City Merchants High Yield Trust Limited

Annual Financial Report

Year Ended 31 December 2018

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

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www.invesco.co.uk/investmenttrusts

The Company is a member of

The Association of Investment Companies

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 capital growth and high income from investment, predominantly in high-yielding fixed-interest securities.

Investment Policy

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

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

Nature of the Company

The Company is a public listed investment company incorporated in Jersey, Channel Islands, whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on page 7), with the aim of spreading investment risk and generating a return for shareholders. The Company may use 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

Twelve Month Total Return[1]	2018	2017
Net asset value[2]	–3.6%	+8.7%
Share price[2]	–7.6%	+9.9%
Ongoing Charges Ratio[2]	0.98%	0.98%
Dividend for the year	10p	10p

Year End Information

	31 DECEMBER 2018	31 DECEMBER 2017	% CHANGE
Net asset value per ordinary share[2]	178.69p	195.40p	–8.6
Share price[1]	175.00p	199.50p	–12.3
(Discount)/Premium	–2.1%	2.1%	
Gearing[2]			
Gross gearing	nil	nil	
Net cash[2]	2.4%	4.7%	

(1) Source: Refinitiv (Thomson Reuters).

(2) Terms are defined in the Glossary of Terms and Alternative Performance Measures on pages 61 to 64.

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
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
2017	9,429	10.0	0.98	195.4	199.50
2018	**9,648**	**10.0**	**0.98**	**178.7**	**175.00**

(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) The ongoing charges ratio excludes any refund of VAT on management fees and liquidation expenses incurred by the predecessor company.

CHAIRMAN'S STATEMENT

Performance

2018 proved to be a challenging year for high yield investors. The familiar trend of ever declining yields seen in the prior years was decisively broken, and yields rose steadily during the twelve months under review. To put this increase in context, it is worth keeping in mind that yields had fallen to exceptionally low levels in 2017, levels which by historic standards appeared increasingly detached from the long term characteristics of the asset class.

A number of themes weighed on the high yield market over the course of the year, perhaps the main source of unease stemming from the imminent prospect of a peak in the degree of stimulus provided by 'quantitative easing'. Quantitative easing, whereby central banks undertake large scale purchases of assets, became a common feature of G7 monetary policy post-2008 as policymakers fought to restore financial market confidence. However, in 2018 this stimulus slowed, particularly in Europe where the European Central Bank (ECB) signalled its intention to rein in its monthly program of asset purchases.

This change in central bank policy, albeit gradual, came at a time of growing uncertainty regarding the outlook for economic activity. Tariff increases enacted in the United States and China caused much alarm, and though by November an uneasy truce was reached between President Trump and China's Premier Xi Jinping, underlying tensions remained unresolved. Europe saw a particularly marked deceleration in economic activity, and toward the end of the year familiar concerns over the long term sustainability of China's debt-fuelled development model resurfaced. Brexit and concerns over sovereign risk in Italy compounded investors' unease.

The Company's net asset value (NAV) total return for the year was –3.6% compared with a total return of –2.4% for the ICE Bank of America Merrill Lynch European Currency High Yield Index (the Index) and an average return of –2.3% for funds in the Investment Association Sterling Strategic Bond sector. A decline in the premium to NAV saw the share price return –7.6% during the year.

The Manager has a long-term horizon and consequently the Board pays close attention to returns over three and five years in its assessment of investment performance. For the three and five years to the end of 2018 your Company's NAV total return was +17.6% and +26.9% respectively, compared to total returns of +15.7% and +24.9% for the Index. The Board believes that the Manager has delivered good investment performance over these periods.

Income Account

Dividends are a key component of the total return to shareholders and we were able to meet our dividend target of 10p in respect of the financial year, paid in four equal payments. The fourth dividend payment was paid on 25 February 2019 in the form of an interim dividend payment. This means that it can be paid earlier than would be the case had we declared a final dividend, since this would need approval at the Annual General Meeting. Your Board will continue to target a dividend of 10p in the current year.

Costs

The Company's ongoing charges ratio (OCR) for the year was 0.98% which was the same as the previous year. The OCR is a measure of the expenses of managing your Company, and the Board monitors this ratio to ensure that it remains competitive with alternative investment vehicles.

Discount/Premium and Issuance

The Company's shares traded at an average premium to net asset value of 0.4% during the year and was at a discount of 2.1% at the year end. We issued a further 1,575,000 shares during 2018. Shares are always issued at a premium sufficient to ensure that existing shareholders do not experience dilution of the net asset value. The average price of these shares issued was 191.09p. Since the year end the share price has traded at a premium, and a further 550,000 shares have been issued.

Your Board believes that shareholders benefit from the growth in the size of the Company in two important ways. First, there is typically a positive correlation between a company's size and the liquidity of its shares, and secondly, as the Company grows, its fixed costs are spread over a larger base, resulting in downward pressure on the OCR.

CHAIRMAN'S STATEMENT

Gearing

As at 31 December 2018 the Company's net cash position was 2.4%. The Company's policy on borrowing is determined by the Board and remains unchanged. The maximum amount of borrowing permitted is 30% of total assets. The decision to use borrowing to gear the portfolio rests with the Manager. As previously reported, we have established a facility to use repo financing for this purpose in place of or alongside any credit facility.

Board Composition

Winifred Robbins retired from the Board in March 2019. Winifred originally joined the Board of the Company's predecessor, CMHYT plc, in March 2009 and in 2011 joined the Board of the present Company. On behalf of the Board and shareholders I would like to thank her for her excellent contribution over the years. We have appointed an independent search firm to find a replacement for Winifred and will update shareholders in due course.

Governance Matters

In 2018 we established a Management Engagement Committee to undertake the review of the investment management, secretarial and other third party providers. While this function had previously been undertaken by the Board, we concluded that establishing a committee to complete the review of delegated services was consistent with 'best practice' among investment companies. The Management Engagement Committee will report to the Board and is chaired by Phil Austin.

In July the Financial Reporting Council released the 2018 Corporate Governance Code following a lengthy consultation period. The Corporate Governance Code was first published in 1992 by the Cadbury Committee and over the years it has been revised and expanded. Investment companies, such as your Company, have a number of distinctive features and so not all aspects of the Code are relevant. The Association of Investment Companies ('AIC') subsequently published the 2019 AIC Code of Corporate Governance ('2019 AIC Code') and the Company intends to comply with this code going forward. One governance change we will introduce as a consequence of the 2019 AIC Code is to ensure that from the 2019 AGM, your Directors will seek annual rather than triennial re-election. The resolutions for the re-election of each of the continuing Directors are detailed in the Notice of Meeting on page 65. In line with the 2019 AIC Code an outline of the reasons why their contributions and skills continue to be important to the Company's long-term sustainable success are included on page 58.

In my 2017 Chairman's Statement I drew attention to the new regulations which required investment companies to publish return projections according to a series of scenarios in key information documents (KIDs). I explained that in the opinion of the Board the methodology that must be used is not an appropriate way of projecting investment returns, given that it relies on recent financial history. This issue received considerable attention during 2018, notably from the AIC which published a damning report demonstrating that KIDs are systematically flawed and calling for their reform. Let us hope that the KID methodology is replaced with something that is 'fit for purpose' in the not too distant future.

