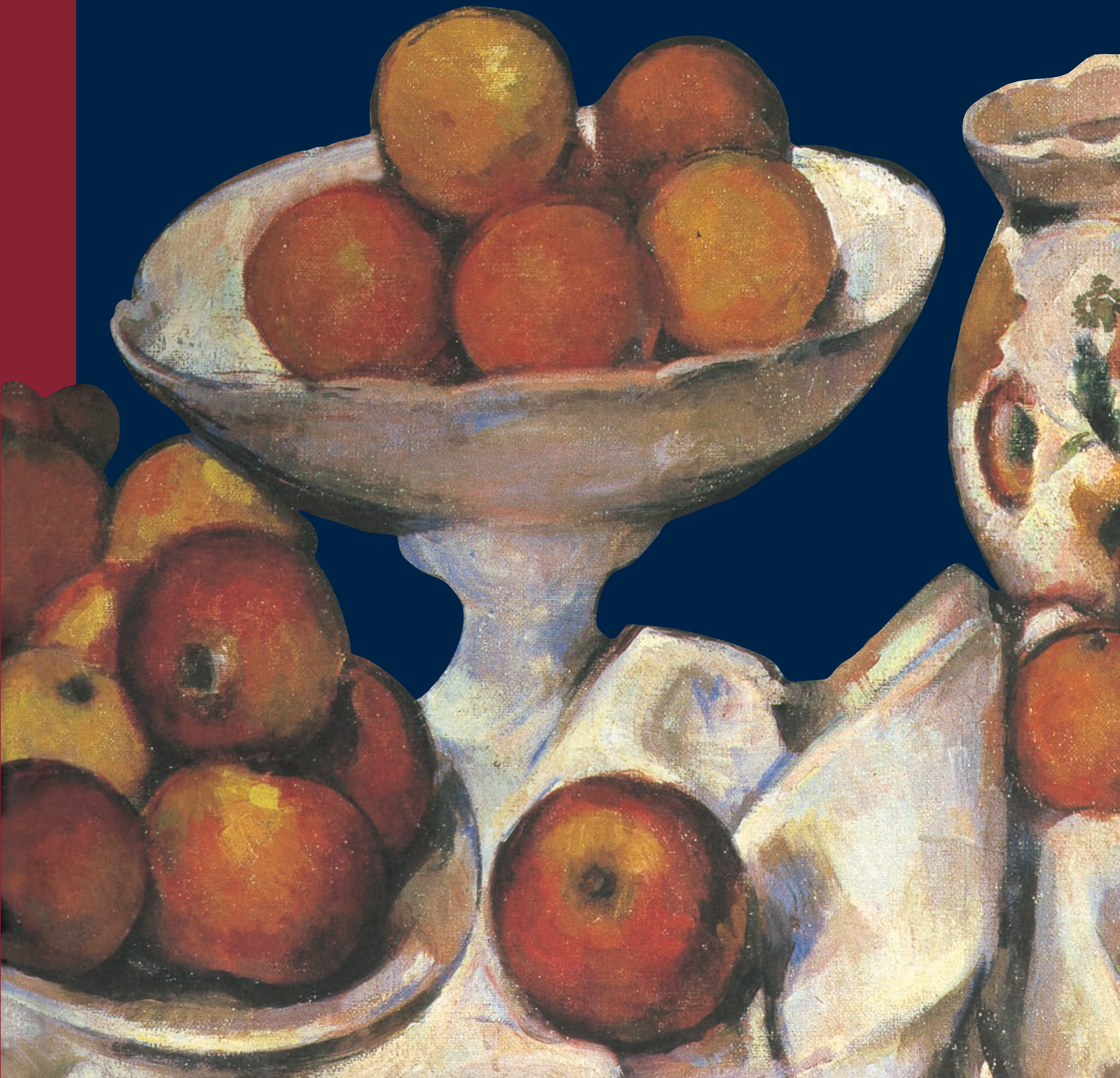
City Merchants High Yield Trust Limited

Annual Financial Report

Year Ended 31 December 2016



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

0800 085 8677

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The Company is a member of

aic

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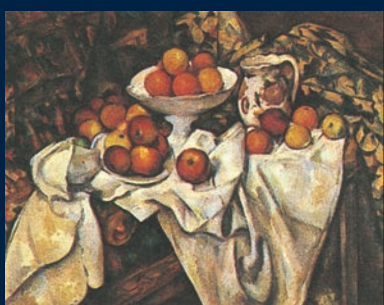


Contents

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

Investment Objective

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

Investment Policy

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

It should be noted that, although investment in higher-yielding securities may provide greater returns than investment in higher-rated interest-bearing securities, it entails greater risks.

Nature of the Company

The Company is a public listed investment company incorporated in Jersey, Channel Islands, whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on pages 7 and 8), with the aim of spreading investment risk and generating a return for shareholders. The Company may use borrowings, the proceeds from which can also be invested with the aim of enhancing returns to shareholders. Such additional investment would increase the potential risk to shareholders should the value of the investments fall.

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

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

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Total Return	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015
Net Asset Value†	+11.8%	+2.7%
Share price*	+11.6%	+0.7%
Ongoing Charges†	1.01%	1.01%
Dividend for the year	10p	10p

Year End Information

	31 DECEMBER 2016	31 DECEMBER 2015	% CHANGE
Net asset value per share†	189.32p	178.34p	+6.2
Share price*	191.00p	180.75p	+5.7
Premium†	0.9%	1.4%	
Gearing†			
Gross gearing	nil	nil	
Net cash	8.4%	7.0%	

*Source: Thomson Reuters Datastream.

Terms marked † are defined in the Glossary of Terms on page 57.

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

TO 31 DECEMBER	DIVIDENDS ON ORDINARY SHARES COST £'000	DIVIDENDS ON ORDINARY SHARES RATE P	ONGOING CHARGES(2) %	NET ASSET VALUE PER ORDINARY SHARE P	SHARE PRICE P
2007	6,176	12.0	1.37	170.1	169.50
2008	6,718	12.0	1.39	97.5	104.50
2009	8,223	13.0	1.18	156.7	158.00
2010	8,008	11.0	1.11	169.0	173.00
2011	7,280	10.0	1.08	145.6	147.00
2012	7,278	10.0	1.07	171.3	164.50
2013	7,287	10.0	1.02	184.1	184.00
2014	7,872	10.0	1.02	183.4	189.25
2015	8,454	10.0	1.01	178.3	180.75
2016	**8,995**	**10.0**	**1.01**	**189.3**	**191.00**

(1) City Merchants High Yield Trust Limited (new CMHYT, the Company) was incorporated on 19 December 2011 as the successor vehicle for City Merchants High Yield Trust plc (CMHYT plc), which was placed in members' voluntary liquidation on 30 March 2012. The terms of the reconstruction allow direct comparison of the Company's financial information with CMHYT plc's financial information prior to 2012 extracted from that company's audited annual financial reports. This includes the aggregate dividends of these companies for the year to 31 December 2012.

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

CHAIRMAN'S STATEMENT

The Company continued to perform well in 2016 despite persistent volatility in bond markets and the increasing difficulty of sourcing quality high yield paper. For the year ended 31 December 2016, the NAV total return was +11.8% which compares very favourably with +7.1% for the Investment Management Association Sterling Strategic Bond sector. The Company's share price total return for the year was +11.6%. The Manager's Investment Report summarises the market background and portfolio strategy for the year, including how the portfolio is positioned and outlook.

In my statement in the half yearly report, I highlighted the uncertain period following the aftermath of the UK's decision to leave the European Union, the full outcome of which remains unknown. Uncertainty continued around the globe with the success of Donald Trump in the US presidential election and Italy's rejection of constitutional reform. Despite market volatility caused by these events, the Company continued to produce an attractive level of income for shareholders. We were able to meet our dividend target of 10p in respect of the financial year, matching last year's total, and aim to achieve this again in the coming year.

The Board believes the portfolio remains well positioned to continue to provide an attractive level of income for shareholders, with some limited potential for capital appreciation.

Demand for the Company's shares continued to be strong and shares traded at a premium to NAV for most of the year. I am pleased to report that 5,673,745 ordinary shares (approximately 6.6% of share capital) were issued at an average premium to NAV of 1.6%. This compared favourably to the average premium the shares traded at in the year of 1.3%. Just over £10.4 million of capital was raised in the year.

A further 475,000 ordinary shares have been issued since the year end. Given the continuing demand for shares, the Directors are asking shareholders to renew the 10% issuance authority at the forthcoming AGM.

Borrowings

As set out in the Strategic Report, the Company's borrowing policy is determined by the Board. The maximum amount of borrowings permitted is 30% of total assets, and remains unchanged. The decision to use borrowings to gear the portfolio rests with the portfolio managers and a credit facility from The Bank of New York Mellon is in place to facilitate this, although it has not been utilised in recent years. We are also putting in place the facility to use repo financing should the portfolio managers wish to do so. This is explained further in the Strategic Report on page 8.

Board Composition

The Board is unchanged since the Company's re-domicile to Jersey in 2012 and whilst this stability has been beneficial for the Company, the Board is mindful of the importance of having a suitably mapped board succession and renewal process in line with corporate governance best practice. Thus, following the recommendation of the external Board evaluation carried out in 2015, the Board has decided to put in motion the process to recruit a new non-executive director to join the Board in 2017.

Having served the Company and its predecessor for a combined total of twelve years and thus being the longest serving member of the Board, I shall retire as Chairman and Director of the Company during the course of 2017, in accordance with our succession plan. The exact timing of my retirement is subject to ensuring it facilitates a smooth transition to my successor after the new Director is appointed. The services of Trust Associates have been engaged for the recruitment process and, together with the nomination of my successor, this process will be led by John Boothman, Chairman of the Nomination Committee.

Annual General Meeting (AGM)

The Company's 2017 AGM will once again be held in London at The Oriental Club, Stratford House, Stratford Place, London W1C 1ES at 3.30pm on 15 June 2017. Shareholders attending will have an opportunity to pose questions on the annual financial report and hear from one of the portfolio managers.

CHAIRMAN'S STATEMENT
continued

The resolutions to be put to shareholders at the meeting are described in detail in the Directors' Report on page 55. They consist of the usual ordinary resolutions to receive this annual financial report and re-appoint the auditor. In addition, as introduced for the first time last year, ordinary resolutions on Directors' Remuneration and the Company's Dividend Payment Policy are included once again. Items of special business comprise items approved in past years by shareholders: continuation of the Company; authority to issue shares up to 10% of the existing share capital; renewal of the buy-back authority; and authority to call general meetings on 14 days' notice. The Board has considered all the resolutions proposed in the notice and believe all are in the interest of shareholders as a whole. We therefore recommend shareholders vote in favour of the each resolution.

Clive Nicholson
Chairman
28 March 2017

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

MANAGER'S INVESTMENT REPORT

Portfolio Return

Over the year to 31 December 2016 the NAV total return for the Company was 11.8%. The NAV increased by 11p per share to 189.3p per share. A total dividend of 10p per share has been paid for the year.

Market Background

High yield bonds delivered strong returns over the course of 2016 amid central bank corporate bond purchase programmes and rising commodity prices.

The challenges of late 2015 (weak commodity prices and concerns about economic growth) continued into 2016, providing a volatile start to the year for high yield bonds. The financial sector came under additional pressure amidst concerns about the strength of the European banking sector. Two of the most significant factors weighing on the market were questions about the certainty of Additional Tier 1 coupon payments and the treatment of senior bond holders following the bail-in at Portuguese bank Novo Banco.

The European Central Bank launched a massive stimulus package in the spring. The package included plans to purchase corporate bonds directly. The plans were well received, with corporate bonds rallying strongly and issuance soaring in response. Although the programme is targeted at investment grade bonds, the demand for yield and the boost to sentiment meant its effects were felt across the European high yield bond market.

The UK's vote for Brexit in the summer provided a second spike in volatility for high yield bonds. The sell-off was, however, limited and much lower than many had expected before the vote. Markets soon recovered their losses with high yield bonds rallying strongly over the summer. Monetary policy easing measures announced by the Bank of England (BoE) in August provided a further boost to sentiment. Amongst the measures announced was a Corporate Bond Purchase Scheme similar to the programme already underway in the Eurozone. As in the Eurozone, the effects of the BoE's purchases were felt across the wider sterling bond market.

Following their initial weakness, commodity markets strengthened through much of the year. Brent crude oil, for example, hit a low of $28 a barrel in early January before then rising to $57 a barrel at 31 December 2016. This strength in commodities was particularly supportive of the US high yield bond market, which has a high concentration of energy related companies.

The uncertainty at the start of the year saw issuance levels in the European high yield market fall dramatically, with just €3.3 billion issued in January and February 2016. By comparison, during the same two months in 2015, €22.8 billion was issued. Supply picked up through the year, particularly following the central bank corporate bond purchase programmes. However, redemptions were also high during the year, resulting in very low net issuance. This positive supply dynamic provided further support to the market. Overall, the slow start to the year meant total gross issuance levels were 19% lower than 2015, with Barclays reporting a total of €55.7 billion new European currency high yield bonds issued in 2016.

