Directors are satisfied that the Manager has in place robust plans and infrastructure to minimise the impact on its operations so that the Company can continue to trade, meet regulatory obligations, report and meet shareholder requirements.

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

Other similar working arrangements are in place for the Company's third-party service providers.

The Directors remain confident that with these measures in place, the Company is in a good position to continue operating largely as normal in these extreme market conditions. In addition, due to the nature of the Company being a closed end investment company, the Portfolio Managers are not presented with regular daily inflows and outflows that require managing.

Viability Statement

In accordance with provision 31 of the UK Code of Corporate Governance, the Directors have assessed the prospects of the Company over a longer period than the 12 months. The Company is an investment trust, a collective investment vehicle designed and managed for long term investment. While the appropriate period over which to assess the Company's viability may vary from year to year, the long term for the purpose of this viability statement is currently considered by the Board to be at least five years, with the life of the Company not intended to be limited to that or any other period.

The main risks to the Company's continuation are: poor investment performance over an extended period; or shareholder dissatisfaction through failure to meet the Company's investment objective; or the investment policy not being appropriate in prevailing market conditions. Accordingly, failure to meet the Company's investment objective, and contributory market and investment risks, are deemed by the Board to be principal risks of the Company and are given particular consideration when assessing the Company's long term viability. Despite the recent disruption from COVID-19 and the impact on global markets, the Directors remain confident that the Company's investment strategy will continue to serve shareholders well over the longer term.

The investment objective of the Company has been substantially unchanged for many years. The 2015 amendment to dividend policy gave some additional weight to targeting increased dividend income to shareholders. This change does not affect the total return sought or produced by the Portfolio Manager but was designed to increase significantly, returns distributed to shareholders. The Board

BUSINESS REVIEW continued

considers that the investment objective remains appropriate. This is confirmed by contact with major shareholders and demonstrated by demand for the Company's shares, as evidenced by the narrower discount to net asset value at which they traded through the year under review (see page 3).

Performance derives from returns for risk taken. The Portfolio Managers' Report on pages 9 to 11 sets out their current investment strategy. The Company's performance has been strong through different market cycles, as shown by the ten year total return performance graph on page 3, and by comparison with its peer group's returns versus volatility over five years, as set out on page 10. Whilst past performance may not be indicative of performance in the future, it should be noted that the Company's current Manager has been in place throughout that ten years. The current Portfolio Manager has been involved with the Company for over 13 years, and there has been no material change in the Company's investment objective or policy.

Demand for the Company's shares and performance are not things that can be forecast, but there are no current indications that either or both of these may decline materially over the next five years so as to affect the Company's viability.

The Company's portfolio is readily realisable and is many times the value of its normal level of short term liabilities and annual operating costs with the Company able to meet its obligations as they fall due.

Based on the above analysis, the Directors confirm that they expect the Company will continue to operate and meet its liabilities, as they fall due, during the five years ending January 2025.

Duty to Promote the Success of the Company (s.172)

In accordance with the Companies (Miscellaneous Reporting) Regulations 2018, the below details how the Directors have discharged their duties under section 172 of the Companies Act 2006 during the year under review. The Directors have a statutory duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and to have regards for their interests. However, the Company has no employees and no customers in the traditional sense. Consistent with the Company's nature as an investment trust, the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. In doing so, it has due regard to the impact of its actions on other shareholders and the wider community. The Board has a responsible governance culture and has regard for broader matters so far as they apply. The Schedule of Matters Reserved for the Board and the Terms of Reference for its Committees are reviewed at least annually and published on the Company's web page. These documents detail the Directors' responsibilities and obligations and detail any statutory and regulatory duties.

The Board engages with the Manager at every Board meeting and receives updates from the Portfolio Managers on a regular basis outside of these meetings. The Management Engagement Committee reviews its relationships with the Manager and other third party service providers at least annually. The Manager holds regular service review meetings with the Company's Registrar, Depositary, Broker, Fund Accountant and Custodian; and reviews their performance against various service level agreements. Summaries of these reviews are presented to the Board on a regular basis and the Manager acts on feedback as appropriate.

At every Board meeting the Directors receive an investor relations update from the Manager, which details any significant changes in the Company's shareholder register, shareholder feedback, as well as notifications of any publications or press articles.

Some of the key discussions and decisions the Board made during the year were:

- to appoint an additional director to enable long term succession planning and to ensure that the Board had a balance of skills;
- to consider Brexit with additional guidance provided by the Manager and other third-party service providers however, it was decided that there were no direct changes required; and
- to hold discussions with major shareholders ahead of the 2019 continuation vote which highlighted their continued support.

The Company communicates with shareholders at least twice a year providing information about shareholder meetings, dividend payments and financial results. The Company's page on the Manager's website provides all shareholder information and regularly hosts blogs and video presentations (vlogs) by the Portfolio Manager. The Company holds its Annual General Meeting in London; this provides shareholders with the opportunity to listen to a presentation by the Portfolio Manager and meet with Directors and representatives of the Manager. All shareholders are encouraged to attend the AGM in normal circumstances and vote on the resolutions. Furthermore, the Manager provides a schedule of regional meetings with institutional investors and analysts to gather the views and thoughts of institutional investors.

Environmental, Social and Governance (ESG) Matters

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

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

The Henley based Invesco UK equities team, of which the Portfolio Managers are a part, incorporates ESG considerations in its investment process during the evaluation of new primary and secondary market opportunities, with identified ESG concerns feeding into the final investment decision and assessment of relative value. The Portfolio Managers make their own subjective conclusions about the ESG characteristics of each investment held and about the overall ESG characteristics of the portfolio, although third party ESG ratings may inform their view. Additionally, the Manager's ESG team provides formalised ESG portfolio monitoring. This is a rigorous semi-annual process where the portfolio is reviewed from an ESG perspective.

During 2019, Invesco engaged with a number of companies in the portfolio to discuss their own sustainable practices. Invesco believes that proxy voting is the hallmark of active ownership and serves as a powerful mechanism to drive responsible investment, engagement and investment stewardship. Reports on proxy voting for the Company's portfolio can be obtained via the Manager's website at www.invesco.co.uk.

Modern Slavery

The Company is an investment vehicle and does not provide goods or services in the normal course of business or have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

Board Diversity

The Board considers diversity, including the balance of skills, knowledge 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. At the year end the Board consisted of five directors, two of whom are women, thereby constituting 40% female representation.

The Strategic Report was approved by the Board of Directors on 16 April 2020.

Invesco Asset Management Limited
Company Secretary

INVESTMENTS IN ORDER OF VALUATION

AT 31 JANUARY 2020

Ordinary shares unless stated otherwise

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
4imprint	Media	7,361	3.7
Future	Media	7,156	3.6
CVS[AIM]	General Retailers	5,643	2.8
Johnson Service[AIM]	Support Services	5,354	2.7
Clinigen[AIM]	Pharmaceuticals & Biotechnology	5,215	2.6
JTC	Financial Services	4,957	2.5
Restore[AIM]	Support Services	4,696	2.3
Ultra Electronics	Aerospace & Defence	4,483	2.2
Consort Medical	Health Care Equipment & Services	4,386	2.2
Vistry (formerly Bovis Homes)	Household Goods & Home Construction	4,271	2.1
Top Ten Holdings		**53,522**	**26.7**
Sanne	Support Services	4,261	2.1
Hill & Smith	Industrial Engineering	4,245	2.1
Polypipe	Construction & Materials	4,240	2.1
NCC	Software & Computer Services	4,079	2.1
St. Modwen Properties	Real Estate Investment & Services	4,067	2.1
RWS[AIM]	Support Services	4,060	2.0
SDL	Software & Computer Services	3,978	2.0
Kainos	Software & Computer Services	3,615	1.8
Savills	Real Estate Investment & Services	3,598	1.8
Hilton Food	Food Producers	3,546	1.8
Top Twenty Holdings		**93,211**	**46.6**
Learning Technologies[AIM]	Software & Computer Services	3,532	1.8
Brooks Macdonald[AIM]	Financial Services	3,500	1.8
Scapa[AIM]	Chemicals	3,357	1.7
Aptitude Software	Software & Computer Services	3,330	1.7
CLS	Real Estate Investment & Services	3,276	1.6
Arrow Global	Financial Services	3,260	1.6
Workspace	Real Estate Investment Trusts	3,248	1.6
VP	Support Services	3,213	1.6
James Fisher and Sons	Industrial Transportation	3,212	1.6
Coats	General Industrials	3,152	1.6
Top Thirty Holdings		**126,291**	**63.2**
Hollywood Bowl	Travel & Leisure	3,112	1.6
Robert Walters	Support Services	2,934	1.5
Young & Co's Brewery Non-Voting[AIM]	Travel & Leisure	2,927	1.5
Ricardo	Support Services	2,874	1.5
Keywords Studios[AIM]	Support Services	2,833	1.4
Volution	Construction & Materials	2,739	1.4
Vectura	Pharmaceuticals & Biotechnology	2,671	1.3
Severfield	Industrial Engineering	2,646	1.3
Urban & Civic	Real Estate Investment & Services	2,628	1.2
Safestore	Real Estate Investment Trusts	2,483	1.2
Top Forty Holdings		**154,138**	**77.1**

INVESTMENTS IN ORDER OF VALUATION continued

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
Premier Oil	Oil & Gas Producers	2,480	1.2
Essentra	Support Services	2,459	1.2
FDM	Software & Computer Services	2,446	1.2
Advanced Medical Solutions[AIM]	Health Care Equipment & Services	2,376	1.2
Knights[AIM]	Support Services	2,225	1.1
Secure Trust Bank	Banks	2,132	1.1
Euromoney Institutional Investor	Media	2,084	1.1
Topps Tiles	General Retailers	2,031	1.0
Marston's	Travel & Leisure	2,008	1.0
Energean Oil & Gas	Oil & Gas Producers	1,952	1.0
Top Fifty Holdings		**176,331**	**88.2**
Equiniti	Support Services	1,899	1.0
JD Wetherspoon	Travel & Leisure	1,841	0.9
Dunelm	General Retailers	1,785	0.9
XPS Pensions	Financial Services	1,765	0.9
Jadestone Energy[AIM]	Oil & Gas Producers	1,727	0.9
Loungers[AIM]	Travel & Leisure	1,645	0.8
boohoo.com[AIM]	General Retailers	1,460	0.7
M&C Saatchi[AIM]	Media	1,457	0.7
Alfa Financial Software	Software & Computer Services	1,271	0.6
Vitec	Industrial Engineering	1,133	0.6
Top Sixty Holdings		**192,314**	**96.2**
Softcat	Software & Computer Services	1,065	0.5
AJ Bell	Financial Services	918	0.5
Cohort[AIM]	Aerospace & Defence	877	0.5
DFS Furniture	General Retailers	873	0.4
Diploma	Support Services	854	0.4
Horizon Discovery[AIM]	Pharmaceuticals & Biotechnology	633	0.3
LSL Property Services	Real Estate Investment & Services	455	0.2
Thruvision[AIM]	Electronic & Electrical Equipment	451	0.2
Churchill China[AIM]	Household Goods & Home Construction	437	0.2
Midwich[AIM]	Support Services	426	0.2
Top Seventy Holdings		**199,303**	**99.6**
Staffline[AIM]	Support Services	364	0.2
Nucleus Financial[AIM]	Financial Services	306	0.2
Total Investments (72)		**199,973**	**100.0**

AIM: Investments quoted on AIM.

The percentage of the portfolio invested in AIM stocks at the year end was 27.8% (2019: 21.0%).

DIRECTORS

Jane Lewis
Joined the Board in December 2013 and was appointed Chairman of the Board and Nomination Committee with effect from 6 June 2019. She is an investment trust specialist who, until August of 2013, was Director of Corporate Finance and Broking at Winterflood Investment Trusts. Prior to this she worked at Henderson Global Investors and Gartmore Investment Management Limited in investment trust business development and at West LB Panmure as an investment trust broker. Jane has a BA and LLB and also holds the Securities Institute Diploma and the Investment Management Certificate. Jane is a non-executive director of Majedie Investments plc, BMO Capital and Income Investment Trust plc, The Scottish Investment Trust PLC and BlackRock World Mining Trust plc.