AGM

The Company's 2019 AGM will be held in London at Home House, 20 Portman Square, London W1H 6LW at 3.30 pm on 25 June 2019. One of the managers will provide a presentation on the portfolio and investment outlook, and the Directors will be available to answer questions.

The resolutions to be put to shareholders at the meeting are described in the Directors' Report on pages 58 and 59. They consist of the ordinary resolutions to receive this annual financial report and re-appoint the auditor and the re-election of Directors. Ordinary resolutions on Directors' Remuneration and the Company's Dividend Payment Policy are included; these are advisory. 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 day's notice. The Board has considered all the resolutions proposed in the notice and believes they are in the interests of shareholders as a whole. We therefore recommend shareholders vote in favour of each resolution.

Outlook

At the start of 2019 many of the key sources of economic and political uncertainty which overshadowed markets for much of the past 12-18 months appear no closer to resolution. It therefore seems that trade tensions, the direction of monetary policy, particularly in the United States, the health of the Chinese economy, and of course Brexit will continue to preoccupy financial markets for the foreseeable future.

That said, it is the health, or otherwise, of the corporate sector which is ultimately the key determinant of high yield performance, and in this respect there are grounds for cautious optimism. For example, the economic backdrop currently appears to be one of slowdown rather than widespread or protracted recession and while corporate profit margins are likely to have peaked in 2018, their decline over the coming year seems likely to be gradual.

The re-pricing of the market in 2018 has undoubtedly provided greater opportunities to invest in bonds which provide sufficient compensation for the risk to investors. This is an encouraging development, and the Board is confident that your Investment Manager is in a strong position to exploit these opportunities within the portfolio.

Tim Scholefield
Chairman

3 April 2019

MANAGER'S INVESTMENT REPORT

Market Background

The past twelve months has been a difficult period for high yield bond markets with European currency high yield delivering its first year of negative return since 2011 and US high yield its first year of losses since 2015.

The negative returns reflected a deterioration in sentiment attributable to multiple factors. These included: increasing protectionism and rising tensions over trade, political risk in the eurozone concerning the Italian budget deficit, emerging market uncertainty, Brexit, and in the final quarter of 2018, a 40% decline in crude oil prices. At the same time, markets had to adjust to less central bank stimulus. The US Federal Reserve raised US interest rates four times, the Bank of England increased UK interest rates once and at the end of the year the European Central Bank ended its asset purchase programme. There was also some company specific volatility, particularly within the retail and services sectors. One of the more extreme examples was House of Fraser, with the price of the company's 2020 bond having fallen by over 90% during the year. Although not held in the portfolio the price decline serves as a reminder of the potential for material losses in the high yield market.

Nonetheless, although there are some exceptions, company fundamentals generally remain sound. Although leverage has increased from the low level of recent years, interest coverage ratios (the amount of times interest expense is covered by earnings) remain healthy. This relatively positive backdrop is reflected in default rates, which remain low. It is, however, worth bearing in mind that the repricing to higher yields observed during 2018 will slowly start to put pressure on coverage ratios as companies must refinance at higher coupons.

The more uncertain environment of the past year was accompanied by a fall in supply. Barclays report European new issuance down 38% on levels in 2017. As sentiment deteriorated issuers were forced to row back on some of the more aggressive pricing and terms that had characterised the market right at the start of the year.

Portfolio strategy

Over the twelve months to 31 December 2018 the deterioration in market sentiment led the Company's NAV to deliver a negative total return of –3.6%. A total dividend of 10p has been paid for the year.

The broad themes of the portfolio were unchanged over the year. However, the re-pricing of the market provided the opportunity to build exposure to bonds we like.

There is a core (42%) of non-financial high yield corporate bonds, focused on seasoned issuers that we consider have a low likelihood of default. In addition, we have significant exposure to areas of the market, which we believe offer relatively attractive yield. Approximately 23% of the portfolio is invested in bank capital, predominantly additional tier 1 and legacy tier 1. We also have around a 10% allocation to subordinated bonds in the insurance sector. Elsewhere, we have 9% in hybrid capital instruments. These bonds are issued with higher coupons than the issuer's senior debt instruments. We believe the subordination risk of these more junior debt instruments is acceptable in the context of the companies' relatively strong balance sheets.

Outlook

Looking ahead, the market continues to face significant potential headwinds including the withdrawal of quantitative easing, Brexit and ongoing trade tensions. We therefore remain cautious, but the repricing of recent months has, we believe, created value and where appropriate we will seek to exploit these opportunities.

The guiding principle in our investment approach is whether we are being sufficiently compensated for the risks of holding a bond. To make this judgement it is important that we ensure we have an in-depth understanding of a company so that we can judge whether or not it will be able to meet its financial commitments. In turn this analysis enables us to better gauge the level of income we need to be paid to compensate for those risks. Similarly, it is important to maintain a good diversification of holdings and the portfolio is currently invested in over 100 different issuers.

By adopting this approach, we believe that we will be able to meet the challenges that the market faces and continue to deliver attractive levels of income for the Company's shareholders.

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

3 April 2019

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 (the 'Secretary') to provide company secretarial and general administration services.

In addition to the management and administrative functions of the Manager and the Secretary, the Company has contractual arrangements with Link Market Services (Jersey) Limited to act as registrar and the Bank of New York Mellon (International) Limited (BNYMIL) as depository and custodian.

The Board has oversight of the Company's service providers, and monitors them on a formal and regular basis. The portfolio managers responsible for the day-to-day management of the portfolio are Paul Read, Paul Causer and Rhys Davies.

The Company is an alternative investment fund for the purposes of the Alternative Investment Fund Managers Directive.

Investment Objective and Policy

Investment Objective

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

Investment Policy

The Company seeks to provide a high level of dividend income relative to prevailing interest rates mainly through investment in bonds and other fixed-interest securities. The Company also invests in equities and other equity-like 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 are 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 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, which has set a maximum of 30% of the Company's total assets. This limit may be varied from time to time in the light of prevailing circumstances, but has not been changed since the Company's incorporation in its current form. The Manager has discretion to borrow within the limit set by the Board. 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 in place and may be used in place of or alongside any credit facility arranged by the Company, subject to the aggregate 30% ceiling. The Company did not use the credit facility or repo financing during the year to 31 December 2018 (2017: none).