According to index data from Merrill Lynch, European currency high yield bonds had a total return for the year of 10.2%. The aggregate yield to maturity for European currency high yield bonds fell to 4.3%. Breaking this figure down, by 31 December 2016 euro high yield bonds had a yield to maturity of 3.9%. The much smaller sterling high yield bond market had a yield to maturity of 6.3%.

Portfolio Strategy

We maintained a defensive stance in the portfolio throughout the year. This defensive position helped to lessen the credit risk in the portfolio while also enabling us to quickly exploit any investment opportunities that arose in periods of market stress. For example, at the start of the year we took the opportunity to add some bonds that we thought had become attractively priced, particularly within the financial sector. Some of the bonds we added included two contingent convertible bank bonds, one issued by Barclays with a coupon of 8% and the other by RBS also with a coupon of 8%.

The portfolio holds a range of high yield bonds along with an allocation to investment grade corporate bonds. Security selection is focused on well-seasoned issuers that we believe provide a good balance of risk and return. In addition, we have significant exposure to other areas of the market that we believe still offer relatively attractive yields. One such area is bank capital, in particular the subordinated debt of large European banks. The creditworthiness of the banking sector has improved significantly since the global financial crisis and we find these securities continue to provide a reasonable level of income for the risk. It should be noted that the cash balance at the end of 2016 was relatively high at 8.4% as a result of the sale of the Company's holding in GM warrants during December. The cash balance has subsequently been reduced.

We also have holdings in corporate hybrid bonds. We believe the subordination risk of these junior debt instruments is attractive in the context of the issuers' relatively strong balance sheets. Many of the corporate hybrid bonds we hold are issued by investment grade companies.

We continue to seek opportunities to add yield to the portfolio where we consider that the balance of reward to risk is attractive. The Company has the ability to utilise borrowings in order to gear the portfolio, up to 30% of NAV. As long as borrowing facilities are available, we can employ borrowings as a form of additional liquidity during a market sell-off or during an extended period of low yields, or to take advantage of market opportunities. At present the Company has a £20 million borrowing facility and this has been in place, though unused, for a number of years. Having this facility incurs costs, such as an annual renewal fee and non-utilisation costs. Alternative borrowing sources are currently being considered, taking into account cost and suitability, including any associated risks. Sources include repo financing, a form of secured, short-term lending which we have extensive experience of using.

Outlook

Valuations within many parts of the high yield market have become stretched and in Europe the high yield bond market finished 2016 with historically low yields. That said, there are still some areas of the market that we think are attractive. Our strategy is to be cautious and to focus on higher quality companies that we think provide an appropriate level of yield. We also continue to look at the non-traditional areas of the high yield bond market. Subordinated financials, for example, provide substantially higher levels of yield than comparable bonds in other areas, following some underperformance for the financial sector in 2016. We continue to search out such opportunities as we seek to deliver a consistent and attractive level of income against a market backdrop of historically low yields.

Paul Read   **Paul Causer**   **Rhys Davies**
Portfolio Managers
28 March 2017

STRATEGIC REPORT
BUSINESS REVIEW

Strategy and Business Model

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

The business model the Company has adopted to achieve its objective has been to contract investment management and administration to appropriate external service providers, who are subject to oversight by the Board. The principal service providers are:

- Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy; and
- R&H Fund Services (Jersey) Limited to provide company secretarial and general administration services.

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

Investment Management

As noted above, the Manager provides investment management and certain administrative services to the Company. The agreement is terminable by either party giving no less than three months' prior written notice and subject to earlier termination without compensation in the event of a material breach of the agreement or the insolvency of either party. The management fee is payable quarterly in arrears and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of the relevant quarter. In addition, the Manager is paid a fee of £22,500 plus RPI per annum for administrative services.

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

The Manager's Responsibilities

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

Assessment of the Manager

The performance of the Manager is reviewed continuously by the Board and the ongoing requirements of the Company and services received are assessed annually with reference to key performance indicators as set out on pages 8 to 10.

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

Investment Objective and Policy

Investment Objective

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

Investment Policy

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

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

Investment Style

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

Investment Limits

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

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

Derivatives and Currency Hedging

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

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

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

Borrowings

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

The Board has reviewed the methods of financing available to the Company including repo financing whereby a company participates in sale and repurchase arrangements in connection with its portfolio. Under these arrangements, a company sells fixed interest securities and is contractually obliged to repurchase them at a fixed price on a fixed date, whilst retaining economic exposure to the securities sold. The difference between the (lower) sale price and the later purchase price is the cost (effectively interest) of the repo financing. Repo financing agreements are currently being put in place by the Company to ensure these are available to the Manager if it is agreed by both the Manager and Board to use this method of financing, either alongside or in place of the Company's current credit facility.

Key Performance Indicators

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

- Performance
- Dividends
- Premium/Discount
- Ongoing Charges

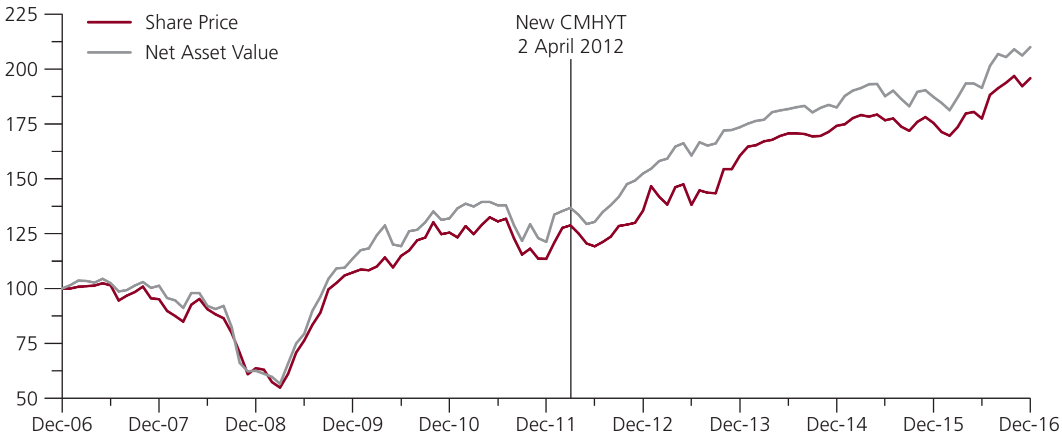
Performance

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

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

Ten Year Total Return Graph

All figures rebased to 100 at 31 December 2006.



Source: Thomson Reuters Datastream.

Dividends and Dividend Payment Policy

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

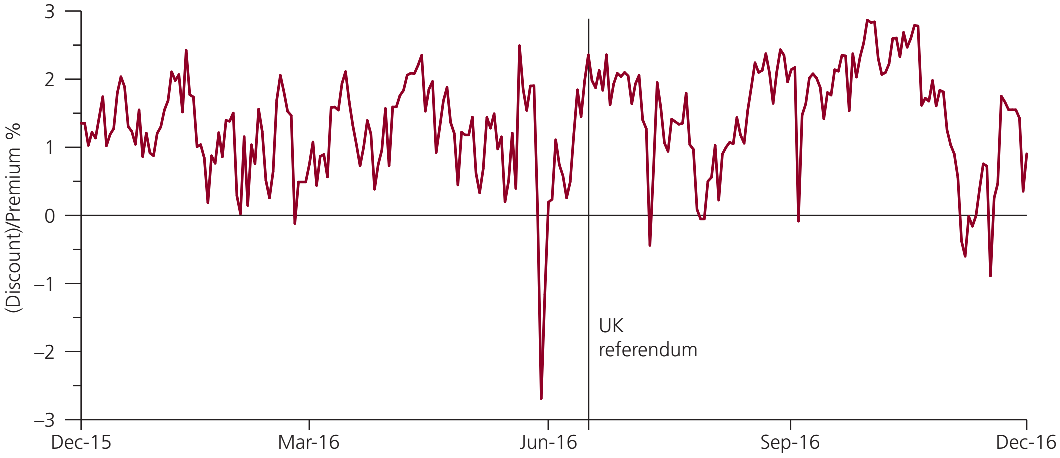
The Board's Dividend Payment Policy is to pay dividends on a regular quarterly basis in May, August, November and February in respect of each accounting year. The timing of these regular three-monthly payments means that shareholders do not have an opportunity to vote on a final dividend. Recognising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

Premium/Discount

The Board monitors the price of the Company's shares in relation to their net asset value and the premium/discount at which the shares trade. The Board has limited influence on the price at which the Company's shares trade, which is mostly a function of investor sentiment and demand for the shares. The ideal would be for the shares to trade close to their net asset value. The following graph shows the premium/discount through the year, ending with a premium of 0.9%. As explained in the Chairman's Statement, demand for shares during the year resulted in the issue of 5,673,745 shares at an average price of 184.5p. Subsequent to the year end, a further 475,000 shares have been issued.

BUSINESS REVIEW

continued



Source: Thomson Reuters Datastream.

Ongoing Charges

The expenses of managing the Company are carefully monitored by the Board. The standard measure of these ongoing charges is calculated by dividing the sum of such expenses over the course of the year, including those charged to capital, by the average net asset value. This ongoing charges figure provides a guide to the effect on performance of annual operating costs. The Company's ongoing charges figure for the current year remained the same as for the previous year, at 1.01%. The Board is satisfied with the level of ongoing charges.

Financial Position

The Company's balance sheet on page 37 shows the assets and liabilities at the year end. A £20 million revolving credit facility is available, though it was not used during the year. Details of this facility, including applicable covenants, are shown in note 7 to the financial statements.

Performance and Future Development

The performance and future development of the Company depend on the success of the Company's investment strategy. A review of the Company's performance, market background, investment activity and strategy during the year, together with the investment outlook are provided in the Chairman's Statement and Manager's Investment Report on pages 3 to 6.

Annual Continuation Vote

The Articles of Association of the Company require that unless an ordinary resolution is passed at or before the Annual General Meeting (AGM) each year releasing the Directors from the obligation to do so, the Directors shall convene a general meeting within six months of the AGM at which a special resolution would be proposed to wind up the Company. Having made enquiries, the Directors have no reason to believe that the resolution to release them from that obligation, which is included in the notice for the forthcoming AGM on page 59, will not be passed.

Internal Control and Risk Management

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

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

The effectiveness of the Company's internal control and risk management system is reviewed at least twice a year by the Audit Committee. The Audit Committee has received satisfactory reports on both the Manager's and the custodian's operations and systems of internal control from the Manager's Compliance and Internal Audit Officers. The Committee also received a comprehensive, and satisfactory, report from the depositary at the year end Audit Committee meeting. The Manager regularly reviews, against agreed service standards, the performance of all third party providers through formal and informal meetings, and by reference to independently audited control reports issued by third parties. The results of the Manager's reviews are reported to and reviewed by the Audit Committee. These various reports did not identify any significant failings or weaknesses during the year and up to the date of this annual financial report. If any had been identified, the required remedial action would have been taken.

Reporting to the Board at each board meeting comprises, but is not limited to: financial reports, including hedging and gearing; performance against stock market indices and the Company's peer group; portfolio managers' review, including of the market, the portfolio, transactions and prospects; revenue forecasts; and investment monitoring against guidelines.

The Board formally reviews the performance of the Manager annually and informally at every board meeting. The Board has reviewed and accepted the Manager's 'Whistleblowing' policy under which staff of Invesco Fund Managers Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Principal Risks and Uncertainties

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

Investment Objective

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

Investment Risk

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

Other investment risks include market risk (currency, interest rate and other risk) and credit risk, including counterparty risk. A significant portion of the Company's portfolio consists of non-investment grade securities which by their nature have a higher risk of default as well as the likelihood of price volatility. An explanation of market risk and how this is addressed is given in note 18 to the financial statements.

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

Foreign Exchange Risk

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

Derivatives

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

Dividends

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

Ordinary Shares and Discount

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

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

Gearing of Returns through Borrowings

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

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

Gearing and borrowing levels are managed by the portfolio managers using their assessment of risk versus reward. Levels must be within the guidelines set strategically by the Board. Gearing for investment purposes will amplify the reduction in NAV in a falling market, which in turn is likely to adversely affect the Company's share price.

If the Company were to enter into repo financing, there is no guarantee that it will be possible to re-finance the financing at maturity either at all or on terms that are acceptable to the Company. In addition, repo financing introduces an element of counterparty risk. In adverse market conditions, the risk of counterparty default will be greater than at other times.

Operational Risk, including Reliance on Third Party Providers

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

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

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

Regulatory and Tax Related

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

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

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

Viability Statement

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

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

The Company's investment objective and policy are kept under review. In essence they are the same as they have been since the Company commenced trading in 2012, which in turn were unchanged from those of the Company's UK based predecessor, City Merchants High Yield Trust plc. The continued relevance of the investment objective and policy are underlined by the Company's annual continuation vote. Last year 99.5% of the votes registered were in favour of continuation and the Board has no reason to believe that the continuation resolution will not be passed at the forthcoming and subsequent AGMs, particularly in view of the premium rating of the shares throughout most of the year and the continued demand for new shares as described on page 9.