Christopher Fletcher
Joined the Board in December 2010 and was appointed as Chairman of the Management Engagement Committee with effect from 6 June 2019. For a number of years until 2011, he was Head of Retail Investments at Baillie Gifford & Co with responsibility for marketing, administration and non-institutional business development, particularly of investment trusts and pooled funds. He is a director of The Association of Investment Companies. Prior to joining Baillie Gifford & Co in 1997, Mr Fletcher was a partner in the Edinburgh office of KPMG. He is a Trustee of the National Museums of Scotland.

Richard Brooman
Joined the Board in 1988. He is Deputy Chairman of the Board and Chairman of the Audit Committee. A chartered accountant, he was formerly group finance director of Sherwood International Plc. Prior to this, he was finance director of VCI plc and CFO of the global consumer healthcare business at SmithKline Beecham plc, having held senior financial and operational roles at Mars and qualifying at Price Waterhouse. He is a non-executive director and chairman of the Audit and Valuation Committee of HgCapital Trust plc. He is also a Trustee and Audit Committee Chair of Leonard Cheshire Disability.

Bridget Guerin
Joined the Board in May 2018. She has spent 33 years in the investment industry and has held senior positions as marketing director at Ivory & Sime and Schroders, where she was responsible for the launch and support of several investment trusts. She was also managing director of Matrix Money Management Limited. She is currently a non-executive director of Charles Stanley Group plc, Mobeus Income & Growth VCT plc, and chairman of Schroder Income Growth Fund plc. She is also a non-executive director of GAM Systematic Multi Strategy Fund, GAM Systematic Core Macro Fund and GAM Systematic Discovery Fund, and York and Beverley Racecourses. She is also a trustee of the York Racecourse Pension Fund.

Graham Paterson
Joined the Board on 15 October 2019. He is an investment and financial services professional with over 20 years' experience in the private equity industry. A chartered accountant, Graham was one of the founding partners of SL Capital Partners LLP (formerly Standard Life Investments (Private Equity) Ltd), where he was a partner and board member until 2010. During his 13 years at SL Capital, he was one of the managers of Standard Life Private Equity Trust plc and was a member of the advisory boards to a number of leading private equity fund managers. In 2013, Graham co-founded TopQ Software Ltd which was acquired by eVestment Inc (now part of NASDAQ Inc) in 2015. Graham is a non-executive director of Baillie Gifford US Growth Trust plc and Mobeus Income & Growth 4 VCT plc. He is also a non-executive chairman of Datactics Limited.

All Directors are non-executive, are considered independent and are members of the Audit Committee, Management Engagement and Nomination Committees.

THE COMPANY'S GOVERNANCE FRAMEWORK

The Board and Committees

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 the Manager and other external service providers.

The Board

Chairman – Jane Lewis

Deputy Chairman and Senior Independent Director – Richard Brooman

Three additional non-executive directors

Key responsibilities:

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

Management Engagement Committee

Chairman
Christopher Fletcher

All directors

Key objective:

– to review regularly the management contract and the performance and remuneration of the Manager.

Audit Committee

Chairman
Richard Brooman

All directors

Key objectives:

– to oversee the risk and control environment and financial reporting; and
– to review other service providers, including the auditor.

Nomination Committee

Chairman
Jane Lewis

All directors

Key objectives:

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

Remuneration Committee Function

The Board as a whole performs this function

Key objective:

– to set the remuneration policy of the Company.

Portfolio Manager and Deputy Portfolio Manager

Jonathan Brown is a member of the UK Equity team specialising in smaller companies and has been with Invesco for more than 13 years. He became the Portfolio Manager at the end of June 2014.

Jonathan began his investment career with Lazard Asset Management in 1997, where he specialised in private client fund administration, before joining Invesco within a similar role in 2000. In 2004, Jonathan joined the UK Equities team as a trainee fund manager and, after three years specialising in the UK small cap sector, became a fund manager in his own right.

Jonathan graduated with a BSc in Bio-Chemistry from UMIST and has also secured both the Investment Management Certificate from the CFA Society of the UK and the Securities Institute Diploma.

Robin West is the deputy Portfolio Manager. Robin started his career at KPMG and is a small company specialist who worked at Invesco initially, then Oriel Securities and Aviva Investors, before returning to Invesco in 2014.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 JANUARY 2020

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 Board has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code). The AIC Code addresses the principles set out in the UK Corporate Governance Code (UK Code), as well as setting out additional provisions on issues that are of specific relevance to investment trusts.

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 principles and provisions of the AIC Code and the relevant provisions of the UK Code, except for the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the UK Code, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of Invesco Perpetual UK Smaller Companies Investment Trust plc, it being an externally managed investment company with no executive employees and in view of the Manager having an internal audit function. The Company has therefore not reported further in respect of these provisions.

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

The composition and operation of the Board and its committees are detailed on pages 26 and 27, and page 23 in respect of the Audit Committee.

The Company's approach to internal control and risk management is detailed on page 30.

The contractual arrangements with, and assessment of, the Manager are summarised on pages 30 and 31.

The Company's capital structure and voting rights are summarised on page 32.

The most substantial shareholders in the Company are listed on page 32.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 28. 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 resolution to be passed by shareholders.

By order of the Board

Invesco Asset Management Limited
Company Secretary

Perpetual Park
Perpetual Park Drive,
Henley-on-Thames,
Oxfordshire RG9 1HH

16 April 2020

AUDIT COMMITTEE CHAIRMAN'S LETTER

FOR THE YEAR ENDED 31 JANUARY 2020

Dear Shareholder,

I am pleased to report on the range of work that the Audit Committee has undertaken and the judgements it has exercised during the year. The Committee meets at least three times in the year. It continues to support the Board in fulfilling its oversight responsibilities, reviewing financial reporting, operation of the system of internal controls and management of risk, the audit process and the Company's process for monitoring compliance with laws and regulations.

The Audit Committee is chaired by me, Richard Brooman and the other members throughout the year were Christopher Fletcher, Bridget Guerin, Jane Lewis and Graham Paterson (with effect from 15 October 2019). I shall retire at the conclusion of this year's AGM and Graham Paterson will be appointed as Chairman of the Audit Committee immediately thereafter. The Chairman of the Board is a member of the Committee to ensure that she is kept fully informed of all matters that arise and to bring her financial services experience to the Committee. The Committee members consider that collectively they have substantial recent and relevant financial experience to fulfil their roles. The Committee as a whole has competence relevant to the sector. A separate risk committee has not been established and the operation of risk management processes and controls is overseen by the Audit Committee.

The Audit Committee's responsibilities include, but are not limited to:

- evaluation of the effectiveness of the internal controls and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's whistleblowing arrangements;
- consideration of the annual and half-yearly financial reports prepared by the Manager, of the appropriateness of the accounting policies applied and of any financial judgements and key assumptions therein, together ensuring compliance with relevant statutory and listing requirements;
- advising the Board on whether the Committee believes 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; and
- managing the relationship with the external auditor, including evaluation of their reports and the scope, effectiveness, independence and objectivity of their audit, as well as their appointment, re-appointment, remuneration and removal.

Representatives of the Manager's Compliance and Internal Audit Departments attend at least two meetings each year. Representatives of the external auditor, Ernst & Young LLP, attend the Committee meeting at which the draft annual financial report is reviewed and are given the opportunity to speak to Committee members without the presence of representatives of the Manager.

The audit programme and timetable are drawn up and agreed with the auditor in advance of the end of the financial period and matters for audit focus are discussed and agreed. The auditor ensures that these matters are given particular attention during the audit process and reports on them, and other matters as required, in their report to the Committee. This report, together with reports from the Manager, the Manager's Internal Audit and Compliance departments and the depositary form the basis of the Audit Committee's consideration and discussions with the various parties, prior to approval and signing of the financial statements.

Principal Matters Considered by the Committee in 2019/20

During the year, the Committee discharged its responsibilities by monitoring, reviewing and, where necessary, challenging. Whilst going concern and viability of the Company are discussed at the Audit Committee, these matters are determined by the Board. The principal matters considered and how these were addressed are shown in the following table.

AUDIT COMMITTEE CHAIRMAN'S LETTER
continued

PRINCIPAL MATTERS CONSIDERED	HOW ADDRESSED
Accuracy of the portfolio valuation encompassing proof of existence and ownership of all the portfolio holdings.	Actively traded listed investments are valued using stock exchange bid prices provided by third party pricing vendors. There were no reported differences between the portfolio holdings shown in the accounting records and those held by the depositary or the custodian. The Committee takes comfort from the regular oversight reports received from the Manager, and the ongoing monitoring by the depositary of assets, including both their ownership and valuations.
The focusing of risk management on the key risks pertinent to the Company and the Board.	The Committee considered the strategy, investment policy and objective of the Company in assessing whether risk management processes were appropriate.
Assessing emerging risks and the risks arising in relation to the Company's operations and internal controls and other actions used to mitigate those risks.	The Committee reviewed the Company's risk matrix of the Company's principal risks, details of which are provided in the Strategic Report; and identified the controls exercised to mitigate them by the Board, the Manager and other service providers. The Committee has given consideration to the actual and potential risks from COVID-19 insofar as they have been identified.
Evaluation of the effectiveness of controls, with emphasis on external service providers and safeguarding of the Company's assets.	The Committee received and considered, together with representatives of the Manager, where appropriate, independent audited reports on the operational controls of the Manager, accounting administrator, custodian and the registrar. These reviews identified no issues of significance during the last year.
Following the Board's request, the Committee reviewed the annual financial report to ensure that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, its business model and strategy.	The Committee considered, together with the Manager and the auditor, the annual financial report to ensure that the overall layout of the report and the narrative therein present a clear and concise story that reflect the year being reported, as well as the position of the Company at the year end. The financial statements were updated to include the analysis of the impact of the COVID-19 pandemic as a non-adjusting post balance sheet event.
Auditor transition and planning.	At the Audit Committee meeting in December 2019, Ernst & Young LLP confirmed their independence as auditor and that they had completed a take on process from Grant Thornton UK LLP with no matters identified in the review of their file. They also presented their audit plan which was reviewed and approved by the Committee. Ernst & Young LLP set out the key areas of focus for the audit and discussed the impact of the UK Audit reform including the new ethical standard from the FRC. A discussion was held pre-year end with the Manager and external auditor, including identification of key and emerging risks.
Evaluation of the effectiveness of the external audit process and independence and objectivity of external auditor.	The Committee reviewed the audit findings and held discussions with the external auditor carefully considering the independence of Ernst & Young LLP and the objectivity of the audit process. The Committee is satisfied that Ernst & Young LLP, as auditor, has fulfilled its obligations to shareholders and is independent of the Company.

Review of the External Auditor, including Non-Audit Services and Reappointment

As reported last year, Ernst & Young LLP (E&Y) was appointed as auditor of the Company and this is their first year, led by Matt Price as audit partner. The Audit Committee considers that E&Y carried out its duties as auditor of the Company in a professional and effective manner. As part of the review of audit effectiveness, a formal evaluation process was followed, which incorporated views from the members of the Committee and relevant personnel of the Manager. Accordingly, a resolution to re-appoint E&Y and for the Audit Committee to determine their remuneration will be put to shareholders at the forthcoming AGM.

In accordance with the FRC's Ethical Standards, the Company's policy is not to seek substantial non-audit services from its auditor. No non-audit services relating to the Company were provided by the auditor during the year (2019: £nil). Prior to any engagement for non-audit services, the Audit Committee considers whether the skills and experience of the auditor make them a suitable supplier of such services and satisfies itself that there is no threat to objectivity and independence in the conduct of the audit as a result. Individual non-audit services up to £5,000 each require approval of the Chairman of the Audit Committee; amounts in excess of this require the approval of the Committee as a whole.

Internal Controls and Risk Management

The Board has overall responsibility for the Company's systems of internal controls and for reviewing and monitoring their effectiveness. The Board has delegated the review and assessment of controls and their effectiveness to the Audit Committee. The system of controls aims to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the controls of the Company by a series of regular investment performance reviews, investment guideline reports and Manager's reports, together with the review of independent auditor reports on the external service providers. Key risks have been identified and controls put in place to mitigate them. The effectiveness of the internal controls is assessed by the Manager's Compliance and Internal Audit departments on a continuing basis and is also reviewed by the Committee. At the Committee meeting which reviewed the annual financial report, the Depositary provided a satisfactory report arising from its monitoring of the activities of the Company throughout the year and of the Company's position at the year end.