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 Ratio

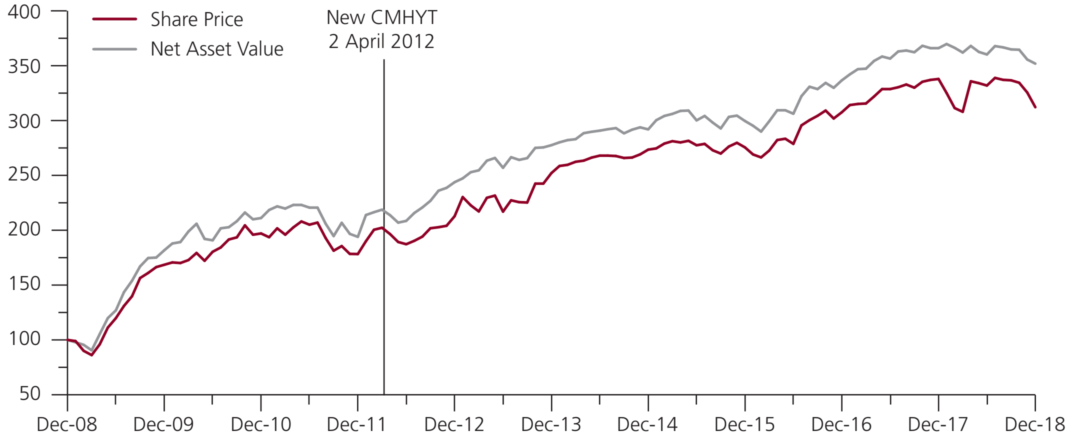
Performance

As the Company's objective is to seek to obtain capital growth and high income, the performance is best measured in terms of total return. There is no single index against which the Company's performance may be meaningfully assessed. 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 Manager has a long-term horizon and consequently the Board pays close attention to returns over three and five years in its assessment of investment performance. As explained in the Chairman's Statement, the Board has noted the under performance in the year and is satisfied with the longer term performance of the portfolio.

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 2008.



Source: Refinitiv (Thomson Reuters).

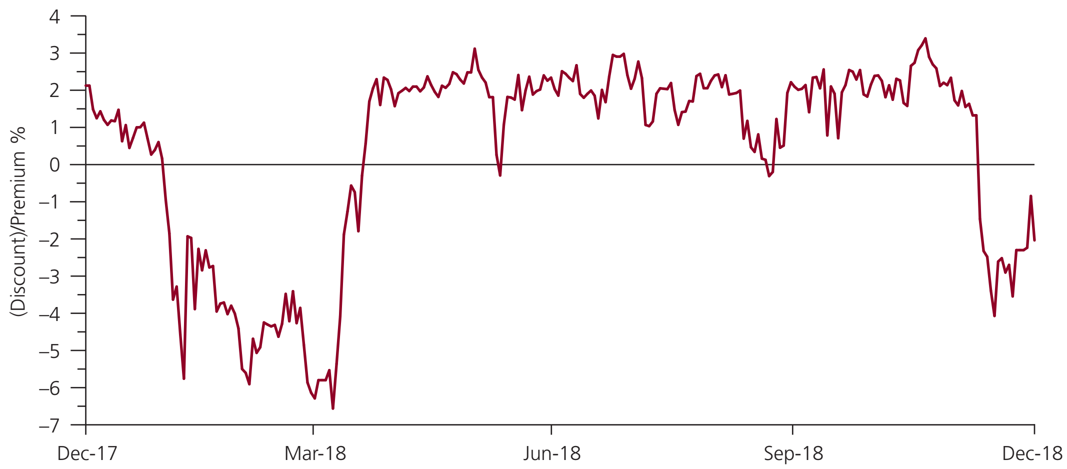
Dividends and Dividend Payment Policy

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. Powers are taken each year to issue and buy back shares, which can assist short term management, however the level of discount or premium 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 discount of 2.1%. As explained in the Chairman's Statement, demand for shares during the year resulted in the issue of 1,575,000 shares at an average price of 191.09p.



Source: Refinitiv (Thomson Reuters).

STRATEGIC REPORT
BUSINESS REVIEW
continued

Ongoing Charges Ratio

The expenses of managing the Company are carefully monitored by the Board. The standard measure of these is the ongoing charges ratio, which 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 ratio provides a guide to the effect on performance of annual operating costs. The Company's ongoing charges ratio for the current year was 0.98%, the same as for the previous year.

Investment Process

At the core of the portfolio managers' philosophy is a belief in active investment management. They seek to invest where they see the potential for attractive returns and to avoid risks that they do not think are well rewarded. Fundamental principles drive a genuinely unconstrained investment approach, with a strong emphasis on value.

The investment process comprises four key elements to deliver the information the portfolio managers use to make their decisions:

- top down, macroeconomic analysis – examining the factors that shape the economy;
- credit analysis using internal and external research with a view to maximising returns from acceptable and understood credit risk exposure;
- value assessment, considering the risk/return profile of any bond in relation to cash, core government bonds and the rest of the fixed interest universe; and
- risk considerations, analysing all holdings to allow for a comprehensive understanding of risks involved to ensure diversification of the portfolio.

The portfolio managers enter into the majority of positions with a view to holding them until their call or maturity date and their investment process is based on making investments where the yield to maturity or call appears to them to be at least an adequate reward for the risk. The nature of the high yield market and the Company's mandate mean that there will be occasions when the value the portfolio manager assessed in an investment is fully realised through capital appreciation or when an existing investment comes to appear overvalued by the market. On these occasions, they may exit the position before maturity.

The portfolio managers believe that it is good investment practice to try and keep the level of turnover to a minimum, whilst at the same time recognising that this should not at any time act as a deterrent to effective portfolio management. The closed end nature of the Company means the portfolio managers are not presented with regular daily inflows and outflows, and as such are not required to turn the portfolio over to manage liquidity. Turnover will generally be very low due to the long term nature of many of the holdings and the Company structure.

Internal Control and Risk Management

The Directors have overall responsibility for the Company's system of internal controls and are responsible for reviewing the effectiveness of these controls. This includes safeguarding of the Company's assets. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The Audit Committee (the 'Committee'), on behalf of the Board, has established an ongoing process for identifying and assessing the risks to which the Company is exposed by reference to a risk control summary, which maps the risks, mitigating controls in place, and monitoring and reporting of relevant information to it.

As part of the process, the Committee has identified four risk categories: strategic; investment management; third party service providers; and regulation and corporate governance. An explanation of these categories follows.

Strategic Risk

The Board sets the Company's strategy, including setting its objective and how this should be achieved. The Board assesses the performance of the Company in the context of the market and macro conditions and gives direction to, and monitors, the Manager's actions, and those of other third parties, on behalf of the Company.

Investment Management Risk

Investment management covers management of the portfolio together with cash management, gearing and hedging, all being areas the portfolio managers can control, and which generate the Company's investment performance.

Third Party Service Providers Risk

The Company has no employees and its Directors are appointed on a non-executive basis. The Company is reliant on third party service providers (TPPs) for its executive functions. The Company's most significant TPPs are the Manager, to which portfolio management is delegated, and the Secretary. Other significant TPPs are the corporate broker, depositary, custodian, registrar and auditor.

Regulation and Corporate Governance Risk

The Company is required to comply with many regulations. For the year under review these included but were not limited to, the provisions of the Companies (Jersey) Law 1991, the UK Listing Rules, the Alternative Investment Fund Managers Directive, the Market Abuse Regulation, the FCA's Disclosure Guidance and Transparency Rules, the UK Corporate Governance Code and International Financial Reporting Standards.