Performance derives from returns for risk taken. The Manager's Investment Report on pages 5 and 6 sets out the current investment strategy of the portfolio managers. The portfolio contains a high level of relatively high–yielding non-investment grade bonds and these carry a higher risk of default than investment grade paper. This is discussed further in note 18 to the financial statements. The Board has adopted investment limits within which the portfolio managers operate. The Directors and the portfolio managers constantly monitor the portfolio, its ratings and default risk. A bond rating analysis of the portfolio at the year-end is shown on page 16. Exposure is weighted towards higher quality issuers where the risk of default is considered to be more remote.

The terms of the Company's corporate transition in 2012 allow direct comparison of the Company's financial information with its UK predecessor. Taking the two together, performance has been strong for many years through different, and difficult, market cycles – as shown by the ten year total return performance graph on page 9. The investment policy has effectively been stress tested by market events in 2007/8 and earlier cycles, and again in 2016 by market volatility around the UK referendum vote (amongst other things); these events affected performance but did not threaten the viability of the Company. Whilst past performance may not be indicative of performance in the future, the investment policy has been consistent and the Company's portfolio managers, overseen by the Board, have been in place throughout those past periods.

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

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

Based on the above analysis, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their assessment.

STRATEGIC REPORT
BUSINESS REVIEW
continued

Substantial Holdings in the Company

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

	AT 28 FEBRUARY 2017		AT 31 DECEMBER 2016		AT 31 DECEMBER 2015	
	HOLDING	%	HOLDING	%	HOLDING	%
Charles Stanley, stockbrokers	9,163,221	9.9	8,997,138	9.8	8,233,962	9.5
Invesco Perpetual	6,881,470	7.5	7,101,392	7.7	7,101,392	8.2
Hargreaves Lansdown, stockbrokers (EO)	6,745,975	7.3	6,427,195	7.0	5,066,796	5.8
Alliance Trust Savings	4,715,538	5.1	4,741,902	5.1	4,365,952	5.0
EFG Harris Allday, stockbrokers	4,456,275	4.8	4,507,865	5.0	4,140,553	4.8
Redmayne Bentley, stockbrokers	3,535,318	3.8	3,438,608	3.7	3,158,295	3.7
Smith & Williamson	3,187,445	3.5	3,259,026	3.5	3,206,880	3.7
WH Ireland, stockbrokers	2,964,029	3.2	2,918,126	3.1	2,402,864	2.8
Court Funds Office	2,649,959	2.9	2,716,995	3.0	3,068,352	3.6
Rathbones	2,640,283	2.9	2,682,259	2.9	2,650,458	3.1
Brewin Dolphin, stockbrokers	2,500,475	2.7	2,575,574	2.8	3,020,024	3.5

Board Diversity

The Company's policy on diversity is set out on page 24. The Board considers diversity, including the balance of skills, knowledge, experience and gender amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. The Board comprises five non-executive directors of whom one is a woman, thereby constituting 20% female representation. Summary biographical details of the Directors are set out on page 21. The Company has no employees.

Social and Environmental Matters

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

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.

This Strategic Report was approved by the Board of Directors on 28 March 2017.

R&H Fund Services (Jersey) Limited
Company Secretary

CLASSIFICATION OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2016					2015				
	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	TOTAL %	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	TOTAL %
Fixed interest securities[(1)]	34.3	15.2	41.2	3.6	94.3	36.2	11.6	39.0	2.9	89.7
Convertibles	0.4	0.1	1.0	—	1.5	0.2	—	1.0	—	1.2
Preference	2.0	—	—	—	2.0	1.1	—	—	—	1.1
Convertible preference	1.8	—	—	—	1.8	4.8	—	—	—	4.8
Warrants	—	0.4	—	—	0.4	—	3.2	—	—	3.2
Total	38.5	15.7	42.2	3.6	100.0	42.3	14.8	40.0	2.9	100.0

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

INDUSTRY ANALYSIS OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2016			2015		
	UNITED KINGDOM %	NON-UK %	TOTAL %	UNITED KINGDOM %	NON-UK %	TOTAL %
Financials	22.2	20.1	42.3	20.6	18.6	39.2
Consumer Services	8.7	4.9	13.6	9.3	2.8	12.1
Consumer Goods	3.7	5.4	9.1	2.2	8.7	10.9
Industrials	2.5	6.4	8.9	7.0	7.1	14.1
Telecommunications	0.3	6.7	7.0	0.5	6.0	6.5
Utilities	0.7	5.6	6.3	0.8	6.2	7.0
Basic Materials	0.3	5.0	5.3	1.0	4.5	5.5
Government Bonds	—	2.7	2.7	—	—	—
Oil and Gas	0.1	2.2	2.3	0.1	1.7	1.8
Technology	—	1.5	1.5	—	1.0	1.0
Health Care	—	1.0	1.0	0.8	1.1	1.9
Portfolio Total	38.5	61.5	100.0	42.3	57.7	100.0

The percentages shown in the above tables are related to the value of investments of £155.7 million (2015: £141.8 million).

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

AT 31 DECEMBER

	2016				2015			
	INCLUDING CURRENCY HEDGING			EXCLUDING	INCLUDING CURRENCY HEDGING			EXCLUDING
	STERLING %	OTHER %	TOTAL %	HEDGING %	STERLING %	OTHER %	TOTAL %	HEDGING %
Fixed interest[1]	44.6	41.0	85.6	86.1	51.6	37.8	89.4	88.6
Convertibles	—	1.5	1.5	1.5	—	1.2	1.2	1.2
Preference	1.8	—	1.8	1.8	1.1	—	1.1	1.1
Convertible preference	1.7	—	1.7	1.7	4.8	—	4.8	4.8
Warrants	—	0.3	0.3	0.3	—	3.1	3.1	3.1
Portfolio Total	48.1	42.8	90.9	91.4	57.5	42.1	99.6	98.8
Cash	7.5	0.9	8.4	8.6	0.9	0.3	1.2	1.2
Portfolio and Cash Total	55.6	43.7	99.3	100.0	58.4	42.4	100.8	100.0
Currency Hedging								
Forward currency sales	34.3	(33.6)	0.7		32.0	(32.8)	(0.8)	
Net Currency Exposure	89.9	10.1	100.0		90.4	9.6	100.0	

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

BOND RATING ANALYSIS (STANDARD AND POOR'S RATINGS)

For the definitions of these ratings see the Glossary on page 57.

	2016		2015	
RATING	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
Investment Grade:				
AA+	2.7	2.7	—	—
A–	0.7	3.4	1.7	1.7
BBB+	5.1	8.5	3.6	5.3
BBB	3.7	12.2	7.7	13.0
BBB–	5.1	17.3	3.2	16.2
Non-investment Grade:				
BB+	15.8	33.1	13.8	30.0
BB	6.1	39.2	4.0	34.0
BB–	9.8	49.0	13.4	47.4
B+	13.6	62.6	11.7	59.1
B	10.6	73.2	10.6	69.7
B–	5.7	78.9	3.5	73.2
CCC+	2.9	81.8	6.5	79.7
CCC	1.2	83.0	0.2	79.9
CCC–	—	83.0	0.1	80.0
NR (including equity)	17.0	100.0	20.0	100.0
	100.0		100.0	
Summary of Analysis				
Investment Grade	17.3		16.2	
Non-investment Grade	65.7		63.8	
NR (including equity)	17.0		20.0	
Total	100.0		100.0	

INVESTMENTS IN ORDER OF VALUATION

AT 31 DECEMBER 2016

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Lloyds Banking Group	7.875% Perpetual	NR/BB-	Financials	UK	4,135	2.6
	7% Var Perpetual	NR/BB-			3,098	2.0
					7,233	4.6
Aviva	6.125% Perpetual	Baa1/BBB	Financials	UK	3,756	2.4
General Accident	8.875% Preference	NR/NR			1,645	1.1
					5,401	3.5
Société Générale	8.875% FRN Perpetual	Ba2/BB+	Financials	France	4,322	2.8
Telefonica Europe	6.75% Perpetual	Ba2/BB+	Telecommunications	Netherlands	2,184	1.4
	5.875% Perpetual	Ba2/BB+			1,257	0.8
	4.9% Cnv 25 Sep 2017	NR/BB+			749	0.5
					4,190	2.7
US Treasury	2.5% 15 Feb 2046	Aaa/AA+	Government Bonds	USA	4,162	2.7
Intesa Sanpaolo	8.375% FRN Perpetual	Ba3/B+	Financials	Italy	3,106	2.0
	7% Perpetual	Ba3/B+			928	0.6
					4,034	2.6
Credit Agricole	7.589% FRN Perpetual	Ba1/BB+	Financials	France	2,347	1.5
	7.5% Var Perpetual	NR/NR			920	0.6
	8.125% FRN Perpetual	Ba1/BB+			557	0.4
					3,824	2.5
Standard Chartered	5.125% 06 Jun 2034	A3/BBB–	Financials	UK	1,891	1.2
	5.7% 26 Mar 2044	A3/BBB–			1,588	1.0
					3,479	2.2
Balfour Beatty	10.75p Cnv Preference	NR/NR	Industrials	UK	2,856	1.8
Barclays	9.25% Perpetual	Ba1/BB+	Financials	UK	1,160	0.7
	7% Perpetual	NR/B+			949	0.6
	8% Perpetual	NR/B+			316	0.2
	7.875% Var Perpetual	Ba2/B+			231	0.2
					2,656	1.7
Premier Foods Finance	6.5% 15 Mar 2021 (SNR)	B2/B	Consumer Goods	UK	2,567	1.6
Marfrig	8.375% 09 May 2018	B2/B+	Consumer Goods	Netherlands	1,775	1.1
	9.5% 04 May 2020 (SNR)	B2/B+			402	0.3
	6.875% 24 June 2019 (SNR)	B2/B+			334	0.2
					2,511	1.6
Enel	7.75% 10 Sep 2075	Ba1/BB+	Utilities	Italy	1,568	1.0
	6.625% Var 15 Sep 2076	Ba1/BB+			797	0.5
					2,365	1.5
Pizza Express	8.625% 01 Aug 2022	Caa1/CCC+	Consumer Services	UK	1,151	0.7
	6.625% 01 Aug 2021	B2/B			1,015	0.7
					2,166	1.4
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba2/BB	Telecommunications	Netherlands	2,134	1.4
Catlin Insurance	7.249% FRN Perpetual	NR/BBB+	Financials	USA	2,125	1.4
Iron Mountain	6.125% 15 Sep 2022	Ba3/BB-	Financials	USA	2,083	1.3
Citigroup Capital	6.829% FRN 28 Jun 2067	Ba1/BB+	Financials	USA	2,033	1.3
BHP Billiton	6.75% FRN 19 Oct 2075	Baa2/BBB+	Basic Materials	Australia	1,099	0.7
	6.5% Var 22 Oct 2077	Baa2/BBB+			890	0.6
					1,989	1.3
Greenko	8% 01 Aug 2019	NR/B+	Utilities	Netherlands	1,985	1.3
Origin Energy	7.875% 16 Jun 2071	Ba2/BB	Utilities	Australia	1,820	1.2
Constellium	7% 15 Jan 2023 (SNR)	Caa1/CCC+	Basic Materials	Netherlands	861	0.6
	4.625% 15 May 2021	Caa1/CCC+			574	0.4
	5.75% 15 May 2024	Caa1/CCC+			379	0.2
					1,814	1.2