Internal Audit

The Company, being an externally managed investment company, does not have its own internal audit function. However, it places reliance on the reports it receives from the Manager's Internal Audit department.

Committee Evaluation

The Committee's activities formed part of the review of Board effectiveness performed in the year. Details of this process can be found under 'Board, Committee and Directors' Performance Appraisal' on pages 28 and 29.

Yours faithfully,

Richard Brooman
Chairman of the Audit Committee

16 April 2020

Introduction

The Directors present their report for the year ended 31 January 2020.

Business and Status

The Company was incorporated and registered in England and Wales on 7 May 1987 as a public limited company, registered number 02129187. It is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust within the meaning of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust and, in the opinion of the Directors, the Company has conducted its affairs so as to enable it to maintain such approval.

Corporate Governance

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

The Board

The Board currently comprises five Directors. All directors are non-executive and all are regarded by the Board as independent of the Company's Manager. The Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company.

Chairman

The Chairman of the Board is Jane Lewis, and she has been a member of the Board since 2013 and Chairman since June 2019. Jane Lewis is an independent non-executive Director with no conflicting relationships.

Senior Independent Director ('SID')/Deputy Chairman

The Deputy Chairman of the Board is Richard Brooman who also fulfils the role of SID. He is available to shareholders if they have concerns which contact through the normal channels of Chairman or Manager has failed to resolve or for which such contact is inappropriate. No such issues were raised during the year. Richard Brooman will retire at the conclusion of this year's AGM and Christopher Fletcher will be appointed as SID. There will be no Deputy Chairman.

Board Balance and Independence

The Directors have a range of business, financial or asset management skills and experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 20.

When considering the independence of directors, the Board takes into account their experience and whether a Director is independent in character and judgement. The Board considers that all Directors are independent of the Company's Manager. The Board considers that Christopher Fletcher who has served on the Board for more than nine years, remains independent in character and judgement from the Company's Manager, a view that has been demonstrated by his actions on behalf of the Company.

Board Responsibilities

The Board has overall responsibility for the Company's affairs. The Directors are equally responsible under United Kingdom law for promoting the success of the Company and for the proper conduct of the Company's affairs taking into consideration the likely consequences of any decision in the long-term; the need to foster 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 between shareholders of the Company. This is reported in the Strategic Report on pages 16 and 17. 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 and has a zero tolerance approach towards the criminal facilitation of tax evasion. In addition, the Board is responsible for ensuring that the Company's policies and activities are in the interests of the

Company's shareholders and that the interests of creditors and suppliers to the Company are properly considered. The long-term success of the Company is promoted by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed.

The schedule of matters reserved for decision by the Board is available at the registered office of the Company and on the Company's section of the Manager's website at www.invesco.co.uk/ipukscit. The main responsibilities include: setting the Company's strategy, and its investment objective and policies; 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; reviewing investment performance; approving loans and borrowing; and assessing risk and overseeing its mitigation. The Board also seeks to ensure that shareholders are provided with sufficient information, in order to understand the balance between risk and reward to which they are exposed by holding the Company's shares, through the portfolio details given in the annual and half-yearly financial reports, factsheets and daily net asset value disclosures.

The Board meets on a regular basis at least five times each year. Additional meetings are arranged as necessary. Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook, strategic direction, performance versus stock market indices and the Company's peer group, asset allocation, gearing policy, cash management, revenue forecasts for the financial year, marketing and shareholder relations, corporate governance, regulatory changes, industry best practice and other issues.

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

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

The Board as a whole undertakes periodically the responsibilities for remuneration. The remuneration of Directors and their shareholdings are reported on in more detail in the Directors' Remuneration Report on pages 35 to 37.

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Committees

The Board has three committees: the Audit Committee, the Nomination Committee and the Management Engagement Committee. Each Committee has written terms of reference, which clearly define each Committee's responsibilities and duties. The terms of reference of each Committee are available for inspection at the AGM, at the registered office address of the Company and also available via the Company's section of the Manager's website.

Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Chairman's Letter on pages 23 to 25, which is included in this Directors' Report by reference.

Management Engagement Committee

The Management Engagement Committee comprises the entire Board under the chairmanship of Christopher Fletcher. The Committee meets at least annually to review the investment management agreement and to review the service provided by the Manager during the year.

Nomination Committee

All Directors are members of the Nomination Committee under the Chairmanship of Jane Lewis. The Committee meets at least once a year to review the Board's size, composition and structure, and to ensure an appropriate balance of skills, experience, independence and knowledge of the Company. The Committee has due regard for the benefits of diversity (including gender) of its members, but has not set any measurable objective for diversity for the Company or the Committees.

The Committee met twice during the year and reviewed succession planning. Taking into consideration the skills and tenure of Directors, as well as Ian Barby's retirement at the 2019 AGM the Committee commenced recruitment for a new director. An external independent recruitment consultancy, Trust Associates Limited, was used for this search and the Committee provided a detailed description of the role and the skills required. As a result, Graham Paterson was appointed to the Board on 15 October 2019 and stands for election at the forthcoming AGM.

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, via the Company's section of the Manager's website and will also be available at the AGM.

Appointment, Re-election and Tenure of Directors

New Directors are appointed by the Board, following recommendation by the Nomination Committee. The Articles of Association require that a Director shall be subject to election at the first AGM after appointment and re-election at least every three years thereafter. However, the Board has resolved that all Directors shall stand for annual re-election at the AGM.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are frequently updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from key members of the Manager's staff and ensure that Directors can keep up to date with regulation, best practice and the changing risk environment.

A Director's tenure of office will normally be for up to nine years, except that the Board may determine otherwise if it is considered that the continued service on the Board of an individual Director is in the best interests of the Company and its shareholders. The Chairman's tenure of office will also normally be for up to nine years, except that the Board may determine otherwise if it is considered that the continued service on the Board of a Chairman, who has in addition served a period of time as a Director, is in the best interests of the Company and its shareholders. In such circumstances, the Chairman may serve up to an aggregate twelve years as an officer of the Company.

Despite having served on the Board for over 9 years, Christopher Fletcher will be standing for re-election at the forthcoming AGM. The Board has determined that despite his tenure, the Company is not compromised by his length of service, but to the contrary, is strengthened by his experience. The Board continues to review succession planning.

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, the Audit Committee and individual Directors. The performance of the Board, its Committees and individual Directors has been assessed during the year in terms of:

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

The Board has conducted its performance evaluation through formal questionnaires and discussion between the Directors and the Chairman / Audit Committee Chairman respectively. The performance of the Chairman is also evaluated annually, with discussion of his performance led by the Deputy Chairman, who in turn provides the Chairman with feedback. The employment of a third party for the purposes of performance evaluation has been considered by the Board and will be kept under review for the future. The result of the most recent performance evaluation process was that the Board collectively, and the Directors individually, continue to be effective and demonstrate commitment to the role.

Attendance at Board and Committee Meetings

All Directors are considered to have a good attendance record at Board and Committee meetings of the Company. The following table sets out the number of Directors' meetings (including Committee meetings) held during the year ended 31 January 2020 and the number of meetings attended by each Director. In addition, Directors attended a number of ad hoc meetings during the year.

	BOARD	AUDIT COMMITTEE	MANAGEMENT ENGAGEMENT COMMITTEE	NOMINATION COMMITTEE
Meetings held in year:	5	3	1	2
Jane Lewis, Chairman	5	3	1	2
Ian Barby, Chairman (retired 6 June 2019)	2	1	1	1
Richard Brooman	5	3	1	2
Christopher Fletcher	5	3	1	2
Bridget Guerin	5	3	1	2
Graham Paterson (appointed 15 October 2019)	2	2	N/A	N/A

Directors

Directors' Interests in Shares

The Directors' interests in the ordinary share capital of the Company are disclosed in the Directors' Remuneration Report on page 37.

Disclosable Interests

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year end. The Company has entered into a Deed of Indemnity with each Director, as expanded upon below.

Conflicts of Interest

The Articles of Association of the Company give the Directors authority to approve conflicts and potential conflicts of interest, and safeguards apply. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. Directors who have potential conflicts of interest will not take part in any discussions which relate to any of their potential conflicts. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

The Company's Register of Potential Conflicts of Interest is kept at the registered office of the Company. Currently, there are no recorded potential conflicts of interest of any of the Directors. Directors must advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

Directors' Indemnities and Insurance

The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for any legal action brought against its Directors. In addition, deeds of indemnity have been executed on behalf of the Company for each of the Directors under the Company's Articles of Association. Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

Internal Controls and Risk Management

The Directors acknowledge that they are responsible for ensuring that the Company maintains a sound system of internal controls to safeguard shareholders' investment and the Company's assets.

The Board reviews, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the Company's objective, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from their review. There are no significant failings or weaknesses that have occurred throughout the year ended 31 January 2020 and up to the date of this annual financial report.

The Board reviews financial reports and performance against revenue forecasts, stock market indices and the Company's peer group. In addition, the Manager and custodian maintain their own systems of internal controls and the Board and Audit Committee receive regular reports from the Internal Audit and Compliance departments of the Manager. A formal report from the depositary is reviewed at the year end audit committee; this report sets out the results of the depositary's monitoring throughout the year, including safeguarding of assets and their valuation, and monitoring of cash balances and net asset values. Formal reports are also produced on the internal controls and procedures in place for custodial, investment management and accounting activities, and these are reviewed annually by the Board.

Going Concern

The financial statements have been prepared on a going concern basis.

The Directors consider this is the appropriate basis as the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as at least 12 months after approval of the financial statements, and after reviewing the contents of the Viability Statement on pages 15 and 16. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet funding commitments as well as the Company's cash position and the ability of the Company to meet all of its liabilities, including any bank borrowings and ongoing expenses.

At the year end and throughout the subsequent period, the Company has maintained a strong net cash position that is comfortably able to cover all liabilities. The portfolio of investments is comprised entirely of quoted securities and ongoing charges are less than 1% of net assets. As of 16 April 2020, the Company had not used any of its gearing facilities and they remain fully available for investment opportunities.

Having performed this analysis management believes the Company has sufficient liquidity to meet its liabilities for the for the next 12 months and that the preparation of the financial statements on a going concern basis remains appropriate as the Company expects to be able to meet its obligations as and when they fall due for the foreseeable future.

As discussed in Principal Risks and Uncertainties, the Company's operations and those of its core service providers have been unaffected by the restrictions imposed in the UK as a result of the COVID-19 pandemic.

The Manager

The Manager, which is also the Company's Alternative Investment Fund Manager, is Invesco Fund Managers Limited (IFML). IFML is an associated company of Invesco Asset Management Limited ('IAML'). IAML manages the Company's investments under delegated authority from IFML. The Directors have delegated to the Manager the responsibility for the day-to-day investment management activities of the Company.

The Manager also provides full administration, company secretarial and accounting services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and officiates at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which the Manager prepares half-yearly and annual financial reports on behalf of the Company.

Investment Management Agreement (IMA)

The Manager provides investment and administration services to the Company under an agreement dated 22 July 2014 and as amended on 17 April 2015, 10 September 2015 and 6 September 2019. The agreement is terminable by either party giving not less than six months' notice and immediately in certain circumstances.

A base management fee is payable monthly in arrears and is calculated at the rate of 0.75% per annum by reference to the Company's gross funds under management.

Assessment of the Manager

The Management Engagement Committee has carried out a review following the Company's financial year end on 31 January 2020 and determined that the continuing appointment of IFML as Manager is in the best interests of the Company and its shareholders.

Company Secretary

The Board has direct access to the advice and services of the corporate company secretary, Invesco Asset Management Limited, which is responsible for ensuring that the 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. Finally, the Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters.

Stewardship

The Board considers that the Company has a responsibility as a shareholder to encourage that high standards of Corporate Governance are maintained in the companies in which it invests. 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 and exercisable votes are cast it is with a view to supporting high standards of corporate governance. The Manager's approach to corporate governance and the UK Stewardship Code can be found on the Manager's website at www.invesco.co.uk, together with a copy of the Manager's Stewardship Policy and the Manager's global proxy voting policy.

Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the half-yearly and annual financial reports, which aim to provide shareholders with a full understanding of the Company's activities and their results. This information is supplemented by the daily publication of the net asset value and the monthly and daily fact sheets. At each AGM, a presentation is normally made by the Manager following the formal business of the meeting and shareholders have the opportunity to communicate directly with the whole Board. All shareholders are normally encouraged to attend the AGM but due to the circumstances prevailing in 2020, cannot be permitted to do so this year.

Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or in writing to the Company Secretary at the address given on page 67.

Shareholders can also visit the Company's section of the Manager's website in order to access Company specific information, including: the annual and half-yearly financial reports; pre-investor information; Key Information Documents (KIDs); any shareholder circulars; proxy voting results; factsheets; and Stock Exchange announcements. Shareholders can also access various Company reviews and information, such as an overview of UK equities and the Company's share price.

There is a clear channel of communication between the Board and the Company's shareholders via the Company Secretary. The Company Secretary has no express authority to respond to enquiries addressed to the Board and all communications, other than junk mail, are redirected to the Chairman for her response.

There is also regular dialogue between the Manager and individual major shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help develop an understanding of their issues and concerns. General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

The Board employs Kepler Partners LLP to complement the marketing activities of Invesco. Kepler is a specialist marketing firm that seeks to widen investment interest in the Company's shares amongst the regional offices of private client wealth managers and other adviser firms. To date, the Board is pleased with the results produced by Kepler on behalf of the Company and its shareholders.

Greenhouse Gas Emissions

The Company has no employees or premises and does not purchase energy for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes.

Share Capital

Capital Structure

At 31 January 2020, the Company's issued share capital consisted of 33,826,929 ordinary shares and 19,382,155 treasury shares.

During the year, the Company issued 975,000 ordinary shares from its treasury account, at an average price of 604.61p. There has been no change to the issued share capital since the financial year end.

To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders each year for the authority to buy back and to issue shares.

Restrictions

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.

Voting

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

Substantial Holdings in the Company

At 31 March 2020, the Company had been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	AS AT 31 MARCH 2020		AS AT 31 JANUARY 2020	
FUND MANAGER/REGISTERED HOLDER	SHARES	%	SHARES	%
Hargreaves Lansdown, stockbrokers (EO)	4,228,292	12.50	4,226,557	12.49
Royal London Asset Management	2,655,000	7.85	2,943,540	8.70
Interactive Investor (EO)	2,359,513	6.98	2,384,300	7.05
West Yorkshire PF	2,335,000	6.90	2,335,000	6.90
Charles Stanley	1,858,231	5.49	1,911,315	5.65
AJ Bell, stockbrokers (EO)	1,414,659	4.18	1,414,561	4.18
Individuals	1,351,428	4.00	1,339,138	3.96
Brewin Dolphin, stockbrokers	1,259,403	3.72	1,282,373	3.79

Disclosure Required by Listing Rule 9.8.4

The above rule requires listed companies to report certain information in a single identifiable section of their annual financial reports. For the year ended 31 January 2020 only one item of this information applies – disclosure around the issue of shares – and this is covered by note 13 on page 56 (share capital).

Individual Savings Accounts (ISA)

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

Business of the Annual General Meeting

The following summarises resolutions of the forthcoming AGM of the Company, which is to be held on Thursday 11 June 2020 at 12 noon. The notice of the AGM and related notes can be found on pages 62 to 65. All resolutions are ordinary resolutions unless otherwise identified.

Resolution 1 is for members to receive and consider this Annual Financial Report (AFR), including the financial statements and auditor's report.

Resolution 2 is to approve the Directors' Remuneration Policy. The Directors' Remuneration Policy is set out on page 35 of this AFR.

Resolution 3 is to approve the Annual Statement and Report on Remuneration. It is mandatory for listed companies to put their Annual Statement and Report on Remuneration to an advisory shareholder vote. The Annual Statement and Report on Remuneration is set out on pages 35 and 36 of this AFR.

Resolution 4 is to approve the final dividend for the year ended 31 January 2020.

Resolutions 5 to 8 are to re-elect and elect Directors. Biographies of the Directors can be found on page 20.

All Directors will stand for re-election by shareholders at the AGM, with the exception of Richard Brooman who will retire as a non-executive Director and Audit Committee Chairman at the conclusion of the meeting. The Board has determined that each of the Directors is independent, continues to perform effectively and demonstrates commitment to their role. Their balance of knowledge and skills combined with their diversity and business experience makes a major contribution to the functioning of the Board and its Committees. Ms Lewis' background in corporate finance and broking for investment trusts have helped steer the Company through the 2017 tender offer. Mr Fletcher has experience in the investment industry and as a current director of The Association of Investment Companies brings industry knowledge. Ms Guerin had a long executive career in the investment management industry with investment trust experience and has brought her broad sector and marketing experience to the Board. Mr Paterson is a chartered accountant with extensive experience in the fields of private equity and other early stage investment vehicles.

Resolution 9 is to re-appoint Ernst & Young LLP as auditor to the Company.

Resolution 10 is to authorise the Audit Committee to determine the auditor's remuneration.

Special Business

Resolution 11 is an ordinary resolution to renew the Directors' authority to allot shares. Your Directors are asking for authority to allot new ordinary shares up to an aggregate nominal value of £676,538 (10% of the Company's issued share capital at 15 April 2020). This will allow Directors to issue shares within the prescribed limits should opportunities to do so arise that they consider would be in shareholders' interests. This authority will expire at the AGM in 2021 or 15 months following the passing of this resolution, if earlier.

Special Resolution 12 is to renew the authority to disapply pre-emption rights. Your Directors are asking for authority to issue new ordinary shares for cash up to an aggregate nominal value of £676,538 (10% of the Company's issued share capital as at 15 April 2020), disapplying pre-emption rights. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus potentially broadening the shareholder base of the Company. This authority will not be exercised at a price below NAV (with debt at fair value) and will expire at the AGM in 2021 or 15 months following the passing of this resolution, if earlier.

Special Resolution 13 is to renew the authority for the Company to purchase its own shares. Your Directors are seeking authority for the purchase of up to 14.99% (being 5,070,657 ordinary shares) of the Company's issued ordinary share capital as at 15 April 2020, subject to the restrictions referred to in the notice of the AGM. This authority will expire at the next AGM or 15 months following the passing of this resolution, if earlier. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, 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. The current authority to buy back shares expires at the AGM and had not been utilised to the date of this report.

Special Resolution 14 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days notice, which is the minimum notice period permitted by the Companies Act 2006. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless two 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 this flexibility will be used only where the Board believes it is in the interests of shareholders as a whole.

The Directors have carefully considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution, as will the Directors in respect of their own shareholdings. As noted in the Chairman's Statement, as a consequence of the Stay at Home Measures in response to COVID-19, Shareholders cannot attend the AGM. It is recommended that proxy votes are submitted to the Company's Registrar as soon as possible either by proxy form or via electronic voting. Details of this can be found on page 64.

By order of the Board

Invesco Asset Management Limited
Company Secretary

Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire
RG9 1HH

16 April 2020

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 JANUARY 2020

The Board presents this Remuneration Report which has been prepared under the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 and in accordance with the Listing Rules of the Financial Conduct Authority. Ordinary resolutions for the approval of the Directors' Remuneration Policy (binding) and the Annual Statement and Report on Remuneration (advisory) will be put to shareholders at the Annual General Meeting.

The Company's auditor is required to audit certain sections of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included on pages 39 to 44.

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 current Directors' Remuneration Policy was approved by shareholders at the AGM on 7 June 2018.

The policy is that the remuneration of Directors should be fair and reasonable in relation to that of other comparable investment trust companies and be sufficient to retain and motivate appointees, as well as ensure that candidates of a high calibre are recruited to the Board taking into account the views, where appropriate, of shareholders. Remuneration levels should properly reflect time incurred and responsibility undertaken. Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum currently dictated by the Company's Articles of Association is £200,000 in aggregate per annum.

The level of remuneration paid to Directors is reviewed annually, although such review will not necessarily result in any changes. The same level of remuneration will apply to any new appointments.

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

Discretionary fees per day are payable to Directors for any additional work undertaken on behalf of the Company, which is outside their normal duties. Any such extra work undertaken is subject to prior approval of the Chairman or, in the case of the Chairman undertaking the extra work, subject to prior approval of the Chairman of the Audit Committee.

In their review process, the Board did not use the services of external remuneration consultants.

The Board may amend the level of remuneration paid to Directors within the parameters of the directors' remuneration policy.

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

Annual Statement on Directors' Remuneration

The following Directors' fee rate applied from 1 February 2018: Chairman £35,000; Audit Committee Chairman £28,000; and Other Directors £24,000. Discretionary fees are set at £1,250 per day. No Discretionary payments were made in the year, nor in the previous year.

Following the year end, Directors' fees were reviewed by the Board and it was agreed that the current level of remuneration remained appropriate. An external remuneration consultant was not used.

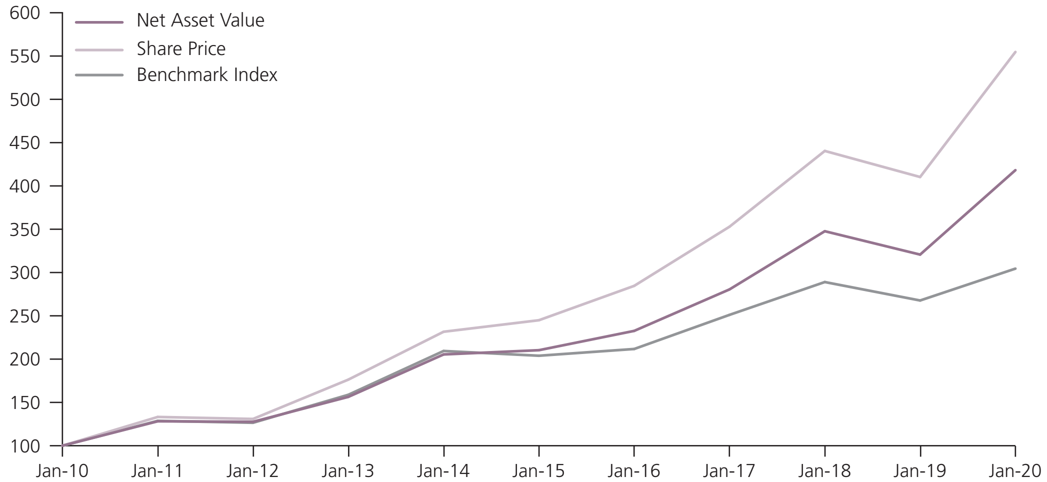
Report on Remuneration for the Year Ended 31 January 2020

Your Company's Performance

The graph below plots the total return to ordinary shareholders compared with the total return of the Numis Smaller Companies Index (excluding Investment Companies) with dividends reinvested (the benchmark index) over the ten years to 31 January 2020.

Total Return of Share Price, Net Asset Value and Benchmark Index

Figures have been rebased to 100 at 31 January 2010.



Single Total Figure of Remuneration for the Year (Audited)

The single total figure of remuneration for each Director is detailed below, together with the prior year comparative:

	2020			2019		
	FEES	TAXABLE BENEFITS[1]	TOTAL	FEES	TAXABLE BENEFITS[1]	TOTAL
	£	£	£	£	£	£
Jane Lewis – Chairman[2]	31,153	1,098	32,251	24,000	1,237	25,237
Richard Brooman – Chairman of the Audit Committee	28,000	—	28,000	28,000	—	28,000
Christopher Fletcher	24,000	1,855	25,855	24,000	1,657	25,657
Bridget Guerin	24,000	1,226	25,226	17,622	—	17,622
Graham Paterson[3]	7,140	862	8,002	—	—	—
Ian Barby[4]	12,210	—	12,210	35,000	—	35,000
Garth Milne[5]	—	—	—	8,351	—	8,351
Total	126,503	5,041	131,544	136,973	2,894	139,867

(1) Taxable benefits relate to the grossed up costs of travel.
(2) Appointed Chairman of the Board and Nomination Committee, from 6 June 2019.
(3) Appointed 15 October 2019
(4) Retired 6 June 2019.
(5) Retired 7 June 2018.

Directors' Shareholdings and Share Interests (Audited)

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

	31 JANUARY 2020	31 JANUARY 2019
Richard Brooman	19,670	19,670
Christopher Fletcher[(1)]	57,669	57,669
Bridget Guerin[(2)]	5,472	—
Jane Lewis	5,406	1,507
Graham Paterson[(3)]	4,500	—

(1) Christopher Fletcher had non-beneficial interests in 7,325 ordinary shares via a connected person.
(2) Bridget Guerin had a non-beneficial interest in 1,588 ordinary shares via a connected person.
(3) Appointed 15 October 2019.