A matrix of the risks, set out according to their assessed risk levels after mitigation, enables the Directors to concentrate on those risks that are most significant, and also forms the basis of the list of principal risks and uncertainties on pages 12 and 13. The ratings take into account the Directors' risk appetite and the ongoing monitoring by the Manager.

Oversight of the control environment is based on the Company's relationship with its TPPs, all of which have clearly defined lines of responsibility, delegated authority, and control procedures and systems. The Company's main third party service providers, the Manager and the Secretary, both have a three lines of defence model, which is embedded into their risk management systems.

The effectiveness of the Company's internal control and risk management system is reviewed at least twice a year by the Committee. The Committee received and considered, together with representatives of the Manager, reports in relation to operations and systems of internal controls of the Manager, accounting administrator, custodian and registrar. The Committee also receives regular reports from the Manager's internal audit and compliance departments. The Committee also received a comprehensive and satisfactory, report from the depositary at the year end Committee meeting. The Company's risk management policies and procedures for financial instruments are set out in note 18 on pages 49 to 54.

Due diligence is undertaken before any contracts are entered into with any third party service provider. The Manager regularly reviews, against agreed service standards, the performance of TPPs through formal and informal meetings, and by reference to third party independently audited control reports. The results of the Manager's reviews are reported to and reviewed by the Committee. These various reports and reviews did not identify any significant failings or weaknesses which were relevant to the Company 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 any hedging and gearing; performance against relevant indices and the Company's peers; the portfolio managers' review, including of the market, the portfolio, transactions and prospects; revenue forecasts; and investment monitoring against investment guidelines. The portfolio managers are permitted discretion within these investment guidelines, which are set by the Board. Compliance with the guidelines is monitored daily by the Manager. Any proposed variation to these guidelines is referred to the Board for consideration and approval.

The Board formally reviews the performance of the Manager and the Secretary annually and informally at every board meeting. The Board has reviewed and accepted both the Manager's and Secretary's whistleblowing policy under which staff of both Invesco Fund Managers Limited and R&H Fund Services (Jersey) Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Principal Risks and Uncertainties

The Board has carried out a robust assessment of the risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. The principal risks that follow are those identified by the Board after consideration of mitigating factors. In carrying out this assessment, consideration was given to market uncertainty in relation to Brexit.

Strategic Risks

Market Risk

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

Mitigating Procedures and Controls: An explanation of market risk and how this is addressed is given in note 18.1 to the financial statements.

Investment Objectives

The Risk: The Company's investment objectives and structure no longer meet investors' demands.

Mitigating Procedures and Controls: The Board receives regular reports reviewing the Company's investment performance against its stated objectives and peer groups, and reports from discussion with its broker and major shareholders. The Board also has a periodic strategy meeting.

Lack of Liquidity in the Company's Shares

The Risk: Lack of liquidity and lack of marketability of the Company's shares leading to stagnant share price and wide discount.

Mitigating Procedures and Controls: The Board receives regular reports from both the Manager and the Company's broker on the Company's share price performance and level of discount (or premium), together with regular reports on marketing and meetings with shareholders and prospective investors. The Board recognises the importance of the Company's scale in terms of the aggregate value of its shares in the market ('market cap') in creating liquidity and the benefit of a wide shareholder base, and has the ability to both issue and buy back shares to assist with market volatility. The foundation to this lies in solid investment performance and a high level of dividend. Powers are also taken to issue and buy back shares.

Investment Management Risk

Performance

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

Mitigating Procedures and Controls: The Company does not have a formal benchmark, however, the ICE Bank of America Merrill Lynch European Currency High Yield Index ('the Index') is used in contribution analysis. This index tracks the performance of EUR and GBP denominated sub-investment grade corporate debt publicly issued in the eurobond, sterling domestic and euro domestic markets. The Board regularly compares the Company's NAV performance over both the short and long term to that of the Index and relevant peers as well as reviewing analyses breaking out contributory elements of the portfolio's performance compared with the Index. The Board also receives reports on and reviews: the constituents of the portfolio, transactions in the period and, if applicable, gearing and hedging. The investment process the portfolio managers employ to address risk versus return is explained on page 10, and an explanation of credit risk and how this is addressed is given in note 18.3 to the financial statements.

Borrowing Risk

The Risk: Borrowings 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. There is no guarantee that it will be possible to re-finance repo financing arrangements or replace any other borrowing facilities on their maturity either at all or on terms that are acceptable to the Company, in which case any amounts owing by the Company would need to be funded by the sale of investments and the Company may not be able to realise the expected value of those assets. Repo financing introduces an element of counterparty risk. Repo financing transactions require the counterparty to sell the relevant assets to the Company on the repurchase date at a fixed price but if a counterparty failed to do so, the Company would be left with a contractual claim against the defaulting counterparty and there is no guarantee the Company would be able to recover all of the value of the assets from that counterparty. In adverse market conditions, the risks of counterparty default may be greater than at other times.

Mitigating Procedures and Controls: All borrowings are actively managed by the Manager and monitored by the Board. The Company will only enter into repo arrangements with counterparties who are authorised or regulated by an appropriate regulator and whose credit rating is not less than the minimum investment grade credit ratings issued by internationally recognised agencies. There is a maximum limit allowed with any one counterparty, and transactions typically have a maturity tenor of three months or less.

Third Party Service Providers Risk

Unsatisfactory Performance of Third Party Service Providers (TPPs)

The Risk: Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operations of the Company and affect its ability to successfully pursue its investment policy and expose it to reputational risk. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.

Mitigating Procedures and Controls: Details of how the Board monitors the services provided by the Manager and the other TPPs, 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.

Information Technology Resilience and Security

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

Mitigating Procedures and Controls: The Audit Committee on behalf of the Board regularly reviews TPPs' audited service organisation control reports and meets with representatives of the Manager's Investment Management, Compliance, Internal Audit and Investment Trust teams as well as the Secretary's senior staff and Compliance team. The Board receives regular updates on the Manager's and the Secretary's information security. The Board monitors TPPs' business continuity plans and testing – including their regular 'live' testing of workplace recovery arrangements.

Regulation and Corporate Governance Risk

Failure to Comply With or Adverse Changes to Law or Regulation

The Risk: A serious breach of law or regulation could lead to suspension from the Official List and from trading on the London Stock Exchange, a fine or a qualified audit report. Adverse changes to law or regulation could affect the ability of the Company to operate or the practicality of its domicile.

Mitigating Procedures and Controls: The Board, the Secretary and the Manager monitor compliance with and changes to government policy, legislation and other regulations relevant to the Company.

Viability Statement

This Company is an investment company whose business consists of investing the pooled funds of its shareholders to provide them with capital growth and a high income 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 nearly 100% 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.

Performance derives from returns for risk taken. The Manager's Investment Report on page 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 18. 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 in recent times by both global and domestic events. These events affected performance, but at no time did they 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 on page 53 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.

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, based on an initial amount 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.