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Electricite De France	6% Perpetual	Baa3/BB	Utilities	France	1,245	0.8
	5.875% Perpetual	Baa3/BB			549	0.4
					1,794	1.2
Santos Finance	8.25% FRN 22 Sep 2070	NR/BB+	Oil and Gas	Australia	1,779	1.1
REA Finance	8.75% 31 Aug 2020	NR/NR	Consumer Goods	Netherlands	1,773	1.1
Pension Insurance	8% 23 Nov 2016	NR/NR	Financials	UK	1,768	1.1
HSBC	5.25% 14 Mar 2044	A2/BBB+	Financials	UK	527	0.3
	4.25% 14 Mar 2024	A2/BBB+			526	0.3
	6.375% FRN Perpetual	Baa3/NR			492	0.3
	6.375% Cnv Perpetual	Baa3/NR			207	0.1
					1,752	1.0
J. C. Penney	8.125% 01 Oct 2019 (SNR)	B3/B–	Consumer Services	USA	1,050	0.7
	6.375% 15 Oct 2036 (SNR)	B3/B–			681	0.4
					1,731	1.1
Alcatel-Lucent	6.45% 15 Mar 2029	WR/BB+	Technology	USA	843	0.5
	6.5% 15 Jan 2028	WR/BB+			837	0.5
					1,680	1.0
Thames Water	7.75% 01 Apr 2019	B1/NR	Financials	UK	1,124	0.7
	5.875% 15 Jul 2022 (SNR)	B1/NR			525	0.3
					1,649	1.0
Enterprise Inns	6.375% 15 Feb 2022 (SNR)	NR/BB–	Consumer Services	UK	1,325	0.9
	6.5% 06 Dec 2018 (SNR)	NR/BB–			259	0.2
					1,584	1.1
VRX Escrow	4.5% 15 May 2023 (SNR)	Caa1/B–	Health Care	Canada	853	0.5
	5.375% 29 Feb 2020	Caa1/B–			459	0.3
	6.125% 15 Apr 2025	Caa1/B–			248	0.2
					1,560	1.0
Obrascon Huarte Lain	5.5% 15 Mar 2023 (SNR)	Caa1/NR	Industrials	Spain	1,507	1.0
Standard Life	6.75% Perpetual	A3/A–	Financials	UK	1,108	0.7
	5.5% 04 Dec 2042	Baa2/BBB+			366	0.2
					1,474	0.9
Bombardier	6% 15 Oct 2022	B3/B–	Industrials	Canada	1,143	0.7
	7.5% 15 Mar 2025	B3/B–			319	0.2
					1,462	0.9
UniCredit International Bank	8.125% FRN Perpetual	B1/B+	Financials	Luxembourg	927	0.6
	8.5925% FRN Perpetual	B1/B+			519	0.3
					1,446	0.9
UBS	7% Perpetual	NR/BB+	Financials	Switzerland	731	0.5
	6.875% Var Perpetual	NR/BB+			692	0.4
					1,423	0.9
Solvay Finance	5.869% Var Perpetual	Ba1/BB	Basic Materials	France	961	0.6
	5.425% Perpetual	Ba1/BB			436	0.3
					1,397	0.9
Ecclesiastical Insurance Office	8.625% Preference	NR/NR	Financials	UK	1,345	0.9
Galapagos	7% 15 Jun 2022	Caa2/CCC	Industrials	Luxembourg	1,317	0.8
TVL Finance	8.5% 15 May 2023 (SNR)	B3/B-	Consumer Services	UK	1,274	0.8
Virgin Money	8.75% Perpetual	NR/NR	Financials	UK	1,231	0.8
Tesco	6.15% 15 Nov 2037 (SNR)	Ba1/BB+	Consumer Goods	UK	775	0.5
	5.2% 05 Mar 2057	Ba1/BB+			446	0.3
					1,221	0.8

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Vougeot Bidco	7.875% 15 Jul 2020	B2/B	Consumer Services	UK	1,186	0.8
Beazley	5.875% 04 Nov 2026	NR/NR	Financials	Ireland	1,176	0.8
Orange	5.875% Perpetual	Baa3/BBB–	Telecommunications	France	1,175	0.8
Trinseo	6.75% 01 May 2022 (SNR)	B3/B+	Industrials	Luxembourg	630	0.4
	6.375% 01 May 2022	B3/NR			526	0.3
					1,156	0.7
Time Warner Cable	5.25% 15 Jul 2042	Ba1/BBB–	Consumer Services	USA	1,146	0.7
Southern Water (Greensands)	8.5% 15 Apr 2019	NR/BB-	Utilities	UK	1,139	0.7
Chemours	6.625% 15 May 2023 (SNR)	B1/B+	Basic Materials	USA	1,035	0.7
	7% 15 May 2025	B1/B+			96	0.1
					1,131	0.8
AA Bond Co	5.5% Var 31 Jul 2043 (SNR)	NR/B+	Industrials	UK	1,125	0.7
Direct Line Insurance	9.25% FRN 27 Apr 2042	Baa1/BBB+	Financials	UK	1,105	0.7
Deutsche Bank	7.125% Perpetual	B1/B+	Financials	Germany	1,054	0.7
Ladbrokes	5.125% 8 Aug 2023 (SNR)	NR/BB	Consumer Services	UK	1,039	0.7
Codere Finance 2 (Luxembourg) S.A.	7.625% 01 Nov 2021	B2/B	Consumer Services	Luxembourg	1,020	0.7
Stretford 79	6.25% 15 Jul 2021 (SNR)	B2/B	Consumer Services	UK	1,014	0.7
BBVA	9% Perpetual	NR/NR	Financials	Spain	1,013	0.7
JRP Group	9% 26 Oct 2026	NR/NR	Financials	UK	1,008	0.6
SFR	7.375% 01 May 2026 (SNR)	B1/B+	Telecommunications	France	954	0.6
William Hill	4.875% 07 Sep 2023 (SNR)	Ba1/BB+	Consumer Services	UK	947	0.6
XPO Logistics	6.5% 15 Jun 2022 (SNR)	B2/B+	Industrials	USA	834	0.5
	6.125% 01 Sep 2023	B2/B+			102	0.1
					936	0.6
Paprec	7.375% 01 Apr 2023 (SNR)	B2/B–	Consumer Services	France	926	0.6
Stonegate Pub Company	5.75% 15 Apr 2019	B2/B	Consumer Services	UK	917	0.6
Royal Bank Of Scotland	8% Cnv FRN Perpetual	B1u/B	Financials	UK	543	0.3
	8.625% FRN Perpetual	B1u/B			362	0.2
					905	0.5
Virgin Media Finance	6.25% 28 Mar 2029	Ba3/BB–	Consumer Services	UK	503	0.3
	6% 15 Apr 2021	Ba3/BB–			393	0.3
					896	0.6
Manutencoop Facility Management	8.5% 01 Aug 2020	B2/B	Consumer Services	Italy	887	0.6
Boparan Finance	5.5% 15 Jul 2021	B2/B+	Consumer Goods	UK	878	0.6
Bormioli Rocco	10% 01 Aug 2018	B3/B	Consumer Goods	Luxembourg	878	0.6
AXA	6.379% FRN Perpetual	Baa1/BBB	Financials	France	864	0.6
Banco Popular Espanol	11.5% Perpetual	NR/NR	Financials	Spain	860	0.6
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+	Financials	UK	859	0.6
Zobele	7.875% 01 Feb 2018	B2/B+	Consumer Goods	Italy	857	0.6
Diamond 1	5.45% 15 Jun 2023	Baa3/BBB–	Technology	USA	850	0.5
Rapid	6.625% 15 Nov 2020 (SNR)	B2/B+	Oil and Gas	Germany	835	0.5
BNP Paribas Fortis	Cnv FRN Perpetual	Ba3/BB+	Financials	Belgium	835	0.5
Paternoster	8.5% 15 Feb 2023 (SNR)	Caa2/CCC+	Industrials	Germany	821	0.5
Phoenix Life	7.25% Perpetual	WR/NR	Financials	UK	795	0.5
PrestigeBidCo	6.25% 15 Dec 2023 (SNR)	B2/B	Consumer Services	Germany	794	0.5
OHL Investments	4% Cnv 25 Apr 2018	NR/NR	Industrials	Luxembourg	785	0.5
Owens-Brockway	5.875% 15 Aug 2023	B1/BB–	Industrials	USA	777	0.5
Peel Land & Property Investments	8.375% Var 30 Apr 2040	NR/BBB	Financials	UK	723	0.5
Play Topco	7.75% 28 Feb 2020	Caa1/B-	Telecommunications	Luxembourg	713	0.5
CGG Veritas	6.875% 15 Jan 2022	Caa2/CCC	Oil and Gas	France	523	0.3
	6.5% 01 Jun 2021 (SNR)	Caa2/CCC			187	0.1
					710	0.4

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Altice	7.5% 15 May 2026	B1/BB–	Telecommunications	Luxembourg	532	0.3
	6.625% 15 Feb 2023	B1/BB–			167	0.1
					699	0.4
Takko	9.875% 15 Apr 2019	Caa1/CCC+	Consumer Goods	Luxembourg	692	0.4
InterGen Services	7.5% 30 Jun 2021	B1/B	Utilities	Netherlands	676	0.4
Mercury Bondco	8.25% 30 May 2021 (SNR)	B3/B	Consumer Goods	UK	673	0.4
ESAL	6.25% 05 Feb 2023 (SNR)	NR/BB	Consumer Goods	Austria	650	0.4
BNP Paribas	7.375% Var Perpetual	Ba1/BBB–	Financials	France	630	0.4
Unitymedia Hessen	5.625% 15 Apr 2023	Ba3/BB–	Consumer Services	Germany	586	0.4
Wagamama Finance	7.875% 01 Feb 2020 (SNR)	B2/B	Consumer Services	UK	586	0.4
La Financiere Atalian	7.25% 15 Jan 2020	B2/B	Industrials	France	579	0.4
General Motors	Wts 10 Jul 2019	NR/NR	Consumer Goods	USA	564	0.4
First Quantum Minerals	7.25% 15 May 2022	Caa1/B–	Basic Materials	Canada	559	0.4
Commerzbank	8.125% 19 Sep 2023	Ba1/BBB–	Financials	Germany	546	0.4
Bracken Midco One	10.5% 15 Nov 2021	NR/B	Financials	Ireland	523	0.3
Legal & General	6.385% FRN Perpetual	Baa2/BBB+	Financials	UK	500	0.3
AMC Entertainment	6.375% 15 Nov 2024	B2/B+	Financials	USA	498	0.3
M&G Finance	7.5% FRN Perpetual	NR/NR	Industrials	Luxembourg	494	0.3
Principality Building Society	7% Perpetual	Ba3/NR	Financials	UK	490	0.3
Arqiva Broadcast Finance	9.5% 31 Mar 2020	B3/NR	Telecommunications	UK	487	0.3
New Look	6.5% 01 Jul 2022 (SNR)	B1/B	Consumer Goods	UK	476	0.3
Thomas Cook	6.25% 15 Jun 2022 (SNR)	B1/B	Consumer Services	UK	476	0.3
UniCredit	8% FRN Perpetual	NR/NR	Financials	Italy	446	0.3
J Sainsbury	6.5% Var Perpetual	NR/NR	Consumer Services	UK	435	0.3
Eco Services Operations	8.5% 01 Nov 2022 (SNR)	Caa2/B–	Basic Materials	USA	431	0.3
Credit Suisse	6.25% Var Perpetual	NR/BB	Financials	Switzerland	418	0.3
Snai Spa	6.375% 7 Nov 2021 (SNR)	B2/B	Consumer Services	Italy	407	0.3
Inovyn Finance	6.25% 15 May 2021 (SNR)	B2/B	Basic Materials	UK	399	0.3
Rothschilds Continuation Finance	FRN Perpetual	NR/NR	Financials	Netherlands	392	0.3
CEMEX SAB	6.125% 05 May 2025	NR/B+	Industrials	Mexico	381	0.2
Cognita Financing	7.75% 15 Aug 2021 (SNR)	B2/B	Consumer Services	UK	381	0.2
Nationale-Nederlanden	4.625% 08 Apr 2044	Baa3/BBB	Financials	Netherlands	375	0.2
Puma Energy	6.75% 01 Feb 2021	Ba2/NR	Oil and Gas	Luxembourg	325	0.2
Novae	6.5% 27 Apr 2017	Baa3/NR	Financials	UK	314	0.2
Cable Communication	5% 15 Oct 2023	B1/B+	Telecommunications	Netherlands	298	0.2
Whitbread	3.375% 16 Oct 2025 (SNR)	NR/NR	Consumer Services	UK	266	0.2
Rothesay Life	8% 30 Oct 2025	NR/NR	Financials	UK	260	0.2
Spectrum Brands	4% 01 Oct 2026 (SNR)	B2/BB–	Consumer Goods	USA	203	0.1
Peabody Energy	4.75% Cnv 15 Dec 2066	WR/NR	Basic Materials	USA	191	0.1
Picard Bondco	7.75% 01 Feb 2020	B3/B–	Consumer Goods	Luxembourg	187	0.1
Enquest	7% 15 Apr 2022	Caa2/CCC+	Oil and Gas	UK	179	0.1
FAGE International	5.625% 15 Aug 2026 (SNR)	B1/BB–	Consumer Goods	Luxembourg	163	0.1
Charter Communications Operating	6.484% 23 Oct 2045	Ba1/BBB–	Telecommunications	USA	117	0.1
CIS General Insurance	12% FRN 08 May 2025	NR/NR	Financials	UK	109	0.1
Abengoa	8.875% 05 Feb 2018 (SNR)	Ca/CCC–	Oil and Gas	Spain	34	—
	7.75% 01 Feb 2020 (SNR)	Ca/CCC–			18	—
					52	—
					155,718	100.0

Abbreviations used in the above valuation:

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

GOVERNANCE
The Directors

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

Philip Austin MBE
Joined the Board on 19 December 2011. He spent most of his career in banking with HSBC where he was, latterly, Deputy CEO of the Bank's business in the Offshore Islands. He now holds a portfolio of part-time non-executive directorships.

John Boothman
Joined the Board on 19 December 2011 and is Chairman of the Nomination Committee. He was formerly Managing Director of Deutsche Bank International Ltd. He is a freelance consultant with a portfolio of part-time directorships. Previously he has held several public sector appointments including acting as Commissioner of the Jersey Financial Services Commission.