Save as aforesaid, no Director had any other interests, beneficial or otherwise, in the shares of the Company during the period. No changes to these holdings have been notified up to the date of this report.

Directors hold shares in the Company at their discretion and, although share ownership is encouraged, no guidelines have been set.

Relative Importance of Spend on Pay

The following table compares the remuneration paid to the Directors with aggregate distributions to shareholders for the year to 31 January 2020. Although this disclosure is a statutory requirement, the Directors consider that comparison of Directors' remuneration with annual dividends does not provide a meaningful measure relative to the Company's overall performance as an investment trust with an objective of providing shareholders with long-term total return.

	2020 £'000	2019 £'000	CHANGE £'000	CHANGE %
Aggregate Directors' Remuneration	132	140	(8)	(5.7)
Aggregate Dividends	6,219	6,110	109	1.8%*

* The total dividends are 18.60p per ordinary share which is unchanged from last year, however the total amount payable has increased due to the increase in shares in issue during the year.

Voting at Last Annual General Meeting

At the Annual General Meeting of the Company held on 6 June 2019, resolutions approving the Directors' Remuneration Policy and the Chairman's Annual Statement and Report on Remuneration were passed. The votes cast (including votes cast at the Chairman's discretion) were as follows.

	VOTES FOR	VOTES AGAINST	WITHHELD
Directors' Remuneration Policy	99.71%	0.29%	305,908
Chairman's Annual Statement and Report	99.89%	0.11%	277,956

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 16 April 2020.

Signed on behalf of the Board of Directors

Jane Lewis
Chairman

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the preparation of the Annual Financial Report

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they 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.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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, a Directors' Remuneration Report and a Directors' Report that comply with the law and regulations.

The Directors of the Company each confirm to the best of their knowledge, that:

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

Signed on behalf of the Board of Directors

Jane Lewis
Chairman

16 April 2020

Electronic Publication

The annual financial report is published on *www.invesco.co.uk/ipukscit,* which is the Company's website maintained by the Company's Manager. The work carried out by the auditor did 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. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT

to the members of Invesco Perpetual UK Smaller Companies Investment Trust plc

Opinion

We have audited the financial statements of Invesco Perpetual UK Smaller Companies Investment Trust PLC for the year ended 31 January 2020 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, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 January 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 13 to 15 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 13 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 30 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 15 and 16 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	•	Incomplete and inaccurate revenue recognition, including allocation of special dividends as revenue or capital in the Statement of Comprehensive Income
	•	Incorrect valuation and defective title of the investment portfolio
Materiality	•	Overall materiality of £2.1m which represents 1% of net asset value

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Incomplete and inaccurate revenue recognition, including allocation of special dividends as revenue or capital in the Statement of Comprehensive Income Income is received primarily in the form of dividends from the listed equity investments. Dividend income for the year totalled £4.1m (2019: £3.9m). Included within this balance are special dividends of £0.3m (2019: £0.5m), of which £0.2m were treated as capital (2019: nil). There is a risk of incomplete or inaccurate recognition of revenue. In accordance with the Association of Investment Companies Statement of Recommended Practice ('AIC SORP'), special dividends can be included within either the capital or revenue columns of the Statement of Comprehensive Income, depending on the commercial circumstances behind the payments. As such, the Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as "revenue" or "capital". There is a risk that this judgment is not reasonable.	• We obtained an understanding of Invesco Fund Managers Limited's ('the Manager') and Bank of New York Mellon (International) Limited's ('the Administrator') processes and controls for the recognition and allocation of revenue by performing walkthrough procedures and reading their internal control reports to understand the design effectiveness of controls. • We agreed a sample of dividends received from quoted investments per the income report to the corresponding announcement made by an independent source. For a sample we also recalculated the dividend amount received and agreed cash received to bank statements. • We agreed a sample of dividends received on investments held during the year per an independent source to the income report as a test of completeness. • We agreed 100% of accrued dividend rates to an external source, recalculating the dividend amount receivable and agreeing a sample of cash received to post period end bank statements, where possible. • For all special dividends above our testing threshold, we recalculated and assessed the appropriateness of management's allocation between revenue and capital through reviewing the substance of the payment. • We agreed the dividend rates for all special dividends received above our testing threshold as per the underlying financial records to an independent source and agreed the consideration to bank statements as supporting documentation. • For a sample of special dividends below our testing threshold, we recalculated and assessed the appropriateness of management's allocation between revenue and capital through reviewing the substance of the payment. • We tested for the risk of management override through agreeing a sample of manual journal entries posted to the income account to the income report and corroborating their business purpose and rationale.
Key observations communicated to the Audit Committee Based on the work performed we have no matters to report to the Audit Committee.	

Risk	Our response to the risk
Incorrect valuation and defective title of the investment portfolio The investment portfolio totalled £200.0m (2019: £149.2m) All investments are held independently by the Custodian and reconciled by the Depositary (both The Bank of New York Mellon (International) Limited) to the Company's own records. Quoted investments are valued at bid price at the close of business on the relevant date on the exchange on which they are listed. The incorrect valuation of the investment portfolio, including incorrect application of exchange rates, and the risk of misappropriation of assets or the assessment of stock liquidity, could have a significant impact on the financial statements.	• Agreed 100% of quoted investment valuations to an independent pricing vendor. • We reviewed the stale pricing report to identify illiquid or non-priced securities. For any security prices identified as stale we challenged whether their price did indeed represent fair value. • We obtained independent confirmations from the Custodian and Depositary of all investments held at the year-end and agreed the holdings per the confirmations to the Company's records. • We reviewed the share prices and liquidity of the portfolio during the post year end period to evaluate the impact of COVID-19 on the Company's performance to check that the disclosures relating to the valuations remained appropriate after the year-end.
Key observations communicated to the Audit Committee Based on the work performed we have no matters to report to the Audit Committee. We concluded that the impact of COVID-19 on the Company's investment performance was that of a non-adjusting post balance sheet event and has been adequately disclosed in the Financial Statements.	

Emphasis of matter – Effects of COVID-19

We draw attention to Note 22 of the financial statements, which describes the economic and operational disruption that the Company is facing as a result of COVID-19 and the potential impact on the Company's financial performance and business continuity protocols. Our opinion is not modified in respect of this matter.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.1m, which is 1% of net assets. We believe that net assets is the most appropriate measure as it is the primary measure that investors use to assess the performance of the Company.

During the course of our audit, we reassessed initial materiality and made no changes to the basis of calculation from our original assessment at the planning stage.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that performance materiality was 75% of our planning materiality, namely £1.5m. We have set performance materiality at this percentage due to the absence significant errors noted in the current year audit and based on our assessment of the control framework at the Company.

Given the importance of the distinction between revenue and capital for the Company we also apply a separate, lower performance materiality of £0.2m for the revenue column of the Income Statement being 5% of the revenue return on ordinary activities before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 73, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 38** – the statement given by the Directors that they consider the annual report and financial statements 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, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 23 to 25** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 22** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the AIC SORP and Section 1158 of the Corporation Tax Act 2010.

- We understood how Invesco Perpetual UK Smaller Companies Investment Trust plc is complying with those frameworks through discussions with the Audit Committee and Company Secretary in combination with a review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. Given the activities of the Company, we consider management override as being most likely to occur in the first key audit matter being the risk of Incomplete and inaccurate revenue recognition, including allocation of special dividends as revenue or capital in the Statement of Comprehensive Income. Our procedures stated above are designed to address this risk.
- Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- We have reviewed that the Company's control environment is adequate for the size and operating model of such a listed investment Company.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 1 August 2019 to audit the financial statements for the year ending 31 January 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is one year.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Matthew Price (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor,
London

17 April 2020

Notes:

1. The maintenance and integrity of the Invesco Perpetual UK Smaller Companies Investment Trust plc web page on the Invesco web site is the responsibility of the Company's Manager; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JANUARY

	NOTES	2020 REVENUE £'000	2020 CAPITAL £'000	2020 TOTAL £'000	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000
Profit/(loss) on investments held at fair value	9	—	44,913	44,913	—	(15,848)	(15,848)
Income	2	3,924	181	4,105	4,080	–	4,080
Investment management fees	3	(204)	(1,160)	(1,364)	(166)	(943)	(1,109)
Performance fee	3	—	—	—	—	(116)	(116)
Other expenses	4	(379)	(5)	(384)	(391)	(2)	(393)
Profit/(loss) before finance costs and taxation		3,341	43,929	47,270	3,523	(16,909)	(13,386)
Finance costs	5	(1)	(7)	(8)	(2)	(9)	(11)
Profit/(loss) before taxation		3,340	43,922	47,262	3,521	(16,918)	(13,397)
Taxation	6	—	—	—	—	—	—
Profit/(loss) after taxation		3,340	43,922	47,262	3,521	(16,918)	(13,397)
Return per ordinary share	7	10.13p	133.21p	143.34p	10.72p	(51.50)p	(40.78)p

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JANUARY

	NOTES	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 January 2018		10,642	21,244	3,386	142,058	1,241	178,571
Total comprehensive income for the year		—	—	—	(16,918)	3,521	(13,397)
Dividends paid	8	—	—	—	(3,260)	(3,629)	(6,889)
At 31 January 2019		10,642	21,244	3,386	121,880	1,133	158,285
Total comprehensive income for the year		—	—	—	43,922	3,340	47,262
Dividends paid	8	—	—	—	(2,579)	(3,597)	(6,176)
Net proceeds from issue of shares from treasury		—	1,122	—	4,750	—	5,872
At 31 January 2020		10,642	22,366	3,386	167,973	876	205,243

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

BALANCE SHEET

AT 31 JANUARY

	NOTES	2020 £'000	2019 £'000
Non-current assets			
Investments held at fair value through profit or loss	9	199,973	149,211
Current assets			
Other receivables	10	420	438
Cash and cash equivalents		5,493	10,399
		5,913	10,837
Total assets		205,886	160,048
Current liabilities			
Other payables	11	(643)	(1,763)
Total assets less current liabilities		205,243	158,285
Non-current liabilities	12	—	—
Net assets		205,243	158,285
Capital and reserves			
Share capital	13	10,642	10,642
Share premium	14	22,366	21,244
Capital redemption reserve	14	3,386	3,386
Capital reserve	14	167,973	121,880
Revenue reserve	14	876	1,133
Total shareholders' funds		205,243	158,285
Net asset value per ordinary share			
Basic	15	606.7p	481.8p

The financial statements were approved and authorised for issue by the Board of Directors on 16 April 2020.

Signed on behalf of the Board of Directors

Jane Lewis
Chairman

Richard Brooman
Deputy Chairman

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JANUARY

	2020 £'000	2019 £'000
Cash flow from operating activities		
Profit/(loss) before finance costs and taxation	47,270	(13,386)
Adjustments for:		
Purchases of investments	(45,256)	(29,667)
Sales of investments	39,201	40,865
	(6,055)	11,198
(Profit)/loss on investments held at fair value	(44,913)	15,848
Increase in receivables	(36)	(150)
Decrease in payables	(861)	(1,695)
Net cash (outflow)/inflow from operating activities	(4,595)	11,815
Cash flow from financing activities		
Finance costs paid	(7)	(27)
Net proceeds from issue of new shares	5,872	—
Dividends paid – note 8	(6,176)	(6,889)
Net cash outflow from financing activities	(311)	(6,916)
Net (decrease)/increase in cash and cash equivalents	(4,906)	4,899
Cash and cash equivalents at the beginning of the year	10,399	5,500
Cash and cash equivalents at the end of the year	5,493	10,399
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:		
Cash held at custodian	103	169
Invesco Liquidity Funds plc*, money market fund	5,390	10,230
Cash and cash equivalents	5,493	10,399
Cash flow from operating activities includes:		
Dividends received	4,071	3,927
Interest received	—	1

* Formerly Short-Term Investment Company (Global Series) plc.

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

1. 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. These policies have been consistently applied during the current year and the preceding year, unless otherwise stated. The financial statements have been prepared on a going concern basis on the grounds that the Company's investment portfolio (including cash) is sufficiently liquid and significantly exceeds all balance sheet liabilities, there are no unrecorded commitments or contingencies and its gearing facilities remain undrawn. The disclosure on going concern on page 30 in the Directors' Report provides further detail. The Directors believe the Company has sufficient liquidity to meet its liabilities for the next 12 months and that the preparation of the financial statements on a going concern basis remains appropriate as the Company expects to be able to meet its obligations as and when they fall due for the foreseeable future.