Financial Position

The Company's balance sheet on page 40 shows the assets and liabilities at the year end. A £20 million revolving credit facility is currently 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. In addition, the Company also has repo financing agreements in place, which were not used during the year.

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 65, will not be passed.

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 2019		AT 31 DECEMBER 2018		AT 31 DECEMBER 2017	
	HOLDING	%	HOLDING	%	HOLDING	%
Charles Stanley, stockbrokers	10,207,392	10.5	10,162,647	10.8	10,896,791	11.4
Hargreaves Lansdown, stockbrokers (EO)	9,323,658	9.5	8,841,373	9.1	8,291,312	8.7
Invesco	6,881,470	7.0	6,881,470	7.1	6,881,470	7.2
Redmayne Bentley, stockbrokers	6,044,111	6.2	5,797,331	6.0	4,910,675	5.1
EFG Harris Allday, stockbrokers	5,234,108	5.3	5,264,368	5.4	4,906,163	5.1
Alliance Trust Savings	4,689,662	4.8	4,560,043	4.8	4,247,330	4.4
Brewin Dolphin, stockbrokers	3,509,781	3.6	3,546,085	3.7	3,546,085	3.6

STRATEGIC REPORT
BUSINESS REVIEW
continued

Board Diversity

The Company's policy on diversity is set out on page 26. 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. During the year to 31 December 2018, the Board comprised five non-executive directors of whom one was female, thereby constituting 20% female representation. Summary biographical details of the Directors are set out on page 23. 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 Company does not have a human rights policy, however, 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 3 April 2019.

R&H Fund Services (Jersey) Limited
Company Secretary

CLASSIFICATION OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2018					
	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	OTHER AREAS %	TOTAL %
Fixed interest securities[1]	44.6	10.1	38.6	—	1.6	94.9
Convertibles	0.4	—	0.7	—	—	1.1
Preference	1.7	—	—	—	—	1.7
Convertible preference	1.5	—	—	—	—	1.5
Equities	—	—	0.8	—	—	0.8
Total	48.2	10.1	40.1	—	1.6	100.0

	2017					
	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	OTHER AREAS %	TOTAL %
Fixed interest securities[1]	40.3	13.4	38.6	2.1	1.0	95.4
Convertibles	0.4	—	0.7	—	—	1.1
Preference	2.0	—	—	—	—	2.0
Convertible preference	1.5	—	—	—	—	1.5
Total	44.2	13.4	39.3	2.1	1.0	100.0

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

INDUSTRY ANALYSIS OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2018			2017		
	UNITED KINGDOM %	NON-UK %	TOTAL %	UNITED KINGDOM %	NON-UK %	TOTAL %
Financials	23.8	22.1	45.9	22.6	19.8	42.4
Consumer Services	11.4	5.9	17.3	13.5	7.1	20.6
Telecommunications	1.8	8.1	9.9	0.8	7.3	8.1
Utilities	3.6	3.3	6.9	1.5	6.3	7.8
Industrials	2.2	2.3	4.5	2.8	4.6	7.4
Consumer Goods	4.4	5.2	9.6	2.3	3.5	5.8
Basic Materials	1.0	2.2	3.2	0.7	2.3	3.0
Government Bonds	—	—	—	—	2.3	2.3
Oil and Gas	—	1.6	1.6	—	1.0	1.0
Technology	—	0.7	0.7	—	0.8	0.8
Health Care	—	0.4	0.4	—	0.8	0.8
Portfolio Total	48.2	51.8	100.0	44.2	55.8	100.0

The percentages shown in the above tables are related to the value of investments of £168.2 million (2017: £175.0 million).

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

AT 31 DECEMBER

	2018				2017			
	INCLUDING CURRENCY HEDGING			EXCLUDING	INCLUDING CURRENCY HEDGING			EXCLUDING
	STERLING %	OTHER %	TOTAL %	HEDGING %	STERLING %	OTHER %	TOTAL %	HEDGING %
Fixed interest[1]	47.4	46.1	93.5	92.5	49.1	41.4	90.5	90.7
Convertibles	—	1.1	1.1	1.1	—	1.1	1.1	1.1
Preference	1.7	—	1.7	1.7	1.9	—	1.9	1.9
Convertible preference	1.5	—	1.5	1.5	1.5	—	1.5	1.5
Equities	—	0.7	0.7	0.8	—	—	—	—
Portfolio Total	50.6	47.9	98.5	97.6	52.5	42.5	95.0	95.2
Cash	1.7	0.7	2.4	2.4	4.2	0.6	4.8	4.8
Portfolio and Cash Total	52.3	48.6	100.9	100.0	56.7	43.1	99.8	100.0
Currency Hedging								
Forward currency sales	40.5	(41.4)	(0.9)		33.2	(33.0)	0.2	
Net Currency Exposure	92.8	7.2	100.0		89.9	10.1	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 of Terms on page 64.

	2018		2017	
RATING	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
Investment Grade:				
AA+	—	—	2.3	2.3
A	1.2	1.2	1.2	3.5
A–	2.2	3.4	0.7	4.2
BBB+	1.7	5.1	3.3	7.5
BBB	3.2	8.3	3.3	10.8
BBB–	7.8	16.1	6.5	17.3
Non-investment Grade:				
BB+	12.5	28.6	13.3	30.6
BB	6.3	34.9	6.6	37.2
BB–	16.8	51.7	16.8	54.0
B+	5.7	57.4	7.4	61.4
B	12.0	69.4	13.1	74.5
B–	9.7	79.1	4.7	79.2
CCC+	1.0	80.1	0.1	79.3
CCC	1.7	81.8	1.5	80.8
CCC–	0.4	82.2	1.0	81.8
D	—	82.2	0.4	82.2
NR (including equity)	17.8	100.0	17.8	100.0
	100.0		100.0	
Summary of Analysis				
Investment Grade	16.1		17.3	
Non-investment Grade	66.1		64.9	
NR (including equity)	17.8		17.8	
Total	100.0		100.0	