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

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

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

The Company's Governance Framework

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

The Board

Five non-executive directors (NEDs)

Chairman: Clive Nicholson

Key objectives:

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

Audit Committee

All NEDs

Chairman Philip Taylor

Key objectives:

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

Nomination Committee

All NEDs

Chairman John Boothman

Key objectives:

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

Management Engagement Committee Function

The Board as a whole performs this function

Key objectives:

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

Remuneration Committee Function

The Board as a whole performs this function

Key objective:

- to set the remuneration policy of the Company.

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

The Directors have considered the principles and recommendations of the latest AIC Code of Corporate Governance for Jersey domiciled investment companies ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2016 UK Corporate Governance Code ('UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

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

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

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

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

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

The composition and operation of the Board and its committee functions are summarised below and on page 21, and on pages 26 and 27 in respect of the Audit Committee.

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

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

The Company's capital structure and voting rights are summarised on page 54.

The most substantial shareholders in the Company are listed on page 14.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 24. There are no agreements between the Company and its directors concerning compensation for loss of office.

Powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require a special resolution to be passed by shareholders.

The Board

The Board comprises five Directors, all of whom are non-executive. The Board considers all of the Directors to be independent of the Company's Manager. The Directors have a range of financial, business and asset management skills as well as recent and relevant experience pertinent to the direction and control of the Company. Brief biographical details of the members of the Board are shown on page 21.

Chairman

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

Board Responsibilities

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

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

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

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

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

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

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

- *Management Engagement*
  The Board as a whole undertakes the functions of a Management Engagement Committee and takes responsibility for reviewing the Investment Management and Secretarial and Administration Agreements. The performance of the Manager in respect of investment performance and administration is reviewed formally against agreed standards and reported on page 7 under 'Assessment of the Manager'.
- *Remuneration*
  The Board as a whole undertakes the functions of a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and is reported on in more detail on pages 28 and 29.

The Company Secretary

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

Nomination Committee

As explained in last year's annual financial report, the Board established a Nomination Committee in 2015 following an independent review of the Board's composition, performance and succession by an independent evaluation specialist, Stephenson & Co. Prior to this, the function of the Nomination Committee had been undertaken by the Board. As the Company is considered small for the purposes of the AIC Code, all Directors are members of the Committee under the chairmanship of John Boothman. The Nomination Committee has written terms of reference which clearly define its responsibilities and duties. They will be available for inspection at the AGM and can be inspected at the registered office of the Company as well as on the Company's section of the Manager's website. The main responsibilities of the Committee are to review the size, structure and skills of the Board and to make recommendations with regard to any changes considered necessary or new appointments. The Committee is guided by the Directors' tenure principles set out in the next section and is mindful of the need to ensure proper succession.

The Board has due regard for the benefits of diversity in its membership and seeks to ensure that the Board's structure, size and composition, including the skills, knowledge, gender and experience of the Directors, is sufficient for the effective direction and control of the Company. The Board has not set any measurable objectives in respect of this policy.

The Committee met three times during the year to consider, amongst other things, a plan for the succession of the Board, taking into account the length of tenure of Directors (including time served on the Board of the Company's predecessor) and aimed at ensuring refreshment of the Board in a phased and orderly manner. The longest serving member of the Board is the Chairman, with a combined tenure in excess of nine years. As a result of these deliberations, the Committee recommended to the Board the appointment of an external search consultant to assist in the search for a new Director with the potential to succeed the present Chairman. The Board accordingly resolved to appoint Trust Associates, a search consultancy that is independent from the Company, to search for a prospective new Chairman.

Appointment, Re-election and Tenure of Directors

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

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and on the Company's section of the Manager's website at *www.invescoperpetual.co.uk/citymerchants*.

The Articles of Association require that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. Thus, no Director serves a term of more than three years before re-election. A Director's tenure will normally be a maximum of three terms of three years, except that the Board may determine otherwise if it is considered that the continued service on the Board of an individual Director is in the best interests of the Company and its shareholders.This is in keeping with the AIC Code. In this case, a Director serving longer than nine years will seek re-election annually. The Board have decided that consideration of a director's tenure shall include any time served on the board of the Company's predecessor, City Merchants High Yield Trust plc. The Board considers that the independence of Clive Nicholson, who served as Chairman and Director of the predecessor company, is not compromised by his length of service.

As announced in his Chairman's Statement, Mr Nicholson will retire during 2017. The timing of this depends on the appointment of a new director and he will continue as Chairman until his retirement, thereby ensuring an orderly transition.

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

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 26 and 27.

Board, Committee and Directors' Performance Appraisal

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

- attendance at Board and Committee meetings;
- independence of Directors;

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

The composition of the Board is reviewed annually as part of the appraisal of the Board, the Committees and the individual Directors. The Board has determined that every three years this review will be undertaken by an external agency and that following the 2015 review, the next external review is due in 2018.

During the year the Board undertook an appraisal process, the results of which confirmed that the Board and committees of the Board are effective, as are the individual directors and that they continue to be independent of the Manager and Company Secretary.

Attendance at Board and Committee Meetings

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

	SCHEDULED BOARD MEETINGS	AUDIT COMMITTEE MEETINGS	NOMINATION COMMITTEE MEETINGS
NUMBER OF MEETINGS	4	2	3
Clive Nicholson (Chairman of the Board)	4	2	3
Philip Austin	4	2	3
John Boothman (Chairman of the Nomination Committee)	4	2	3
Winifred Robbins	4	2	3
Philip Taylor (Chairman of the Audit Committee)	4	2	3

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

Conflicts of Interest

A Director must avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests.

The Articles of Association of the Company give the Directors authority to approve conflicts and potential conflicts. The Directors are able to impose limits or conditions when giving authorisation if they think it is appropriate. Only Directors who have no interest in the matter being considered are able to take the relevant decision. Also, in taking the decision the Directors must act in a way they consider, in good faith, is most likely to promote the Company's success.

The Directors have declared any potential conflicts of interest to the Company. Any potential conflicts of interest are entered onto the Company's Register of Potential Conflicts, which is kept at the Company's registered office and is reviewed regularly by the Board. The Directors must advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

Stewardship

The Company's portfolio predominantly comprises bonds, which rarely carry voting rights except in specific limited circumstances. The Company's stewardship functions have been delegated to the Manager who exercises the Company's voting rights on an informed and independent basis. To the extent that voting rights are exercisable, votes are cast with a view to supporting high standards of corporate governance. The Manager's policy on Corporate Governance and Stewardship is reviewed on an annual basis and the latest version can be found on the Manager's website at *www.invescoperpetual.co.uk*.

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

28 March 2017

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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

Audit Committee Responsibilities and Activities

The responsibilities of the Audit Committee include:

- evaluation of the effectiveness of the internal controls and risk management systems, including reports received on the operational controls of the Company's service providers and the Managers' and Company Secretary's whistleblowing arrangements;
- reviewing the Company's annual and half-yearly financial reports and announcements and ensuring compliance with relevant statutory and listing requirements and the appropriateness of accounting policies applied;
- management of the relationship with the external auditor, including their appointment, remuneration, and the scope, effectiveness, independence and objectivity of their audit; and
- ensuring, at the request of the Board, that the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

During the year the Committee met twice to review the effectiveness of internal controls and risk management (as covered under the Internal Control and Risk Management section on pages 10 and 11), the draft financial reports and the accounting policies applied.

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

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

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

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

Accounting Matters and Significant Areas

The Committee's review of the audit plan included identifying accounting matters that were expected to require focus in relation to the Company's annual financial report.

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

SIGNIFICANT AREA	HOW ADDRESSED
Accuracy of the portfolio valuation	Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors. The Board reviews detailed portfolio valuations on a regular basis throughout the year and receives confirmation from the Manager that the pricing basis is appropriate and in line with relevant accounting standards as adopted by the Company.
The allocation of management fees and finance costs between revenue and capital	The allocation is considered annually by the Committee, which takes account of the long-term split of returns from the portfolio, yields, the objective of the Company and current market practice.
Income recognition	Accrued income is calculated by the Manager and each stock line is reviewed to ensure that capital appreciation is not inappropriately attributed to revenue. The Board reviews revenue estimates and receives explanations from the Manager for any significant movements from previous estimates and, if applicable, prior year figures. The audit includes checks on completeness and accuracy of income.

The Committee was satisfied that these matters have been satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor. Following a thorough review process, the Audit Committee advised the Board that the 2016 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance and position, business model and strategy.

Auditor

PricewaterhouseCoopers CI LLP was selected to be the Company's external auditor following a competitive tender exercise in 2016 and was appointed by shareholders on 14 June 2016. The Committee assessed the effectiveness of the external audit process through discussions with the Manager and the auditor and consideration of review points raised. A resolution to re-appoint PricewaterhouseCoopers CI LLP and for the Audit Committee to determine their remuneration will be put to shareholders at the forthcoming AGM.

It is the Company's policy normally not to seek substantial non-audit services from its auditor. No non-audit services were provided during the year. Prior to any engagement for non-audit services, the Audit Committee would consider whether the skills and experience of the auditor make them a suitable supplier of such services and ensure that there is no threat to objectivity and independence in the conduct of the audit as a result.

Internal Audit

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

Philip Taylor
Chairman of the Audit Committee

28 March 2017

Remuneration Responsibilities

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

Directors’ Remuneration Policy

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

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

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

The Company’s Articles also provide that additional discretionary payments can be made for services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director.

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

The Board will consider, where raised, shareholders’ views on Directors’ remuneration.

Directors’ Fee Rates

Directors’ fee rates were last increased with effect from 1 January 2016 and remain unchanged. These rates applied during the year ended 31 December 2016 and, together with the previous fee rates, are shown in the table below.

Chairman’s Annual Statement on Directors’ Remuneration

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

Annual Report on Directors’ Remuneration

Directors’ Remuneration for the Year

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

	2016 £	2015 £
Clive Nicholson – Chairman	31,000	30,000
Philip Taylor – Chairman of the Audit Committee	25,000	23,500
Philip Austin	21,000	20,000
John Boothman	21,000	20,000
Winifred Robbins	21,000	20,000
Total	119,000	113,500

Directors' Interests

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

	31 DECEMBER 2016	31 DECEMBER 2015
Clive Nicholson (Chairman)	49,500	49,500
Philip Austin	10,640	10,000
John Boothman	50,000	—
Winifred Robbins	412,175	189,818
Philip Taylor	190,119	81,479

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year. Since the year end Philip Taylor increased his holding by 2,442 shares to 192,561. No further changes to these holdings have been notified up to the date of this report. No connected person interests have been notified.

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

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

Directors' Indemnification and Insurance

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

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

The financial statements have been prepared on a going concern basis. When considering this, the Directors took into account the annual shareholders' continuation vote (as explained in detail on page 10) and the following: the Company's investment objective and risk management policies, the nature of the portfolio and expenditure and cash flow projections. As a result, they determined that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Corporate Governance Statement and a Directors' Report that comply with that law and those regulations.

The Directors of the Company, who are listed on page 21, each confirm to the best of their knowledge that:

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

Clive Nicholson
Chairman

Signed on behalf of the Board of Directors

28 March 2017

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of City Merchant High Yield Trust Limited (the 'Company') as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs') and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

The Company's financial statements comprise:

- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Balance Sheet as at 31 December 2016;
- the Statement of Cash Flows for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

- Overall materiality: £1.7 million which represents 1% of net assets.

- The Company is an investment company and engages external service providers to perform the investment management and administration activities.
- We conducted our audit of the financial statements using information from R&H Fund Services (Jersey) Limited and Invesco Fund Managers Limited ('the Manager').
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties, the accounting processes and controls, and the industry in which the Company operates.

- Valuation and existence of investments.
- Income recognition

Audit scope

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

INDEPENDENT AUDITOR'S REPORT
continued

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

Materiality

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

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

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £87,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation and existence of investments *Refer to page 27 (Audit Committee Report), page 40 (Accounting Policies) and page 44 (Note 11 to the Financial Statements).* The key driver of the Company is the investment valuations and as such this is a particular area of focus for the shareholders. Quoted securities are valued using stock market active prices. Fixed interest securities are valued using prices from a third party pricing vendor. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements. The nature of the investment valuations is not complex as these are largely based on quoted prices from independent pricing sources. However, the magnitude of the amounts involved means that there is the potential for material misstatement. There is a risk that the assets recorded may not represent the property of the Company.	We tested the valuation of the investments by agreeing the prices used in the valuation to independent third party sources. A recalculation of the total unrealised gain or loss was also performed. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from The Bank of New York Mellon and also an independent depositary confirmation from BNY Mellon Trust Depositary (UK) Limited. No material differences were identified by our testing which required reporting to those charged with governance.