(a) Basis of Preparation

(i) *Accounting Standards Applied*

The financial statements have been prepared on a 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 Company's financial year end.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', updated by the Association of Investment Companies in October 2019, is consistent with the requirements of IFRS, the Directors have prepared the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with the SORP.

The revised SORP issued in October 2019 is applicable for accounting periods beginning on or after 1 January 2019. As a result, the presentation of gains and losses arising from disposals of investments and gains and losses on revaluation of investments have now been combined, as shown in note 9 with no impact to the net asset value or profit/(loss) reported for both the current or prior year. No other accounting policies or disclosures have changed as a result of the revised SORP.

(ii) *Adoption of New and Revised Standards*

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

The following standards became effective during the year:

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

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

(iii) *Critical Accounting Estimates and Judgements*

The preparation of the financial statements may require the Directors to make estimations where uncertainty exists. It also requires the Directors to make judgements, estimates and assumptions, in the process of applying the accounting policies. There have been no significant judgements, estimates or assumptions for the current or preceding year.

(b) Foreign Currency and Segmental Reporting

(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 share capital and expenses are denominated, as well as a majority of its assets and liabilities.

(ii) *Transactions and balances*

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currency, are translated into sterling at the rates of exchange ruling on the dates of such transactions, and profit or loss on translation is taken to revenue or capital depending on whether it is revenue or capital in nature. All are recognised in the statement of comprehensive income.

(iii) *Segmental reporting*

The Directors are of the opinion that the Company is engaged in a single segment of business of investing in equity and debt securities, issued by companies operating and generating revenue mainly in the UK.

(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 offsets 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 classifies its financial assets as measured at amortised cost or measured at fair value through profit or loss on the basis of both: the entity's business model for managing the financial assets; and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at fair value through profit or loss if its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding or it is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. The Company's equity investments are classified as fair value through profit or loss as they do not give rise to cash flows that are SPPI.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is taken to be their cost 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.

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.

1. Principal Accounting Policies (continued)

(d) Cash and Cash Equivalents

Cash and cash equivalents include any cash held at custodian and approved depositories, holdings in Invesco Liquidity Funds plc (formerly known as Short-Term Investments Company (Global Series) plc (STIC)), a triple-A rated money market fund and overdrafts.

(e) Income

All dividends are taken into account on the date investments are marked ex-dividend; other income from investments is taken into account on an accruals basis. Deposit interest and underwriting commission receivable are taken into account on an accruals basis. Special dividends representing a return of capital are allocated to capital in the Statement of Comprehensive Income and then taken to capital reserves.

(f) Expenses and Finance Costs

All expenses and finance costs are accounted for in the Statement of Comprehensive Income on an accruals basis.

The investment management fee and finance costs are allocated 85% to capital and 15% to revenue. This is in accordance with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the portfolio. In the prior year, the performance-related management fee was allocated wholly to capital as it arose from capital returns on the portfolio.

Except for custodian transaction charges and costs in relation to the tender offer, all other expenses are allocated to revenue in the Statement of Comprehensive Income.

(g) Taxation

Tax represents the sum of tax payable, withholding tax suffered and deferred tax. Tax is charged or credited in the statement of comprehensive income. Any tax payable is based on taxable profit for the year, however, as expenses exceed taxable income no corporation tax is due. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered probable that there will be suitable profits from which the future reversal of the temporary differences can be deducted. Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period when the liability is settled or the asset realised.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

(h) Dividends

Dividends are not accrued in the financial statements, unless there is an obligation to pay the dividends at the balance sheet date. Proposed final dividends are recognised in the financial year in which they are approved by the shareholders.

(i) Consolidation

Consolidated accounts have not been prepared as the subsidiary, whose principal activity is investment dealing, is not material in the context of these financial statements. The one hundred pounds net asset value of the investment in Berry Starquest Limited has been included in the investments in the Company's balance sheet. Berry Starquest Limited has not traded throughout the year and the preceding year and, as a dormant company, has exemption under 480(1) of the Companies Act 2006 from appointing auditors or obtaining an audit.

2. Income

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

	2020 £'000	2019 £'000
Income from investments		
UK dividends	3,526	3,354
UK special dividends	130	533
Overseas dividends	268	192
	3,924	4,079
Other income		
Deposit interest	—	1
Total income	3,924	4,080

Special dividends of £181,000 were recognised in capital during the year (2019: nil).

Overseas dividends include dividends received on UK listed investments where the investee company is domiciled outside of the UK.

3. Investment Management and Performance Fees

This note shows the fees due to the Manager. These are made up of the management fee calculated and paid monthly and, for the previous year, a performance fee calculated and paid annually. Both are based on the value of the assets being managed.

	2020			2019		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	204	1,160	1,364	166	943	1,109
Performance fee charged to capital	—	—	—	—	116	116
	204	1,160	1,364	166	1,059	1,225

Details of the investment management agreement are given on page 30 in the Directors' Report.

At 31 January 2020, £128,000 (2019: £86,000) was accrued in respect of the investment management fee and nil (2019: £901,000) was accrued for the performance fee.

The performance fee arrangement was removed with effect from 1 February 2019.

4. Other Expenses

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

	2020 REVENUE £'000	2020 CAPITAL £'000	2020 TOTAL £'000	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000
Directors' remuneration (i)	132	—	132	140	—	140
Auditors' fees (ii):						
– for audit of the Company's annual financial statements	28	—	28	28	—	28
Other expenses (iii)	219	5	224	223	2	225
	379	5	384	391	2	393

(i) The Director's Remuneration Report provides further information on Directors' fees.

(ii) Auditor's fees include out of pocket expenses but excludes VAT. The VAT is included in other expenses.

(iii) Other expenses include:
- £11,200 (2019: £12,000) of employer's National Insurance payable on Directors' remuneration. As at 31 January 2020, the amounts outstanding on employer's National Insurance payable on Directors' remuneration was £1,000 (2019: £1,000); and
- custodian transaction charges of £5,400 (2019: £1,500). These are charged to capital.

5. Finance Costs

Finance costs arise on any borrowing facilities the Company has.

	2020 REVENUE £'000	2020 CAPITAL £'000	2020 TOTAL £'000	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000
Bank overdraft facility costs	1	6	7	2	9	11
Overdraft interest	—	1	1	—	—	—
	1	7	8	2	9	11

The £15 million overdraft facility was renewed on 16 September 2019. The facility fee is charged at 0.05% and the interest rate is at a margin above the Bank of England base rate.

6. Taxation

As an investment trust the Company pays no tax on capital gains and, as the Company invested principally in UK equities, it has little overseas tax. In addition, no deferred tax is required to provide for tax that is expected to arise in the future due to differences in accounting and tax bases.

(a) Tax charge

	2020 £'000	2019 £'000
Overseas taxation	—	—

(b) Reconciliation of current tax charge

	2020 £'000	2019 £'000
Profit/(loss) before taxation	47,262	(13,397)
Theoretical tax at UK Corporation Tax rate of 19% (2019: 19%)	8,980	(2,545)
Effects of :		
– Non-taxable UK dividends	(639)	(608)
– Non-taxable UK special dividends	(59)	(101)
– Non-taxable overseas dividends	(38)	(30)
– Non-taxable (gains)/loss on investments	(8,533)	3,011
– Excess of allowable expenses over taxable income	289	273
Tax charge for the year	—	—

(c) Factors that may affect future tax changes

The Company has cumulative excess management expenses of £39,243,000 (2019: £37,685,000) that are available to offset future taxable revenue.

A deferred tax asset of £6,671,000 (2019: £6,407,000) at 17% (2019: 17%) has not been recognised in respect of these expenses since the Directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset. The Company has no deferred tax liability at the balance sheet date.

Subsequent to the year end, on 11 March 2020, it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate at the year end) from 1 April 2020. The deferred tax balances shown above have been calculated with reference to the rate of 17%, as required under International Financial Reporting Standards. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of temporary differences will occur at this rate and that the maximum impact on the quantum of the unrecognised deferred tax asset will be £785,000.

7. 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.

	2020			2019		
	REVENUE	CAPITAL	TOTAL	REVENUE	CAPITAL	TOTAL
Return per ordinary share	10.13p	133.21p	143.34p	10.72p	(51.50)p	(40.78)p

Basic total return per ordinary share is based on the net total profit for the financial year of £47,262,000 (2019: £13,397,000 loss).

Basic revenue return per ordinary share is based on the net revenue profit for the financial year of £3,340,000 (2019: £3,521,000 profit).

Basic capital return per ordinary share is based on the net capital profit for the financial year of £43,922,000 (2019: £16,918,000 loss).

All three returns are based on the weighted average number of shares in issue during the year of 32,971,792 (2019: 32,851,929).

8. Dividends on Ordinary Shares

The Company paid four dividends in the year – three interims and a final.

The final dividend shown below is based on shares in issue at the record date or, if the record date has not been reached, on shares in issue on the date the balance sheet is signed. The third interim and final dividends are paid after the balance sheet date.

	2020		2019	
	PENCE	£'000	PENCE	£'000
Dividends paid from revenue in the year:				
Third interim (prior year)	3.45	1,133	3.55	1,166
Final (prior year)	—	—	0.22	75
First interim	3.75	1,232	3.65	1,199
Second interim	3.75	1,232	3.65	1,199
Return of unclaimed dividends from previous years	—	—	—	(10)
Total dividends paid from revenue	10.95	3,597	11.07	3,629
Dividends paid from capital in the year:				
Third interim (prior year)	0.20	66	—	—
Final (prior year)	7.65	2,513	9.93	3,260
Total dividends paid from capital	7.85	2,579	9.93	3,260
Total dividends paid in the year	18.80	6,176	21.00	6,889

	2020		2019	
	PENCE	£'000	PENCE	£'000
Dividends payable in respect of the year:				
First interim	3.75	1,232	3.65	1,199
Second interim	3.75	1,232	3.65	1,199
Third interim	3.75	1,269	3.65	1,199
Final	7.35	2,486	7.65	2,513
	18.60	6,219	18.60	6,110

The Company's dividend policy was changed in 2015 so that dividends will be paid firstly from any revenue reserves available, and thereafter from capital reserves. The amount payable in respect of the year is shown below:

	2020	2019
	£'000	£'000
Dividends in respect of the year:		
– from revenue reserve	3,340	3,521
– from capital reserve	2,879	2,589
	6,219	6,110

Dividend payable from capital reserves of £2,879,000 (2019: £2,589,000) as a percentage of year end net assets of £205,243,000 (2019: £158,285,000) is 1.4% (2019: 1.6%).

9. Investments Held at Fair Value Through Profit and Loss

The portfolio is made up of investments which are listed or traded on a regulated stock exchange or AIM. Profit and losses in the year include:

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

	2020 £'000	2019 £'000
Investments listed on a regulated stock exchange	144,472	118,198
AIM quoted investments	55,501	31,013
	199,973	149,211
Opening valuation	149,211	176,074
Movements in year:		
Purchases at cost	44,996	29,870
Sales – proceeds	(39,147)	(40,885)
Profit/(loss) on investments in the year	44,913	(15,848)*
Closing valuation	199,973	149,211
Closing book cost	140,572	126,598
Closing investment holding gains in the year	59,401	22,613
Closing valuation	199,973	149,211

The transaction costs included in gains on investments amount to £146,000 (2019: £86,000) on purchases and £25,000 (2019: £44,000) for sales.

The Company received £39,147,000 (2019: £40,885,000) from investments sold in the year. The book cost of these investments when they were purchased was £31,022,000 (2019: £24,673,000) realising a profit of £8,125,000 (2019: £16,212,000). These investments have been revalued over time and until they were sold any unrealised profits/losses were included in the fair value of the investments.

* Due to adoption of the revised SORP issued in October 2019 (see Note 1(a)(i)). The loss on investments figure of £15,848,000 for the year ended 31 January 2019 is made up as follows:

	2019 £'000
Net realised profit on sales	16,212
Investment holding loss in the year	(32,060)
Loss on investments	(15,848)

10. Other Receivables

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

	2020 £'000	2019 £'000
Amounts due from brokers	—	54
Prepayments and accrued income	420	384
	420	438

11. 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 (accruals), such as the Manager and auditor.