INVESTMENTS IN ORDER OF VALUATION

AT 31 DECEMBER 2018

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Lloyds Banking Group	7.875% Perpetual	Baa3/BB–	Financials	UK	4,194	2.5
	7% Var Perpetual	Baa3/BB–			3,040	1.8
					7,234	4.3
Aviva	6.125% Perpetual	A3/BBB	Financials	UK	3,765	2.2
	8.875% Preference	NR/NR			1,495	0.9
					5,260	3.1
Intesa Sanpaolo	8.375% FRN Perpetual	Ba3/BB–	Financials	Italy	3,029	1.8
	7% Perpetual	Ba3/BB–			996	0.6
	7.75% Perpetual	Ba3/BB–			694	0.4
					4,719	2.8
Altice	7.375% 01 May 2026	B2/B	Financials	France	3,028	1.8
	6.625% 15 Feb 2023	B2/B+		Luxembourg	1,204	0.7
	7.5% 15 May 2026	B2/B+			449	0.3
					4,681	2.8
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba2/BB	Telecommunications	Netherlands	4,160	2.5
Enel	7.75% 10 Sep 2075	Ba1/BBB–	Utilities	Italy	2,742	1.6
	6.625% 15 Sep 2076	Ba1/BBB–			796	0.5
					3,538	2.1
Standard Chartered	5.125% 06 Jun 2034	Baa2/BBB–	Financials	UK	2,022	1.2
	5.7% 26 Mar 2044	Baa2/BBB–			1,329	0.8
					3,351	2.0
Telecom Italia	7.721% 04 Jun 2038	Ba1/BB+	Telecommunications	Luxembourg	1,557	0.9
	5.303% 30 May 2024	Ba1/BB+		Italy	1,487	0.9
					3,044	1.8
Thames Water	7.75% 01 Apr 2019	B1/NR	Utilities	UK	3,027	1.8
Premier Foods Finance	6.25% 15 Oct 2023	B2/B	Consumer Goods	UK	2,075	1.2
	FRN 15 Jul 2022 (SNR)	B2/B			768	0.5
					2,843	1.7
Enterprise Inns	6.375% 15 Feb 2022 (SNR)	NR/BB–	Consumer Services	UK	1,282	0.8
	6% 06 Oct 2023	NR/BB–			1,060	0.6
	7.5% BDS 15 Mar 2024	NR/B			480	0.3
					2,822	1.7
Matalan Finance	9.5% 31 Jan 2024 (SNR)	Caa2/CCC	Consumer Goods	UK	1,547	0.9
	6.75% 31 Jan 2023 (SNR)	B2/B–			1,261	0.8
					2,808	1.7
Barclays	9.25% Perpetual	Ba2/BB+	Financials	UK	1,128	0.7
	7% Perpetual	NR/B+			971	0.5
	8% Perpetual	NR/B+			331	0.2
	7.875% Var Perpetual	Ba3/B+			219	0.1
	2.75% FRN Perpetual	Ba2/BB+			119	0.1
					2,768	1.6
Virgin Money	8.75% Perpetual	NR/NR	Financials	UK	2,688	1.6
Stonegate	4.875% 15 Mar 2022 (SNR)	B2/B–	Consumer Services	UK	1,731	1.0
	FRN 15 Mar 2022 (SNR)	B2/B–			880	0.5
					2,611	1.5
Balfour Beatty	10.75p Cnv Preference	NR/NR	Industrials	UK	2,555	1.5
Royal Bank of Scotland	7.64% FRN Perpetual	Ba2/B+	Financials	UK	1,409	0.9
	8% Cnv FRN Perpetual	Ba2u/B			548	0.3
	8.625% FRN Perpetual	Ba2u/B			357	0.2
					2,314	1.4
Catlin Insurance	7.249% FRN Perpetual	NR/A–	Financials	Bermuda	2,310	1.4
Picard	FRN 30 Nov 2023	B2/B	Consumer Services	France	2,195	1.3
Algeco Scotsman	8% 15 Feb 2023 (SNR)	B2/B–	Consumer Services	UK	1,436	0.9
	10% 15 Aug 2023 (SNR)	Caa1/CCC			739	0.4
					2,175	1.3
DKT Finance	7% 17 Jun 2023 (SNR)	B3/B–	Financials	Denmark	1,193	0.7
	9.375% 17 Jun 2023 (SNR)	B3/B–			890	0.5
					2,083	1.2

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
ELM	6.3024% FRN Perpetual	A3/A	Financials	Netherlands	2,013	1.2
Virgin Media Finance	6.25% 28 Mar 2029	Ba3/BB–	Consumer Services	UK	2,002	1.2
Pension Insurance	8% 23 Nov 2026	NR/NR	Financials	UK	1,987	1.2
Fiat Chrysler Automobiles	4.5% 15 Apr 2020	Ba3/BB+	Consumer Goods	Netherlands	1,962	1.2
Drax Finco	4.25% 01 May 2022 (SNR)	NR/BB+	Utilities	UK	1,961	1.2
Citigroup Capital	6.829% FRN Perpetual	Ba1/BB+	Financials	USA	1,923	1.1
Ocado	4% 15 Jun 2024 (SNR)	Ba3/NR	Consumer Services	UK	1,836	1.1
Electricite De France	6% Perpetual	Baa3/BB	Utilities	France	1,259	0.8
	5.875% Perpetual	Baa3/BB			561	0.3
					1,820	1.1
Société Générale	7.375% 31 Dec 2065	Ba2/BB+	Financials	France	1,788	1.1
UniCredit International Bank	8.125% FRN Perpetual	B1/BB–	Financials	Luxembourg	932	0.5
	8% FRN Perpetual	NR/NR		Italy	838	0.5
					1,770	1.0
TVL Finance	8.5% 15 May 2023 (SNR)	B3/B–	Consumer Services	UK	977	0.6
	FRN 15 May 2023 (SNR)	B3/B–			731	0.4
					1,708	1.0
Marb Bondco	6.875% 19 Jan 2025 (SNR)	NR/BB–	Financials	UK	1,694	1.0
Pinnacle Bidco	6.375% 15 Feb 2025 (SNR)	B3/B	Financials	UK	1,685	1.0
Coty	4.75% 15 Apr 2026 (SNR)	B3/BB–	Consumer Goods	USA	1,677	1.0
Petra Diamonds	7.25% 01 May 2022 (SNR)	B3/B	Basic Materials	UK	1,658	1.0
BNP Paribas	Cnv FRN Perpetual	Ba2/BB+	Financials	Belgium	1,010	0.6
	7.375% Var Perpetual	Ba1/BBB–		France	602	0.4
					1,612	1.0
CIRSA Finance	6.25% 20 Dec 2023 (SNR)	B2/B+	Financials	Luxembourg	851	0.5
	7.875% 20 Dec 2023 (SNR)	B2/B+			751	0.4
					1,602	0.9
Arqiva Broadcast Finance	6.75% 30 Sep 2023	B2/NR	Telecommunications	UK	1,561	0.9
HSBC	4.25% 14 Mar 2024	A3/BBB+	Financials	UK	496	0.3
	5.25% 14 Mar 2044	A3/BBB+			472	0.3
	6% FRN Perpetual	Baa3/NR			360	0.2
	6.375% Cnv Perpetual	Baa3/NR			191	0.1
					1,519	0.9
Vodafone Group	4.875% 03 Oct 2078	Baa3/BBB–	Telecommunications	UK	758	0.5
	6.25% 03 Oct 2078	Baa3/BBB–			728	0.4
					1,486	0.9
Softbank	5.125% 19 Sep 2027 (SNR)	Ba1/BB+	Telecommunications	Japan	1,394	0.8
Ecclesiastical Insurance Office	8.625% Preference	NR/NR	Financials	UK	1,360	0.8
Telefonica Europe	5.875% Perpetual	Ba2/BB+	Telecommunications	Netherlands	1,336	0.8
UBS	7% Perpetual	NR/BB+	Financials	Switzerland	685	0.4
	6.875% FRN Perpetual	NR/BB			651	0.4
					1,336	0.8
Pizza Express	6.625% 01 Aug 2021	B3/CCC+	Consumer Services	UK	808	0.5
	8.625% 01 Aug 2022	Caa2/CCC–			513	0.3
					1,321	0.8
Maxeda DIY	6.125% 15 Jul 2022 (SNR)	B2/B–	Consumer Services	Netherlands	1,309	0.8
Iron Mountain	3.875% 15 Nov 2025	Ba3/BB–	Financials	UK	1,302	0.8
Jewel UK Bondco	8.5% 15 Apr 2023 (SNR)	B2/B–	Consumer Services	UK	1,287	0.8
SCOR	5.25% 13 Mar 2067	Baa1u/A–	Financials	France	1,278	0.8
Danske Bank	7% 26 Jun 2049	NR/BB+	Financials	Denmark	1,229	0.7
Burger King France	8% 15 Dec 2022 (SNR)	NR/CCC	Consumer Services	France	743	0.4
	FRN 01 May 2023	B3/B–			465	0.3
					1,208	0.7