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Income recognition *Refer to page 27 (Audit Committee Report), page 41 (Accounting Policies) and page 41 (Note 4 to the Financial Statements).* Investment income comprises mainly interest received from investments and dividends. As income is received from various fixed interest securities by way of interest receipts, with differing coupon rates and from securities purchased at different discounts to nominal values, the recognition of income is complex. In addition, dividends are received from both UK and overseas securities and it is important to ensure the pricing of securities is appropriately calculated using cum or ex-dividend prices and that dividends are recognised appropriately. As such there is a risk that revenue is susceptible to misstatement either due to fraud or error. Net gains represent fair value increases in the value of investments over the financial year and gains/losses made on the disposal of investments. Fair value movements are unrealised and are based on the change in investment valuations noted above.	We assessed the accounting policy for revenue recognition for compliance with IFRSs and performed testing to check that income had been accounted for in accordance with the stated accounting policy. For a sample of fixed interest securities, we traced the rates of interest to independent sources and recalculated the interest income due from the investments. No exceptions were noted as part of these procedures. In addition, we tested dividend receipts by agreeing the dividend rates for investments to independent third party sources. Our testing did not identify any unrecorded dividends.

Other information

The Directors are responsible for the other information. The other information comprises items as detailed on the contents page of the annual financial report (but does not include the financial statements and our auditor's report thereon).

Other than as specified in our report, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

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

Responsibilities of Directors for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Jersey law, and for such internal control as the directors determines 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 relating to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

We have no exceptions to report arising from this responsibility.

We have nothing to report in respect of the following matters which we have reviewed:

- the Directors' statement set out on page 30 in relation to going concern. As noted in the directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern;
- the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the 10 further provisions of the UK Corporate Governance Code specified for our review.

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

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

28 March 2017

Electronic Publication

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2016 REVENUE £'000	2016 CAPITAL £'000	2016 TOTAL £'000	2015 REVENUE £'000	2015 CAPITAL £'000	2015 TOTAL £'000
Profit/(loss) on investments at fair value	11	—	19,088	19,088	—	(5,662)	(5,662)
Exchange differences		—	(60)	(60)	—	(216)	(216)
(Loss)/profit on derivative instruments – currency hedges		—	(9,213)	(9,213)	—	1,487	1,487
Income	4	10,695	—	10,695	10,009	—	10,009
Investment management fees	5	(794)	(428)	(1,222)	(745)	(401)	(1,146)
Other expenses	6	(404)	—	(404)	(410)	(1)	(411)
Profit/(loss) before finance costs and taxation		9,497	9,387	18,884	8,854	(4,793)	4,061
Finance costs	7	(29)	(15)	(44)	(28)	(15)	(43)
Profit/(loss) before taxation		9,468	9,372	18,840	8,826	(4,808)	4,018
Taxation	8	(171)	—	(171)	(127)	—	(127)
Profit/(loss) after taxation		9,297	9,372	18,669	8,699	(4,808)	3,891
Return per ordinary share	9	10.5p	10.5p	21.0p	10.4p	(5.8)p	4.6p

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 EU. The profit after tax is the total comprehensive income. The supplementary revenue and capital columns are both prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 December 2014		128,209	17,610	2,392	148,211
Net proceeds from issue of new shares	15	10,190	—	—	10,190
Total comprehensive income for the year		—	(4,808)	8,699	3,891
Dividends paid	10	(76)	—	(8,240)	(8,316)
At 31 December 2015		138,323	12,802	2,851	153,976
Net proceeds from issue of new shares	15	10,401	—	—	10,401
Total comprehensive income for the year		—	9,372	9,297	18,669
Dividends paid	10	(115)	—	(8,738)	(8,853)
At 31 December 2016		148,609	22,174	3,410	174,193

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

BALANCE SHEET

AT 31 DECEMBER

	NOTES	2016 £'000	2015 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	155,718	141,833
Current assets			
Other receivables	12	3,056	2,936
Derivative financial instruments – unrealised net profit	13	1,251	—
Cash and cash equivalents		14,593	10,730
		18,900	13,666
Current liabilities			
Other payables	14	(425)	(432)
Derivative financial instruments – unrealised net loss	13	—	(1,091)
		(425)	(1,523)
Net current assets		18,475	12,143
Net assets		174,193	153,976
Capital and reserves			
Stated capital	15	148,609	138,323
Capital reserve	16	22,174	12,802
Revenue reserve	16	3,410	2,851
Shareholders' funds		174,193	153,976
Net asset value per ordinary share	17	189.32p	178.34p

These financial statements were approved and authorised for issue by the Board of Directors on 28 March 2017.

Signed on behalf of the Board of Directors

Clive Nicholson
Chairman

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit before tax	18,840	4,018
Taxation	(171)	(127)
Adjustment for:		
Purchases of investments	(36,697)	(38,740)
Sales of investments	41,900	26,994
	5,203	(11,746)
(Profit)/loss on investments at fair value	(19,088)	5,662
Exchange differences	(5)	(71)
Net cash movement from derivative instruments – currency hedges	(2,342)	1,557
Finance costs	44	43
Operating cash flows before movements in working capital	2,481	(664)
Increase in receivables	(120)	(103)
(Decrease)/increase in payables	(7)	14
Net cash flows from operating activities after taxation	2,354	(753)
Cash flows from financing activities		
Finance cost paid	(44)	(43)
Net proceeds from issue of shares	10,401	10,194
Net equity dividends paid – note 10	(8,853)	(8,316)
Net cash generated from financing activities	1,504	1,835
Net increase in cash and cash equivalents	3,858	1,082
Exchange differences	5	71
Movement in cash and cash equivalents	3,863	1,153
Cash and cash equivalents at beginning of year	10,730	9,577
Cash and cash equivalents at end of the year	14,593	10,730
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:		
Cash held at custodian	4,543	1,640
Short-Term Investment Company (Global Series) plc, money market fund	10,050	9,090
Cash and cash equivalents	14,593	10,730
Cash flows from operating activities includes:		
Dividends received	596	684
Interest received	9,809	9,153

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. Principal Activity

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

2. Principal Accounting Policies

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

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

(a) Basis of Preparation

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

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in November 2014, is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with this.

(ii) *Going Concern*
As explained under 'Annual Continuation Vote' on page 10, the Company has an annual continuation vote. However, as also explained in that note the Directors believe shareholders will vote for the Company to continue. Accordingly, the financial statements have been prepared on a going concern basis and the accounts do not include any adjustments which might arise from cessation of the Company.

(iii) *Adoption of New and Revised Standards*
New and revised standards and interpretations that became effective during the year had no significant impact on the amounts reported in these financial statements but may impact accounting for future transactions and arrangements.

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

- IFRS 9: Financial Instruments (2014) (effective 1 January 2018).
- Amendment to IAS 7: Disclosure initiative — Statement of Cashflows (effective 1 January 2017).

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

(iv) *Critical Accounting Estimates and Judgements*
The preparation of the financial statements may require the Directors to make estimations where uncertainty exists. It also requires the Directors to exercise judgement in the process of applying the accounting policies.

2. Principal Accounting Policies (continued)

(b) Foreign Currency

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

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

(c) Financial Instruments

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

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

(iii) *Derecognition of Financial Liabilities*
Financial liabilities are derecognised when the Company's obligations are discharged, cancelled or expired.

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

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

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

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

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling.

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

(d) **Derivatives and Hedging**

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

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date and any profits and losses are recognised in the statement of comprehensive income and taken to capital.

(e) **Cash and Cash Equivalents**

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

(f) **Income Recognition**

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

(g) **Expenses and Finance Costs**

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

(h) **Tax**

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

3. Segmental Reporting

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

4. Income

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

	2016 £'000	2015 £'000
Income from investments		
UK dividends	507	656
UK investment income – interest	3,688	3,526
Overseas investment income – interest	6,470	5,794
Overseas dividends	26	31
	10,691	10,007
Other income		
Deposit interest	4	2
Total income	10,695	10,009

5. Investment Management Fee

This note shows the fees paid to the Manager, which are calculated quarterly on the basis of the value of the assets being managed.

	2016 REVENUE £'000	2016 CAPITAL £'000	2016 TOTAL £'000	2015 REVENUE £'000	2015 CAPITAL £'000	2015 TOTAL £'000
Investment management fee	794	428	1,222	745	401	1,146

Details of the investment management agreement are disclosed in the Directors' Report. At the period end the management fee accrued was £327,000 (2015: £289,000).

6. Other Expenses

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

	2016 REVENUE £'000	2016 CAPITAL £'000	2016 TOTAL £'000	2015 REVENUE £'000	2015 CAPITAL £'000	2015 TOTAL £'000
General expenses (i)	256	—	256	265	1	266
Directors' fees (ii)	119	—	119	114	—	114
Auditor's remuneration:						
– for the audit of the financial statements (including any expenses)	29	—	29	31	—	31
	404	—	404	410	1	411

(i) General expenses include £39,000 (2015: £38,700) due to R&H Fund Services (Jersey) who act as administrator and company secretary to the Company under an agreement dated 19 December 2011. This agreement is terminable at any time by either party giving no less than three months' notice. The fee is payable quarterly in arrears and is revised with effect from 1 January each year, by the application of a formula based on the Retail Price Index for the month of December of the previous year applied to the initial rate of £37,500 per annum.

General expenses also include an administration fee due to Invesco Perpetual of £25,000 (2015: £25,000). It is based on an initial fee of £22,500 plus RPI increases in May.

Custodian dealing costs of £455 (2015: £798) are charged wholly to capital.

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

7. Finance Costs

Finance costs arise on any borrowing facilities the Company has and comprise commitment fees on any unused facility as well as interest when the facility is used.

	2016 REVENUE £'000	2016 CAPITAL £'000	2016 TOTAL £'000	2015 REVENUE £'000	2015 CAPITAL £'000	2015 TOTAL £'000
Commitment fees due on loan facility	26	14	40	26	14	40
Bank charges	3	1	4	2	1	3
	29	15	44	28	15	43

The Company has a 364 day committed £20 million multi-currency revolving credit facility with Bank of New York Mellon which is renewable on 5 May 2017. Available currencies are sterling, euros or US dollars. Drawings under this facility are subject to the restriction that the Company's total financial indebtedness must not exceed 30% of total assets and that the assets must be in excess of £50 million. At the balance sheet date the Company had no drawdowns (2015: none).

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

8. Taxation

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

	2016 £'000	2015 £'000
Overseas taxation	171	127

The Company is subject to Jersey income tax at the rate of 0% (2015: 0%). The overseas tax charge consists of irrecoverable withholding tax.

9. Return per Ordinary Share

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

The basic revenue, capital and total return per ordinary share is based on each of the profit after tax and on 88,902,058 (2015: 83,705,678) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

10. Dividends on Ordinary Shares

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

	2016		2015	
	PENCE	£'000	PENCE	£'000
Dividends paid and recognised in the year:				
Fourth interim	2.5	2,158	2.5	2,020
First interim	2.5	2,182	2.5	2,064
Second interim	2.5	2,224	2.5	2,102
Third interim	2.5	2,289	2.5	2,130
	10.0	8,853	10.0	8,316

Dividends paid in the year have been charged to revenue except for £115,000 (2015: £76,000) which was charged to stated capital. This amount is equivalent to the income accrued on the new shares issued in the year (see note 15).

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

	2016		2015	
	PENCE	£'000	PENCE	£'000
Dividends in respect of the year:				
First interim	2.5	2,182	2.5	2,064
Second interim	2.5	2,224	2.5	2,102
Third interim	2.5	2,289	2.5	2,130
Fourth interim	2.5	2,300	2.5	2,158
	10.0	8,995	10.0	8,454

The fourth interim dividend for 2016 was paid on 24 February 2017 to shareholders on the register on 27 January 2017.

NOTES TO THE FINANCIAL STATEMENTS
continued

11. Investments Held at Fair Value Through Profit or Loss

The portfolio is principally made up of investments which are listed and traded on regulated stock exchanges. Profits and losses are either:

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

(a) Analysis of investment profits

	2016 £'000	2015 £'000
Opening book cost	139,161	127,649
Opening investment holding profits	2,672	8,100
Opening valuation	141,833	135,749
Movements in the year:		
Purchases at cost	36,697	38,740
Sales – proceeds	(41,900)	(26,994)
– net realised profit/(loss)	7,083	(234)
Movement in investment holding profit	12,005	(5,428)
Closing valuation	155,718	141,833
Closing book cost	141,041	139,161
Closing investment holding profit	14,677	2,672
Closing valuation	155,718	141,833
Realised profit/(loss) in the year	7,083	(234)
Movement in investment holding profit in the year	12,005	(5,428)
	19,088	(5,662)

(b) Transaction costs

The transaction costs on investments amount to £4,000 on sales and £nil on purchases (2015: £nil on sales and £nil on purchases).

(c) Registration of investments

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

12. Other Receivables

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

	2016 £'000	2015 £'000
Prepayments and accrued income	3,056	2,936
	3,056	2,936

13. Derivative Financial Instruments

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

Derivative financial instruments comprise forward currency contracts.