	2020 £'000	2019 £'000
Amounts due to brokers	435	695
Performance fee – earned and payable for the year	—	116
– prior period provision now payable	—	785
Accruals	208	167
	643	1,763

12. Non-current Liabilities

Non-current liabilities are amounts payable by the Company more than a year after the balance sheet date.

	2020 £'000	2019 £'000
Performance fee deferred		
– brought forward	—	785
– paid in year	—	(785)
	—	—

The performance fee arrangement was removed with effect from 1 February 2019.

13. Share Capital

Share capital represents the total number of shares in issue, including shares held in treasury.

	2020		2019	
	NUMBER	£'000	NUMBER	£'000
Allotted, called-up and fully paid				
Ordinary shares of 20p each	33,826,929	6,765	32,851,929	6,570
Treasury shares of 20p each	19,382,155	3,877	20,357,155	4,072
	53,209,084	10,642	53,209,084	10,642

For the year to 31 January 2020, 975,000 (2019: nil) shares were issued from treasury. These shares were issued in tranches of various quantities throughout the year to satisfy secondary market demand. The gross issue proceeds were £5,895,000 (2019: £nil), at an average price of 604.61p (2019: nil), and the net proceeds after issue costs were £5,872,000 (2019: £nil).

No shares have been issued from or bought back into treasury since the accounting year end.

14. Reserves

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

The share premium arises whenever shares are issued at a price above the nominal value plus any issue costs. The capital redemption reserve maintains the equity share capital and arises from the nominal value of shares repurchased and cancelled. The share premium and capital redemption reserve are non-distributable.

Capital investment gains and losses are shown in note 9, and form part of the capital reserve. The revenue reserve shows the net revenue retained after payment of dividends. The capital and revenue reserves are distributable by way of dividend. In addition, the capital reserve is also distributable by way of share buy backs.

15. 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 share and the net asset values attributable at the year end were as follows:

	NET ASSET VALUE PER SHARE		NET ASSETS ATTRIBUTABLE	
	2020 PENCE	2019 PENCE	2020 £'000	2019 £'000
Ordinary shares	606.7	481.8	205,243	158,285

Net asset value per ordinary share is based on net assets at the year end and on 33,826,929 (2019: 32,851,929) ordinary shares, being the number of ordinary shares in issue (excluding shares held in treasury) at the year end.

16. Subsidiary Undertaking

The Company has one dormant subsidiary which has total assets of £100.

	NET ASSET VALUE AT 31 JANUARY 2020	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION AND OPERATION	DESCRIPTION OF SHARES HELD	PERCENTAGE HELD
Berry Starquest Limited	£100	Investment dealing	England and Wales	Ordinary shares	100%

During the year and the preceding year, no transactions were undertaken by the subsidiary.

17. Risk Management, Financial Assets and Liabilities

Financial instruments comprise the Company's investment portfolio and any derivative financial instruments held, as well as any cash, borrowings, other receivables and other payables.

Financial Instruments

The Company's financial instruments comprise its investment portfolio (as shown on pages 18 and 19), cash, overdraft, other receivables and other payables that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

Risk Management Policies and Procedures

The Directors have delegated to the Manager the responsibility for the day-to-day investment activities of the Company as more fully described in the Directors' Report.

As an investment trust the Company invests in equities and other investments for the long-term, so as to meet its investment policy (incorporating the Company's investment objective). In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends. Those related to financial instruments include market risk, liquidity risk and credit risk. These policies are summarised below and have remained substantially unchanged for the two years under review.

The main risk that the Company faces arising from its financial instruments is market risk – this risk is reviewed in detail below. Since the Company invests mainly in UK equities traded on the London Stock Exchange, liquidity risk and credit risk are not significant. Liquidity risk is minimised as the majority of the Company's investments comprise a diversified portfolio of readily realisable securities which can be sold to meet funding commitments as necessary. In addition, an overdraft facility provides short-term funding flexibility.

17. Risk Management, Financial Assets and Liabilities (continued)

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered, and cash balances. Counterparty risk is minimised by using only approved counterparties. The Company's ability to operate in the short-term may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The appointment of a depositary has substantially lessened this risk. The Board reviews the custodian's annual controls report and the Manager's management of the relationship with the custodian. Cash balances are limited to a maximum of 1.25% of net assets with any one deposit taker, with only approved deposit takers being used, and a maximum of 7.5% of net assets for holdings in the Invesco Liquidity Funds plc (formerly known as Short-Term Investments Company (Global Series) plc (STIC)), a triple-A rated money market fund.

Market Risk

The fair value or future cash flows of a financial instrument may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Company's Manager assesses the Company's exposure when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance. The Company may utilise hedging instruments to manage market risk. Gearing is used to enhance returns, however, this will also increase the Company's exposure to market risk and volatility.

1. Currency Risk

The exposure to currency risk is considered minor as the Company's financial instruments are mainly denominated in sterling. At the current and preceding year end, the Company held no foreign currency investments or cash.

During this and the previous year, the Company did not use forward currency contracts to mitigate currency risk.

2. Interest Rate Risk

Interest rate movements will affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings. When the Company has cash balances, they are held in variable rate bank accounts yielding rates of interest dependent on the base rate of the Custodian, The Bank of New York Mellon (International) Limited. Additionally, holdings in Invesco Liquidity Funds plc (formerly known as STIC) are subject to interest rate changes.

The Company has an uncommitted bank overdraft facility up to a maximum of 30% of the net asset value of the Company or £15 million (2019: same), whichever is the lower; the interest rate is charged at a margin over the Bank of England base rate. The Company uses the facility when required, at levels approved and monitored by the Board.

At the year end, there was no overdraft drawn down (2019: none). Based on the maximum amount that can be drawn down at the year end under the overdraft facility of £15 million (2019: £15 million), the effect of a +/– 1% in the interest rate would result in an increase or decrease to the Company's statement of comprehensive income of £150,000 (2019: £150,000).

The Company's portfolio is not directly exposed to interest rate risk.

3. Other Price Risk

Other price risks (i.e. the risk of changes in market prices, other than those arising from interest rates or currency) may affect the value of the investments.

Management of Other Price Risk

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

The Company's portfolio is the result of the Manager's investment process and as a result is not correlated with the Company's benchmark or the markets in which the Company invests. Therefore the value of the portfolio will not move in line with the market but will move as a result of the performance of the company shares within the portfolio.

If the value of the portfolio fell by 10% at the balance sheet date, the profit after tax for the year would decrease by £20.0 million (2019: loss after tax for the year would increase by £14.9 million). Conversely, if the value of the portfolio rose by 10%, the profit after tax would increase (2019: loss after tax would decrease) by the same amount.

Fair Values of Financial Assets and Financial Liabilities

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

Fair Value Hierarchy Disclosures

Except for the one Level 3 investment described below, all of the Company's investments are in the Level 1 category as set out in IFRS 13, the three levels of which follow:

Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

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

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

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

Berry Starquest Limited was the only Level 3 investment in the portfolio at the current year end (2019: Berry Starquest Limited and Patisserie Holdings). Level 3 investments are investments for which inputs are unobservable (i.e. for which market data is unavailable). Patisserie Holdings fair value was written down to nil following its suspension from trading on AIM in October 2018 and subsequently has been written off (31 January 2019: £nil). Berry Starquest Limited is a dormant subsidiary and is valued at £100 (2019: £100).

18. Maturity Analysis of Contractual Liability Cash Flows

The contractual liabilities of the Company are shown in notes 11 and 12 and comprise amounts due to brokers, accruals and performance fee deferred. All are paid under contractual terms. For amounts due to brokers, this will generally be the purchase date of the investment plus two business days; accruals would generally be due within three months.

19. Capital Management

The Company's capital, or equity, is represented by its net assets which are managed to achieve the Company's investment objective set out on page 12.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 13 to 15. These also explain that the Company is able to gear and that 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 determines dividend payments and has taken the powers, which it is seeking to renew, to buy-back shares, either for cancellation or to be held in treasury, and to issue new shares or sell shares held in treasury.

The Company is subject to externally imposed capital requirements with respect to the obligation and ability to pay dividends by s1158 Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the overdraft facility and by the terms imposed by the lender. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Total equity at 31 January 2020, the composition of which is shown on the balance sheet on page 46, was £205,243,000 (2019: £158,285,000).

20. Contingencies, Guarantees and Financial Commitments

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

There were no contingencies, guarantees or other financial commitments of the Company as at 31 January 2020 (2019: nil).

21. Related Party Transactions and Transactions with 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 36 and 37 with additional disclosure in note 4. No other related parties have been identified.

Details of the Manager's services and fees are disclosed in the Directors' Report on page 30 and in note 3.

22. Post Balance Sheet Events

Since the year end, the COVID-19 virus was declared a global pandemic which has had a significant impact on global markets and the value of the Company's investments. As at 14 April 2020, being the latest practical date prior to publication of this annual financial report, the Company's share price and NAV had fallen by 31.1% and 25.9% respectively. Over the same period, the Company's benchmark index had declined by 27.4%.

Under International Financial Reporting Standards, this is a non-adjusting post balance sheet event and no adjustment to the financial statements has been made; they have been prepared on a Going Concern basis, as described in Note 1 and the Going Concern Statement on page 30. Further details of the COVID-19 business risk assessment and portfolio impact are provided in the Chairman's Statement on pages 5 to 8, Portfolio Managers' Report on pages 9 to 11 and Principal Risks and Uncertainties on pages 13 to 15.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURES

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

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

Amongst other things, regulations enacted following AIFMD require certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invesco.co.uk/ipukscit) in a downloadable document entitled 'AIFMD Investor Information'. There have been no material changes to this information in the year to 31 January 2020 or up to the date of this report. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the Company's leverage (both 'gross' and 'commitment' – see Glossary on page 69) and the remuneration of the Company's AIFM (IFML) to be made available to investors.

Accordingly:

– the leverage calculated for the Company at its year end was 98% for both gross and commitment (2019: both 95%). The limits the AIFM has set for the Company remain unchanged at 250% and 200%, respectively;

– the AIFM summary remuneration policy is available from the corporate policies section of the Manager's website www.invesco.co.uk and from the Company's company secretary, on request (see contact details on page 67); and

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

AIFM Remuneration

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

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

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

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

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

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 Invesco Perpetual UK Smaller Companies Investment Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

PLEASE NOTE THAT IN LINE WITH LATEST 'STAY AT HOME' RESTRICTIONS, SHAREHOLDERS ARE NOT PERMITTED TO ATTEND THE AGM IN PERSON. SHAREHOLDERS ARE ENCOURAGED TO RETURN THEIR FORMS OF PROXY AS DIRECTED BELOW.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting ('AGM') of Invesco Perpetual UK Smaller Companies Investment Trust plc will be held at the offices of Invesco at 43-45 Portman Square, London W1H 6LY at 12 noon on Thursday, 11 June 2020 for the following purposes:

Ordinary Business

1. To receive and consider the Annual Financial Report for the year ended 31 January 2020.
2. To approve the Directors' Remuneration Policy.
3. To approve the Annual Statement and Report on Remuneration for the year ended 31 January 2020.
4. To approve a final dividend as recommended.
5. To re-elect Jane Lewis as a Director of the Company.
6. To re-elect Christopher Fletcher as a Director of the Company.
7. To re-elect Bridget Guerin as a Director of the Company.
8. To elect Graham Paterson as a Director of the Company.
9. To re-appoint the auditor, Ernst & Young LLP.
10. To authorise the Audit Committee to determine the auditor's remuneration.

Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 11 will be proposed as an ordinary resolution and 12 to 14 as special resolutions:

11. THAT:

    the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the 'Act') as amended from time to time prior to the date of the passing of this resolution to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any securities into, shares up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £676,538, this being 10% of the Company's issued ordinary share capital as at 15 April 2020, such authority to expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier unless the authority is renewed or revoked at any other general meeting prior to such time, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted, or rights to be granted, after such expiry as if the authority conferred by this resolution had not expired.