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Platin 1426	5.375% 15 Jun 2023 (SNR)	B3/B	Industrials	Germany	1,190	0.7
Orange	5.875% Perpetual	Baa3/BBB–	Telecommunications	France	1,175	0.7
Wind Tre Spa	5% 20 Jan 2026 (SNR)	B1/BB–	Telecommunications	Italy	1,159	0.7
Hertz	7.625% 01 Jun 2022	B1/B+	Consumer Services	USA	1,148	0.7
JRP Group	9% 26 Oct 2026	NR/NR	Financials	UK	1,142	0.7
Bombardier	6% 15 Oct 2022	Caa1/B–	Industrials	Canada	883	0.5
	7.5% 15 Mar 2025	Caa1/B–			259	0.2
					1,142	0.7
Vougeot Bidco	7.875% 15 Jul 2020	B3/B	Consumer Services	UK	1,140	0.7
OneSavings Bank	9.125% FRN Perpetual	NR/NR	Financials	UK	1,130	0.7
Chemours	6.625% 15 May 2023 (SNR)	Ba3/BB–	Basic Materials	USA	1,024	0.6
	7% 15 May 2025	Ba3/BB–			95	0.1
					1,119	0.7
Beazley	5.875% 04 Nov 2026	NR/NR	Financials	Ireland	1,084	0.6
Time Warner Cable	5.25% 15 Jul 2042	Ba1/BBB–	Consumer Services	USA	1,076	0.6
Aker BP	5.875% 31 Mar 2025 (SNR)	Ba2/BB+	Oil and Gas	Norway	586	0.3
	6% 01 Jul 2022 (SNR)	Ba2/BB+			486	0.3
					1,072	0.6
Codere Finance 2 (Luxembourg)	7.625% 01 Nov 2021	B2/B	Consumer Services	Luxembourg	1,058	0.6
Direct Line Insurance	9.25% FRN 27 Apr 2042	Baa1/BBB+	Financials	UK	1,055	0.6
CGG	Common stock	NR/NR	Oil and Gas	France	539	0.3
	FRN 21 Feb 2024	Caa1/NR			513	0.3
					1,052	0.6
Southern Water (Greensands)	8.5% 15 Apr 2019	NR/B+	Utilities	UK	1,014	0.6
Solvay Finance	5.869% Var Perpetual	Ba1/BB+	Basic Materials	France	989	0.6
Jaguar Land Rover	5% 15 Feb 2022	Ba3/BB–	Consumer Goods	UK	551	0.3
	3.875% 01 Mar 2023	Ba3/BB–			424	0.3
					975	0.6
Travis Perkins	4.5% 07 Sep 2023 (SNR)	NR/BB+	Industrials	UK	974	0.6
Credit Agricole	7.5% Var Perpetual	NR/NR	Financials	France	953	0.6
Deutsche Bank	7.125% Perpetual	B1/B+	Financials	Germany	952	0.6
Yew Grove REIT		NR/NR	Financials	Ireland	898	0.5
Cott	5.5% 1 Apr 2025	B1/B	Consumer Goods	USA	869	0.5
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+	Financials	UK	864	0.5
Ziggo Bond Finance	5.875% 15 Jan 2025	B3/B	Telecommunications	Netherlands	849	0.5
Lamb Weston	4.625% 01 Nov 2024	Ba2/BB	Consumer Goods	USA	840	0.5
J. C. Penney	8.625% 15 Mar 2025 (SNR)	Caa1/CCC+	Consumer Services	USA	523	0.3
	6.375% 15 Oct 2036 (SNR)	Caa2/CCC+			309	0.2
					832	0.5
Sigma Holdco	7.875% 15 May 2026 (SNR)	B3/B–	Consumer Goods	Netherlands	821	0.5
Argentina (Rep Of)	6.875% 11 Jan 2048 (SNR)	B2/B	Financials	Argentina	811	0.5
Trinseo	5.375% 01 Sep 2025 (SNR)	B2/BB–	Basic Materials	Luxembourg	808	0.5
FAGE International	5.625% 15 Aug 2026 (SNR)	B1/BB–	Consumer Goods	Luxembourg	804	0.5
Phoenix Life	7.25% Perpetual	WR/NR	Financials	UK	801	0.5
Diamond 1	5.45% 15 Jun 2023	Baa3/BBB–	Technology	USA	788	0.5
Sainsbury's Bank	6% FRN 23 Nov 2027	NR/NR	Consumer Services	UK	782	0.5
AXA	6.379% FRN Perpetual	Baa1/BBB	Financials	France	772	0.4
VIVAT	6.25% Perpetual	NR/NR	Financials	Netherlands	755	0.4
Teva Pharmaceutical Finance III	6.75% 01 Mar 2028	Ba2/BB	Financials	Netherlands	731	0.4
Puma International	5% 24 Jan 2026	Ba2/NR	Oil and Gas	Luxembourg	535	0.3
	5.125% 06 Oct 2024 (SNR)	Ba2/NR			188	0.1
					723	0.4
Takko	FRN 15 Nov 2023 (SNR)	B2/B–	Consumer Goods	Luxembourg	713	0.4
Peel Land & Property Investments	8.375% Var 30 Apr 2040	NR/BBB	Financials	UK	710	0.4
Miller Homes	FRN 15 Oct 2023 (SNR)	NR/BB–	Consumer Goods	UK	508	0.3
	5.5% 15 Oct 2023 (SNR)	NR/BB–			172	0.1
					680	0.4