	2016 £'000	2015 £'000
Forward currency contracts – net unrealised profit/(loss)	1,251	(1,091)
	1,251	(1,091)

14. Other Payables

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

	2016 £'000	2015 £'000
Accruals	425	432
	425	432

15. Stated Capital

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

	2016 NUMBER	2015 NUMBER	2016 £'000	2015 £'000
Allotted ordinary shares of no par value				
Brought forward	86,337,459	80,812,459	138,323	128,209
Net issue proceeds	5,673,745	5,525,000	10,401	10,190
Dividends paid from stated capital	—	—	(115)	(76)
Carried forward	92,011,204	86,337,459	148,609	138,323

Details of the stated capital and rights attaching to the Company's ordinary shares are shown in the Directors' Report on page 54.

For the year to 31 December 2016, 5,673,745 (2015: 5,525,000) new ordinary shares were issued to the Company's corporate broker, Winterflood Securities Limited, for onward transmission to their clients. These shares were issued in tranches of various quantities throughout the year to satisfy secondary market demand. The gross issue proceeds were £10,469,000 (2015: £10,310,000), at an average price of 184.51p (2015: 186.60p) per share, and the net proceeds after issue costs were £10,401,000 (2015: £10,190,000). The net proceeds included an aggregate amount of £115,000 (2015: £76,000) which arose from the income accrued component of the net asset value at the date of issue of the new shares.

Subsequent to the year end 475,000 ordinary shares have been issued, at an average price of 194.93p.

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

16. Reserves

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

The capital reserve includes unrealised investment holding profits and losses, being the difference between cost and market value at the balance sheet date, as well as realised profits and losses on disposals of investments. The revenue reserve shows the net revenue after payment of any dividend from this reserve. Both the capital and revenue reserves are distributable.

17. Net Asset Value per Ordinary Share

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

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

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2016 PENCE	2015 PENCE	2016 £'000	2015 £'000
Ordinary shares	189.32	178.34	174,193	153,976

Net asset value per ordinary share is based on net assets at the year end and on 92,011,204 (2015: 86,337,459) ordinary shares, being the number of ordinary shares in issue at the year end.

18. Financial Instruments

Financial instruments comprise the Company's investment portfolio and derivative financial instruments (for the latter see note 13) as well as any cash, borrowings, other receivables and other payables. The following note explains the risks that affect the Company's financial instruments and looks at the Company's exposure to these various risks.

Risk Management Policies and Procedures

The Strategic Report details the Company's approach to investment risk management on page 11 and the accounting policies in note 2 explain the Company's valuation basis for investments and currency.

As an investment company, the Company invests in loan stocks, corporate bonds, government stocks, preference shares and equities which are held for the long-term in order to achieve the Company's Investment Objective in accordance with its Investment Policy. In pursuing these, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for payment as dividends.

The Company's principal financial instruments at risk comprise its investment portfolio. Other financial instruments at risk include cash and cash equivalents, borrowings, other receivables and other payables that arise directly from the Company's operations. These risks and the Directors' approach to managing them are set out below, and have not changed from those applying in the comparative year.

Risk management is an integral part of the investment management process. The Manager controls risk by ensuring that the Company's portfolio is appropriately diversified and the portfolio managers actively monitor both the ratings and liquidity of the fixed-interest securities taking into account the Company's financing requirements. In-depth and continual analysis of market and stock fundamentals give the portfolio managers the best possible understanding of the risks associated with a particular stock. The portfolio managers assess the exposure to market risk when making each investment decision, and monitor the overall level of market risk on the whole of the portfolio on an ongoing basis.

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

The day to day management of the investment activities, borrowings and hedging of the Company has been delegated to the Manager, and is the responsibility of the portfolio managers to whom the Board has given wide discretion to operate within set guidelines. Any proposed variation outside those guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting.

18.1 Market Risk

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

18.1.1 Currency Risk

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

Management of the Currency Risk

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

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

Currency Exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 December follow. Where the Company's investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis to show the overall level of exposure.

31 DECEMBER 2016	EURO £'000	US DOLLAR £'000	SWISS FRANC £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	32,512	40,719	—
Cash and cash equivalents	941	706	2
Other receivables (due from brokers and dividends)	582	729	—
Forward currency contracts	(32,091)	(25,514)	—
Foreign currency exposure on net monetary items	1,944	16,640	2
Investments at fair value through profit or loss that are equities	—	564	—
Total net foreign currency	1,944	17,204	2

31 DECEMBER 2015	EURO £'000	US DOLLAR £'000	SWISS FRANC £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	32,254	23,755	—
Cash and cash equivalents	267	83	1
Other receivables (due from brokers and dividends)	602	506	—
Forward currency contracts	(33,457)	(13,225)	—
Foreign currency exposure on net monetary items	(334)	11,119	1
Investments at fair value through profit or loss that are equities	—	4,472	—
Total net foreign currency exposure	(334)	15,591	1

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

Currency Sensitivity

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

	2016	2015
£/Euro	±5.4%	±2.4%
£/US Dollar	±6.2%	±1.8%

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

18. Financial Instruments (continued)

18.1.1 Currency Risk (continued)

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

2016	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue loss	(139)	(148)
Capital loss	(74)	(1,021)
Total return after taxation for the year	(213)	(1,169)
Effect on net asset value	–0.1%	–0.7%

2015	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue loss	(63)	(30)
Capital profit/(loss)	22	(272)
Total return after taxation for the year	(41)	(302)
Effect on net asset value	0.0%	–0.2%

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

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

18.1.2 Interest Rate Risk

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

Management of Interest Rate Risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account as part of the portfolio management and borrowings processes of the Manager. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed-interest and floating rate securities.

When the Company has cash balances, they are held in variable rate bank accounts yielding rates of interest dependant on the base rate of the custodian.

The Company has a credit facility with which it can finance investment activity, details of which are shown in note 7. The Company uses the facility at levels approved and monitored by the Board.

Interest Rate Exposure

The following table shows the Company's exposure to interest rate risk at the balance sheet date arising from its monetary financial assets and liabilities.

2016	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments held at fair value through profit or loss	—	27,089	27,089
Cash and cash equivalents	14,593	—	14,593
	14,593	27,089	41,682
Exposure to fixed-interest rates:			
Investments held at fair value through profit or loss	1,063	121,156	122,219
Net exposure to interest rates	15,656	148,245	163,901

2015	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments at fair value through profit or loss	—	54,702	54,702
Cash and cash equivalents	10,730	—	10,730
	10,730	54,702	65,432
Exposure to fixed-interest rates:			
Investments at fair value through profit or loss	—	72,863	72,863
Net exposure to interest rates	10,730	127,565	138,295

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio list on pages 17 to 20. The weighted average effective interest rate on these investments is 6.9% (2015: 7.0%). The weighted average effective interest rate on cash and cash equivalents is 0.34% (2015: 0.33%).

Interest Rate Sensitivity

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

	2016 £'000	2015 £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue profit	146	107
Capital loss	(6,883)	(5,421)
Total loss after taxation for the year	(6,737)	(5,314)
Effect on NAV	(7.3)p	(6.2)p

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

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

18.1.3 Other Price Risk

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

Management of Other Price Risk

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

The Company's exposure to other changes in market prices at 31 December on its investments is shown in the fair value hierarchy table on page 52.

18. Financial Instruments (continued)

18.1.3 Other Price Risk (continued)

Concentration of Exposure to Other Price Risks

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

Other Price Risk Sensitivity

Excluding fixed interest securities and convertibles, at the year end the Company held other investments of £6,410,000 (2015: £14,268,000). The effect of a 10% increase or decrease in the fair values of these investments (including any exposure through derivatives) on the profit after taxation for the year is £641,000 (2015: £1,427,000). This level of change is considered to be reasonably possible based on the observation of current market conditions. The sensitivity analysis is based on the Company's other investments (including equity exposure through derivatives) at the balance sheet date with all other variables held constant.

18.2 Liquidity Risk

This is the risk that the Company may encounter difficulty in meeting its obligations associated with financial liabilities i.e. when realising assets or raising finance to meet financial commitments. A lack of liquidity in the portfolio may make it difficult for the Company to realise assets at or near their purported value in the event of a forced sale.

Management of Liquidity Risk

Liquidity risk is not viewed by the Directors as a significant risk because a majority of the Company's assets comprise readily realisable securities, although a lack of liquidity in non-investment grade securities may make it difficult to rebalance the Company's investment portfolio as and when the portfolio managers believe it would be advantageous to do so. On a daily basis the portfolio managers ascertain the Company's cash and borrowing requirements by reviewing future cash flows arising from purchases and sales of investments, interest and dividend receipts, expenses and dividend payments, and available financing.

Liquidity Risk Exposure

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

	2016 LESS THAN THREE MONTHS £'000	2015 LESS THAN THREE MONTHS £'000
Other payables	425	432
Unrealised loss on forward currency contracts	—	1,091
	425	1,523

18.3 Credit Risk

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

At the year end 65.7% (2015: 63.8%) of the Company's portfolio consisted of non-investment grade securities. To the extent that the Company invests in non-investment grade securities, the Company may realise a higher current yield than the yield offered by investment grade securities. On the other hand, investments in such securities involve a greater volatility of price and a greater risk of default by the issuers of such securities, with consequent loss of interest payments and principal. Non-investment grade securities are likely to be subject to greater uncertainties from exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations.

Investment grade and non-investment grade securities totalled 83% (2015: 80%) of the portfolio at the year end. Adverse changes in the financial position of an issuer of such high-yield fixed-interest securities or in general economic conditions may impair the ability of the issuer to make payments of principal and/or interest or may cause the liquidation or insolvency of an issuer.

The portfolio may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The appointment of a depositary has substantially lessened this risk. The Board reviews the custodian's annual control report and the Manager's management of the relationship with the custodian.

Management of and Exposure to Credit Risk

All of the Company's assets are subject to credit risk. The Company's principal credit risk is the risk of default of the non-investment grade debt. Where the portfolio managers make an investment in a bond, corporate or otherwise, the credit rating of the issuer is also considered when assessing the risk of defaults. Investments in bonds are across a variety of industrial sectors and geographical markets to avoid concentration of credit risk. Counterparties for derivative transactions are also a source of credit risk. Transactions involving derivatives are entered into only with banks whose credit ratings are taken into account to minimise default risk. The credit ratings of the derivatives counterparties were mostly A3 with one at Ba1.

Details of the Company's investments, including their credit ratings, are shown on pages 17 to 20. Credit risk for transactions involving derivatives and equity investments is minimised as the Company only uses approved counterparties.

Cash balances are held with approved deposit takers only and are limited to a maximum of 4% of the Company's net asset value with any one deposit taker. Balances held with Short-Term Investments Company (Global Series) plc, a triple-A rated money market fund (STIC), are limited to a maximum of 6% of the Company's net asset value. At the balance sheet date the Company had £4.5 million (2015: £1.6 million) held at the custodian and £10.1 million (2015: £9.1 million) held in STIC.

There are no financial assets that are past due or impaired during the year (2015: none).

Fair Values of Financial Assets and Financial Liabilities

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

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

19. Classification Under Fair Value Hierarchy

The valuation techniques used by the Company are explained in the accounting policies note. The table that follows sets out the fair value of the financial instruments. The three levels set out in IFRS 7 hierarchy follow:

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

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

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

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

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

19. Classification Under Fair Value Hierarchy (continued)

Normally investments would be valued using stock market active prices, with investments disclosed as Level 1 and this is the case for the quoted equity investments that the Company holds. However, the majority of the Company's investments are non-equity investments. Evaluated prices from a third party pricing vendor are used to price these securities, together with a price comparison made to secondary and tertiary evaluated third party sources. Evaluated prices are in turn based on a variety of sources including broker quotes and benchmarks. As a result, the Company's non-equity investments have been shown as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale. No Level 3 investments were held during the year (2015: none held).

2016	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted securities:			
– Fixed interest securities[1]	—	145,998	145,998
– Convertibles	—	3,310	3,310
– Preference	2,990	—	2,990
– Convertible preference	2,856	—	2,856
– Warrants	564	—	564
Total for financial assets	6,410	149,308	155,718
Financial liabilities designated at fair value through profit or loss:			
Derivative financial instruments:			
Currency hedges	—	1,251	1,251
Total for financial liabilities	—	1,251	1,251

2015	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted securities:			
– Fixed interest securities[1]	—	124,977	124,977
– Convertibles	—	2,588	2,588
– Preference	2,930	—	2,930
– Convertible preference	6,866	—	6,866
– Warrants	4,472	—	4,472
Total for financial assets	14,268	127,565	141,833
Financial liabilities designated at fair value through profit or loss:			
Derivative financial instruments:			
Currency hedges	—	1,091	1,091
Total for financial liabilities	—	1,091	1,091

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

20. Capital Management

The Company's capital, or equity, is represented by its net assets which are managed to achieve the Company's investment objective set out on page 11.

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

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

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

Total equity at the balance sheet date, the composition of which is shown on the balance sheet on page 37, was £174,193,000 (2015: £153,976,000).

21. Contingencies, Guarantees and Financial Commitments

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

There were no contingencies, guarantees or financial commitments outstanding at the balance sheet date.

22. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or who has significant influence over the Company.