12. THAT:

    the Directors be and are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 (the 'Act') as amended from time to time prior to the date of the passing of this resolution to allot equity securities (within the meaning of section 560 (1), (2) and (3) of the Act) for cash, either pursuant to the authority given by resolution 11 set out above or (if such allotment constitutes the sale of relevant shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

    (a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);

(b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £676,538, this being 10% of the Company's issued ordinary share capital as at 15 April 2020; and

(c) to the allotment of equity securities at a price not less than the net asset value per share (as determined by the Directors)

and this power shall expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier unless the authority is renewed or revoked at any other general meeting prior to such time, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this resolution.

13. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued Shares of 20p each in the capital of the Company ('Shares').

PROVIDED ALWAYS THAT:

(a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares, this being 5,070,657 as at 15 April 2020;

(b) the minimum price which may be paid for a Share shall be 20p;

(c) the maximum price which may be paid for a Share must not be more than the higher of: (i) 5% above the average of the mid-market values of the Shares for the five business days before the purchase is made; and (ii) the higher of the price of the last independent trade in the Shares and the highest then current independent bid for the Shares on the London Stock Exchange;

(d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share (as determined by the Directors);

(e) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, unless the authority is renewed or revoked at any other general meeting prior to such time;

(f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and

(g) any Shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of Sections 724 to 731 of the Companies Act 2006 and any applicable regulations of the United Kingdom Listing Authority, be held (or otherwise dealt with in accordance with Section 727 or 729 of the Companies Act 2006) as treasury shares.

14. THAT the period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 days.

Please refer to the Directors' Report on pages 32 to 34 for further explanations of all the resolutions.

Dated this 16 April 2020

By order of the Board

Invesco Asset Management Limited
Company Secretary

NOTICE OF ANNUAL GENERAL MEETING

continued

Notes:

1. 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 by one of the following methods:
   - via Link Asset Services website www.signalshares.com; or
   - In hard copy form by post, by courier or by hand to the Company's registrars, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; 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. As a result of the Stay at Home Measures, no shareholder (other than two shareholders designated in advance to attend for the purposes of forming a quorum), corporate representative or proxy (other than the Chairman) will be admitted to the AGM in person. Shareholders wishing to appoint a proxy should therefore appoint the Chairman of 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(s) 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 changes 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 provider(s) 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 practical limitations of the CREST system and timings.

3. A form of appointment of proxy is enclosed. 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 this meeting. However, as noted above, as a result of the Stay at Home Measures, shareholders, corporate representatives or proxies other than the Chairman of the AGM will be turned away from the AGM if they attempt to attend in person.

   To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's registrars, Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, by not later than 12 noon on Tuesday, 9 June 2020.

4. A person entered on the Register of Members at close of business on 9 June 2020 ('a member') is entitled to attend and vote at the Meeting 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 Meeting. If the Meeting 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.

5. The Terms of Reference of the Audit Committee, the Nomination Committee and the Management Engagement Committee and the Letters of Appointment for Directors will be available for inspection by request to the Company Secretary.

6. A copy of the Articles of Association are available for inspection by request to the Company Secretary.

7. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the above rights of the shareholders in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

8. 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.

9. 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 for 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. In view of the Stay at Home Measures, if you have a question or comment you wish to be considered, please contact the Company Secretary, who will forward your question or comment to the Board for consideration.

10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) 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.

11. As at 15 April 2020 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 33,826,929 ordinary shares of 20p each carrying one vote each.

12. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at *www.invesco.co.uk/ipukscit*.

13. Shareholders should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006 (the 'Act'), the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act (in each case) that the members propose to raise at the relevant AGM. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.

Company History

Invesco Perpetual UK Smaller Companies Investment Trust plc was launched in March 1988, and was formerly known as Berry Starquest plc. Perpetual took over the management of the investment trust on 1 March 1994. On 13 June 2002, following shareholder resolution, the investment trust's name changed to Invesco Perpetual UK Smaller Companies Investment Trust plc.

Net Asset Value (NAV) Publication

The NAV of the Company is calculated by the Manager on a daily basis and is notified to the Stock Exchange on the following business day. An estimated NAV is also published daily in the newspapers detailed under Share Price Listings.

Website

Information relating to the Company can be found on the Company's section of the Manager's website, which can be located at www.invesco.co.uk/ipukscit.

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

How to invest in the Company

The Company's shares are listed and traded on the London Stock Exchange. There are a variety of ways by which investors can buy the shares including through the following: independent financial advisers, wealth managers and self directed dealing websites. The Manager's website contains a list of some of the larger dealing platforms as well as a link to unbiased.co.uk, for those seeking financial advice, and to the AIC's website for detailed information on investment companies.

Share Price Listings

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

In addition, share price information can be found using the IPU ticker code and on the Company's section of the Manager's website under Resources: www.invesco.co.uk/ipukscit.

Financial Calendar

The Company publishes information according to the following calendar:

Announcements:	
Annual financial report	April/May
Half-yearly financial report	September
Year End	31 January
Dividend Payable Timetable:	
1st interim	September
2nd interim	December
3rd interim	March
Final	June
Annual General Meeting	May/June

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Thursday, 11 June 2020 at 1st Floor, 43-45 Portman Square, London W1H 6LY. In line with latest 'Stay at Home' measures announced by the Government shareholders will not be able to attend the Company's AGM. There will be no update by the Portfolio Managers.

General Data Protection Regulation (GDPR)

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

ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Registered Office and Company Number

Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH

Registered in England and Wales
Number 02129187

Alternative Investment Fund Manager (Manager)

Invesco Fund Managers Limited

Company Secretary

Invesco Asset Management Limited
Company Secretarial Contact: Kelly Nice and Nira Mistry

Correspondence address

43-45 Portman Square
London W1H 6LY
☎ 020 3753 1000

Invesco Client Services

Invesco has a Client Services Team available from 8.30 am to 6.00 pm
Monday to Friday (excluding UK Bank Holidays).
Please feel free to take advantage of their expertise by ringing
☎ 0800 085 8677
www.invesco.co.uk/investmenttrusts

The Association of Investment Companies

The Company is a member of the Association of Investment Companies.
Contact details are:
☎ 020 7282 5555
Email: enquiries@theaic.co.uk
Website: www.theaic.co.uk

Independent Auditor

Ernst & Young LLP
25 Churchill Place, Canary Wharf,
London E14 5EY

Registrars

Link Asset Services Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

☎ 0371 664 0300.

If you hold your shares directly and not through a savings scheme or ISA and have queries relating to your shareholding you should contact the Registrar on: ☎ 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider.

Link Asset Services provides an on-line and telephone share dealing services to existing shareholders who are not seeking advice on buying or selling. This service is available at www.linksharedeal.com or ☎ 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider.

Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm Monday to Friday (excluding Bank Holidays in England and Wales).

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

Depositary, Custodian and Banker

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

Corporate Broker

JPMorgan Cazenove
25 Bank Street
London E14 5JP

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measure (APM)

An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. The calculations shown in the corresponding tables are for the years ended 31 January 2020 and 2019. The APMs listed here are widely used in reporting within the investment company sector and consequently aid comparability.

Benchmark (or Benchmark Index)

A market index, which averages the performance of companies in any sector, giving a good indication of any rises or falls in the market. The benchmark used in these accounts is the Numis Smaller Companies Index (excluding Investment Companies) with income reinvested. This index does not include AIM stocks.

Dividend Yield

The annual dividend expressed as a percentage of the current market price.

Discount/Premium (APM)

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

	PAGE		2020	2019
Share price	2	a	606.0p	465.0p
Net asset value per share	46	b	606.7p	481.8p
Discount		c = (a-b)/b	(0.1)%	(3.5)%

Gearing

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

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

Gross Gearing (APM)
This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of net assets. As at 31 January 2020 the Company had no gross borrowings (2019: £nil).

	PAGE		2020 £'000	2019 £'000
Bank facility	—		—	—
Gross borrowings		a	—	—
Net asset value	46	b	205,243	158,285
Gross gearing		c = a/b	nil	nil

Net Gearing or Net Cash (APM)

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

	PAGE		2020 £'000	2019 £'000
Bank facility	—		—	—
Less cash and cash equivalents	46		5,493	10,399
Net cash and cash equivalents		a	5,493	10,399
Net asset value	46	b	205,243	158,285
Net cash		c = a/b	2.7%	6.6%

Maximum Authorised Gearing

This reflects the maximum authorised borrowings of a company taking into account both any gearing limits laid down in the investment policy and the maximum borrowings laid down in covenants under any borrowing facility and is calculated as follows:

	PAGE		2020 £'000	2019 £'000
Maximum authorised borrowings as laid down in:				
Investment policy:				
– lower of 30% of net asset value; and		a = 30% x e	61,573	47,486
– £25m	12	b	25,000	25,000
Bank facility covenants: lower of 30% of net asset value and £15m	13	c	15,000	15,000
Maximum authorised borrowings d = lower of a, b and c		d	15,000	15,000
Net asset value	46	e	205,243	158,285
Maximum authorised gearing		f = d/e	7.3%	9.5%

Leverage

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

Market Capitalisation

Is calculated by multiplying the stockmarket price of an ordinary share by the number of ordinary shares in issue.

Net Asset Value (NAV)

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

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

continued

Ongoing Charges (APM)

The annualised ongoing charge incorporates charges allocated to capital in the financial statements as well as those allocated to revenue, but excludes non-recurring costs, transaction costs of investments, finance costs, taxation, and the costs of buying back or issuing shares. The ongoing charges are the aggregate of these costs expressed as a percentage of the daily average net asset value reported in the year.

	PAGE		2020 £'000	2019 £'000
Investment management fee	45		1,364	1,109
Other expenses	45		384	393
Less: costs in relation to custody dealing charges and one off legal costs			(7)	(2)
Total recurring expenses		a	1,741	1,500
Average daily net assets		b	179,477	170,839
Ongoing charges ratio %		c = a/b	0.97%	0.88%

Performance fee (APM)

The amount due to the Manager, based on the capital outperformance of the Company's net asset value (NAV) against the Benchmark in the year, calculated in accordance with the Investment Management Agreement (IMA). The outperformance is measured on the Company's NAV against the Benchmark Index, both excluding income reinvested.

	PAGE	2020 £'000	2019 £'000
Performance fee	45	n/a	116
Average daily net assets		179,477	170,839
Performance fee*		n/a	0.07%

* The performance fee arrangement was removed with effect from 1 February 2019.

Return

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

Total Return

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

Net Asset Value Total Return (APM)
Total return on net asset value per share, with debt at market value, assuming dividends paid by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

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

2020	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 January 2020	2		606.7p	606.0p
As at 31 January 2019	2		481.8p	465.0p
Change in year		a	25.9%	30.3%
Impact of dividend reinvestments	see (1) below	b	4.5%	4.9%
Total return for the year		c = a+b	30.4%	35.2%

2019	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 January 2019	2		481.8p	465.0p
As at 31 January 2018			543.6p	520.0p
Change in year		a	–11.4%	–10.6%
Impact of dividend reinvestments	see (1) below	b	3.6%	3.8%
Total return for the year		c = a+b	–7.8%	–6.8%

(1) Total dividends paid during the year of 18.80p (2019: 21.00p) reinvested at the NAV or share price on the ex-dividend date. NAV or share price falls subsequent to the reinvestment date consequently further reduce the returns, vice versa if the NAV or share price rises.

Benchmark

Total return on the benchmark is on a mid-market value basis, assuming all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at the time the shares were quoted ex-dividend.

Volatility

Volatility refers to the amount of uncertainty or risk about the size of changes in a security's value. It is a statistical measure of the dispersion of returns for a given security or market index measured by using the standard deviation or variance of returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

The Manager of Invesco Perpetual UK Smaller Companies Investment Trust plc is Invesco Fund Managers Limited.

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

Invesco is a business name of Invesco Fund Managers Limited.

Invesco is one of the largest independent global investment management firms, with assets under management of approximately $1,053 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 as at 31 March 2020.*

SPECIALIST FUNDS MANAGED BY INVESCO

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

City Merchants High Yield Trust Limited

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

Invesco Income Growth Trust plc

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

Invesco Enhanced Income Limited

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

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio

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

Invesco Perpetual Select Trust plc – UK Equity Portfolio

Aims to provide shareholders with an attractive real long-term total return by investing primarily in UK quoted equities. The portfolio may use bank borrowings.

Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company may use bank borrowings.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

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

Investing Internationally

Invesco Asia Trust plc

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

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Allocation Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

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

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Allocation Portfolio

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

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

Linkway Financial Printers
Typeset & Printed in London (UK) 17133