Under International Financial Reporting Standards, the Company has identified the Directors as related parties and Directors fees paid have been disclosed in the Report on Directors' Remuneration and Interests on page 28 with additional disclosure in note 6. Full details of Directors' interests are set out in the Director's Report on page 29. No other related parties have been identified.

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

23. Post Balance Sheet Events

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

There are no significant events after the end of the reporting period requiring disclosure.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Business and Status

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

Corporate Governance

The Corporate Governance Statement set out on pages 22 to 25 is included in this Directors' Report by reference.

Directors' Remuneration and Interests

Details of the Directors' remuneration and interests in the Company are set out on pages 28 and 29 and are included in this Directors' Report by reference.

Greenhouse Gas Emissions

The Company has no employees or property, it does not combust any fuel or operate any facility. The Company does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes. All services are outsourced on a fee basis that is independent of any energy expended on its behalf and it is not practical for the Company to attempt to quantify emissions in respect of such proxy energy use.

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

At 31 December 2016, the Company's stated capital consisted of 92,011,204 ordinary shares of no par value, allotted and fully paid.

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

The Directors may restrict voting powers where shareholders fail to provide information with respect to interests in voting rights when so requested, may refuse to register any transfer of a share in favour of more than four persons jointly and can require certain US holders of shares to transfer their shares compulsorily.

Save for the foregoing, there are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Disclosures Required by Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain applicable information in a single identifiable section of the annual financial report. For this year, only one item of this information applies – disclosure around the issue of shares – and this is covered by note 15 on page 45 (stated capital).

Relations with Shareholders

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

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

Shareholders are encouraged to attend the AGM. A presentation will be made by one of the portfolio managers following the business of the Meeting and shareholders have the opportunity to communicate directly with the Board.

ISA

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

Business of the Annual General Meeting (AGM)

The following summarises the business of the forthcoming AGM of the Company, which is to be held at The Oriental Club, Stratford House, Stratford Place, London W1C 1ES, at 3.30pm on 15 June 2017. The Notice of the AGM and related notes can be found on pages 59 to 61.

One of the portfolio managers will give a presentation on the Company at the AGM and will be available, with the Directors, to take shareholders' questions.

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

Resolution 2 is for members to approve the Report on Directors' Remuneration and Interests. This is an advisory vote.

Resolution 3 is for members to approve the Company's dividend payment policy which is set out on page 9. This is also an advisory vote.

Resolution 4 is to re-appoint PricewaterhouseCoopers CI LLP as the Company's auditor and to authorise the Audit Committee to determine their auditor's remuneration.

Resolution 5 is to re-elect Mr Clive Nicholson a Director of the Company.

Resolution 6 is to approve the continuation of the Company. The Company does not have a fixed life, but the Company's Articles of Association require that, unless an ordinary resolution to approve continuation of the Company is passed at or before the AGM each year, the Directors must convene a general meeting, to be held within six months of the AGM, at which a special resolution to wind up the Company would be proposed.

Resolution 7 is to renew the Directors' authority to issue shares, up to 10% of the existing shares in issue at the time of the AGM, without pre-emption. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus broadening the shareholder base of the Company. This authority will not be exercised at a price below NAV so the interests of existing shareholders are not diluted and will expire at the AGM in 2017.

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

Resolution 8 is to renew the authority for the Company to purchase up to 14.99% of its own ordinary shares subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2018. These powers, if approved, will allow the Company to buy back shares at a discount to NAV. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

Resolution 9 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days' notice. The EU Shareholder Rights Directive increased the minimum notice period to 21 days unless certain conditions are met. The first condition is that the Company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that the flexibility will be used only where the Board believe it is in the interests of shareholders as a whole.

R&H Fund Services (Jersey) Limited
Company Secretary

28 March 2017

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURE

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

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

Amongst other things, the AIFMD requires certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invescoperpetual.co.uk/citymerchants) in a downloadable document entitled 'AIFMD Investor Information'. There have been no material changes to this information in the year to 31 December 2016 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 57) and the remuneration of the Company's AIFM (IFML) to be made available to investors.

Accordingly:

- the leverage calculated for the Company at the year end was 131.2% for gross and 91.8% for commitment (2015: 126.3% and 96.7% respectively). The limits the AIFM has set for the Company remain unchanged at 300% and 250%, respectively;
- the AIFM remuneration policy is available from the Company's company secretary, on request (see contact details on page 63); and
- the AIFM remuneration paid for the year to 31 December 2016 is set out below.

AIFM Remuneration

The AIFM remuneration paid is based on the financial year of the AIFM, which is 31 December 2016.

IFML does not employ any staff directly. All staff involved in the AIF related activities of IFML are employed and paid by Invesco UK Limited or other entities in the Invesco Limited Group. Remuneration for staff involved in AIF related activities has been apportioned based on the average assets under management of £3,632 million for the nine AIFs managed by IFML during the reporting period.

The aggregate total remuneration apportioned to IFML's AIF related activities for performance year 2016 is £6,631,628, of which £3,852,051 is fixed remuneration and £2,779,577 is variable remuneration. The number of beneficiaries is 35.

IFML has identified individuals considered to have a material impact on the risk profile of IFML or the AIFs it manages ('AIFMD Code Staff'), including Board members of IFML, senior management, heads of control functions and other risk takers whose professional activities can exert material influence on IFML's risk profile or on an AIF it manages.

The aggregate total remuneration paid to the AIFMD Code Staff of IFML for AIF related activities is £988,243, of which £435,714 is paid to senior management and £552,529 is paid to other AIFMD Code Staff. Please note the total remuneration for AIFMD Code Staff excludes remuneration for staff employed by delegates.

GLOSSARY OF TERMS

Gearing

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

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

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

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

Gross Assets

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

Leverage

Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing as defined above. In addition to borrowings, it encompasses anything that increases the Company's exposure, including foreign currency and exposure gained through derivatives. 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. Leverage on these two bases is expressed as a ratio of the Company's net asset value.

Net Asset Value (NAV)

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

Net Cash

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

Premium/(Discount)

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

Return

The return generated in the period from the investments.

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

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

Ongoing Charges

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

GLOSSARY OF TERMS
continued

Credit ratings

The definitions for the credit ratings shown in the financial statements are as follows:

Moody's Ratings
Investment Grade

Aaa: judged to be of the highest quality, with minimal credit risk.

Aa1, Aa2, Aa3: judged to be of high quality and are subject to very low credit risk.

A1, A2, A3: considered upper-medium grade and are subject to low credit risk.

Baa1, Baa2, Baa3: subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Speculative Grade (non-investment grade)

Ba1, Ba2, Ba3: judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3: considered speculative and are subject to high credit risk.

Caa1, Caa2, Caa3: judged to be of poor standing and are subject to very high credit risk.

Ca: highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C: lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

WR: withdrawn rating.

P: provisional.

Standard & Poor's Ratings
Investment Grade

AAA: the best quality borrowers, reliable and stable (many of them governments).

AA: quality borrowers, a bit higher risk than AAA.

A: economic situation can affect finance.

BBB: medium class borrowers, which are satisfactory at the moment.

Non-investment Grade

BB: more prone to changes in the economy.

B: financial situation varies noticeably.

CCC: currently vulnerable and dependent on favourable economic conditions to meet commitments.

CC: highly vulnerable, very speculative.

C: highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations.

CI: past due on interest.

R: under regulatory supervision due to the company's financial situation.

SD: has selectively defaulted on some obligations.

D: has defaulted on obligations and S&P believes that the company will generally default on most or all obligations.

NR: not rated.

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting (AGM) of City Merchants High Yield Trust Limited (the Company) will be held at 3.30pm on 15 June 2017 at The Oriental Club, Stratford House, Stratford Place, London W1C 1ES, for the following purposes:

Ordinary Business

1. To receive the annual financial report for the year ended 31 December 2016.
2. To approve the Report on Directors' Remuneration and Interests
3. To approve the Company's Dividend Payment Policy to pay four quarterly dividends to shareholders in May, August, November and February in respect of each accounting year.
4. To re-appoint PricewaterhouseCoopers CI LLP as the Company's auditor and authorise the Audit Committee to determine their remuneration.
5. To re-elect Mr Clive Nicholson a Director of the Company.

Special Business

To consider and if thought fit, to pass the following resolutions, of which resolution 6 will be proposed as an ordinary resolution and resolutions 7 to 9 will be proposed as special resolutions:

6. THAT, in accordance with Article 158 of the Company's Articles of Association, the Directors of the Company be and they are hereby released from their obligation pursuant to such Article to convene a general meeting of the Company within six months of the AGM at which a special resolution would be proposed to wind up the Company.
7. THAT, pursuant to Article 14.1 of the Company's Articles of Association, the Directors be and are hereby empowered to issue shares, up to 10% of the existing shares in issue at the time of the AGM, without pre-emption.
8. THAT, pursuant to Article 8.2 of the Company's Articles of Association and Article 57 of the Companies (Jersey) Law 1991 as amended (the Law), the Company be generally and unconditionally authorised:
   (a) to make purchases of its issued ordinary shares of no par value (Shares) to be cancelled or held as treasury shares provided that:
      (i) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares, this being 13,863,681 on the date of this notice;
      (ii) the minimum price which may be paid for a Share is 1p;
      (iii) the maximum price, exclusive of expenses, which may be paid for a Share is an amount equal to 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased; and
      (iv) the authority hereby conferred shall expire on the earlier of the conclusion of the next AGM of the Company held after passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier.
9. THAT, the period of notice required for general meetings of the Company (other than AGMs) shall not be less than 14 days.

Dated this 28th March 2017

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

Notes:

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

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

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

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

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

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

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

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

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

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

7. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if: (a) to do so would interfere unduly with the preparation of the AGM or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

8. You may not use any electronic address (any address or number used for the purposes of sending or receiving documents or information by electronic means) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

9. As at 28 March 2017 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 92,486,204 ordinary shares of no par value each carrying one vote.

10. A copy of the Notice as well as various other documents relating to the Company can be found at *www.invescoperpetual.co.uk/citymerchants*

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

Manager's Website

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

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

Net Asset Value (NAV) Publication

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

Share Price Listings

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

In addition, share price information can be found using the CMHY.L ticker code.

Internet addresses

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

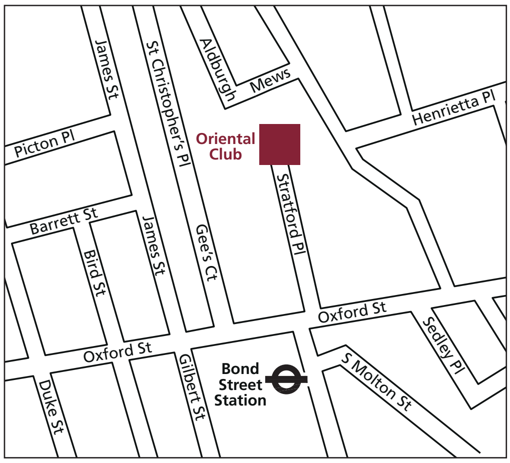
Financial Calendar

The Company publishes information according to the following calendar:

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

Annual General Meeting

The Annual General Meeting will be held at 3.30pm on 15 June 2017 at The Oriental Club, Stratford House, Stratford Place, London W1C 1ES.



ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Manager and Alternative Investment Fund Manager

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

Company Secretary, Administrator and Registered Office

R&H Fund Services (Jersey) Limited
PO Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW
☎ 01534 825200

Registered in Jersey
Number 109714

The Company is regulated by the Jersey Financial Services Commission.

Invesco Perpetual Client Services

Invesco Perpetual has a Client Services Team available from 8.30am to 6.00pm Monday to Friday (excluding bank holidays). Current valuations, statements and literature can be obtained, however, no investment advice can be given:
☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

Registrar

Capita Registrars
12 Castle Street
St Helier
Jersey JE2 3RT

Shareholders who hold shares directly and not through a Savings Scheme or ISA and have queries relating to their shareholding should contact the Registrar's call centre on:
☎ 0871 664 0300
Calls cost 12p per minute plus your phone company's access charge.
☎ +44 (0)371 664 0300 (from outside the UK).

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

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

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

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

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

Dividend Re-Investment Plan

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

Auditor

PricewaterhouseCoopers CI LLP
37 Esplanade
St Helier
Jersey JE1 4XA

Depositary

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

Custodian

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

Corporate Brokers

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

The Association of Investment Companies

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

☎ 020 7282 5555

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

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

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

Invesco Perpetual is a business name of Invesco Asset Management Limited.

Invesco is one of the largest independent global investment management firms, with assets under management in excess of $836 billion.*

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

**Assets under management at 28 February 2017.*

SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

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

City Merchants High Yield Trust Limited
A Jersey incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments combined with a degree of security. The Company may use bank borrowings.

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

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

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

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

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

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

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

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

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

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc
Aims to achieve long-term total returns for the Company's shareholders primarily by investment in a broad cross-section of small to medium sized UK-quoted companies. 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 Portfolio
Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

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

Investing in Multiple Asset Classes

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

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

Please contact our 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.invescoperpetual.co.uk/investmenttrusts.

NOTES

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Linkway Financial Printers
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