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
JBS Investments	7.0% 15 Jan 2026	Ba3/BB–	Consumer Goods	Austria	653	0.4
Avantor	4.75% 01 Oct 2024 (SNR)	B2/B	Health Care	USA	641	0.4
Brink's	4.625% 15 Oct 2027	Ba2/BB	Industrials	USA	613	0.4
XPO Logistics	6.5% 15 Jun 2022 (SNR)	Ba3/BB	Industrials	USA	559	0.3
Constellium	5.75% 15 May 2024	B2/B–	Basic Materials	Netherlands	360	0.2
	5.875% 15 Feb 2026	B2/B–			174	0.1
					534	0.3
AMC Entertainment	6.375% 15 Nov 2024 (SUB NTS)	B3/B–	Consumer Services	USA	530	0.3
Commerzbank	8.125% 19 Sep 2023	Baa3/BBB–	Financials	Germany	515	0.3
Principality Building Society	7% Perpetual	Ba2/NR	Financials	UK	503	0.3
Rothschilds Continuation Finance	FRN Perpetual	NR/NR	Financials	Netherlands	472	0.3
J Sainsbury	6.5% Var Perpetual	NR/NR	Consumer Services	UK	428	0.3
Almaviva The Italian Innovation Company	7.25% 15 Oct 2022	B2/B+	Technology	Italy	402	0.2
Nationale-Nederlanden	4.625% 08 Apr 2044	Baa2u/BBB–	Financials	Netherlands	396	0.2
Standard Life Aberdeen	5.5% 04 Dec 2042	Baa1/BBB	Financials	UK	383	0.2
PGH Capital	5.375% 06 Jul 2027	NR/NR	Financials	Cayman Islands	369	0.2
CBR Fashion Finance	5.125% 01 Oct 2022 (SNR)	B2/B	Consumer Services	Netherlands	367	0.2
Caixabank	6.75% FRN Perpetual	Ba3u/BB	Financials	Spain	363	0.2
CEMEX SAB	6.125% 05 May 2025	NR/BB	Industrials	Mexico	352	0.2
Odyssey Europe	8% 15 May 2023 (SNR)	B2/B	Consumer Services	UK	346	0.2
Sunshine Mid	6.5% 15 May 2026 (SNR)	Caa1/B–	Consumer Goods	Netherlands	305	0.2
Tesco	6.15% 15 Nov 2037 (SNR)	Ba1/BB+	Consumer Services	UK	188	0.1
	5.2% 05 Mar 2057	Ba1/BB+			114	0.1
					302	0.2
CCO Holdings Capital	5% 01 Feb 2028	B1/BB	Consumer Services	USA	302	0.2
Rothesay Life	8% 30 Oct 2025	NR/NR	Financials	UK	283	0.2
Millicom International Cellular	5.125% 15 Jan 2028	Ba2/NR	Telecommunications	Luxembourg	265	0.2
Whitbread	3.375% 16 Oct 2025 (SNR)	NR/NR	Consumer Services	UK	254	0.1
ASR Nederland	4.625% Cnv FRN Perpetual	NR/BB	Financials	Netherlands	206	0.1
Nyrstar Netherland	6.875% 15 Mar 2024	Caa2/CCC–	Basic Materials	Netherlands	168	0.1
CIS General Insurance	12% FRN 08 May 2025	NR/NR	Industrials	UK	111	0.1
Transportadora de Gas del Sur	6.75% 02 May 2025 (SNR)	B1/B	Utilities	Argentina	107	0.1
Charter Communications Operating	6.484% 23 Oct 2045	Ba1/BBB–	Telecommunications	USA	100	0.1
La Financière ATALIAN	4% 15 May 2024 (SNR)	B3/B	Financials	France	80	0.0
M&G Finance	7.5% FRN Perpetual (SUB NTS)	NR/NR	Financials	Luxembourg	19	0.0
					168,188	100.0

Abbreviations used in the above valuation:

- Cnv: Convertible
- FRN: Floating Rate Note
- SNR: Senior
- Var: Variable
- SUB NTS: Subordinated Notes

GOVERNANCE

The Directors

Tim Scholefield (Chairman)
Joined the Board on 15 June 2017, and became Chairman on the same date. He was Head of Equities at Baring Asset Management until 2014. He now holds a portfolio of non-executive directorships including BMO Capital and Income Investment Trust PLC, Fidelity Asian Values Plc and Standard Life UK Smaller Companies Plc and is an external member of the General Medical Council's Investment Committee.

John Boothman
Joined the Board on 19 December 2011 and is Chairman of the Nomination and Remuneration 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.

Philip Austin MBE
Joined the Board on 19 December 2011 and is Chairman of the Management Engagement Committee. 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.

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.

Winifred Robbins, not listed above, was also a Director during the year to 31 December 2018. She retired from the Board with effect from 31 March 2019.

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: Tim Scholefield

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 and Remuneration 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.
– to set the remuneration policy of the Company.

Management Engagement Committee

All NEDs

Chairman Philip Austin

Key objectives:

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

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 2016 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 intends to comply with the 2019 AIC Code for the financial year ending 31 December 2019.

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 23, and on pages 29 and 30 in respect of the Audit Committee.

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

The contractual arrangements with, and assessment of, the Manager are summarised on page 15.

The Company's capital structure and voting rights are summarised on page 57.

The most substantial shareholders in the Company are listed on page 15.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 26. 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 comprised five Directors during the financial year, all of whom were non-executive. Since the year end, Winifred Robbins retired from the Board on 31 March 2019. 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 23.

Chairman

The Chairman of the Board is Tim Scholefield. Mr Scholefield was appointed to the Board and became the Chairman following the retirement of Clive Nicholson at the conclusion of the 2017 AGM.

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 treat shareholders fairly.

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.

In fulfilling these duties, and in accordance with the Company's nature as an investment company with no employees and no customers in the traditional sense, the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager and Secretary at the Board meeting and reviews its relationships with other service providers at least annually.

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 appropriate 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. The Board has a zero tolerance approach towards the facilitation of tax evasion.

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.invesco.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, the Nomination and Remuneration Committee and the Management Engagement Committee.

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.

During the year the Board took the decision that the Management Engagement Committee function of the Board would become a standalone committee comprising the full Board and chaired by Philip Austin. The Board also agreed that the Nomination and Remuneration Committee functions would be combined into one committee under the chairmanship of John Boothman. The composition and activities of both these committees are detailed on page 23.

The Company Secretary (the 'Secretary')

The Board has direct access to the advice and services of the 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 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 Secretary is responsible for advising the Board through the Chairman on all governance matters.

Management Engagement Committee

The Management Engagement Committee, chaired by Philip Austin, comprises the full board. It's main responsibilities are to review the Company's 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 15 under 'Assessment of the Manager'. The Committee is also responsible for the review of arrangements with other TPPs. The Committee has adopted appropriate terms of reference in respect of its responsibilities which are available at the registered office of the Company and on the Company's section of the Manager's website at *www.invesco.co.uk/citymerchants*.

Nomination and Remuneration Committee

All Directors are members of the Nomination and Remuneration Committee and John Boothman is the Chairman. The main responsibilities of the Committee are to review the size, structure and skills of the Board, to make recommendations with regard to any changes considered necessary or new appointments, and to plan for the Board's succession. The Committee is also responsible for 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 Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. The terms of reference 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 Board's policy on diversity is to seek 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. This policy, together with the tenure principles set out in the next section, guides the Committee.

During the year the Committee met once in pursuit of its plan to ensure refreshment of the Board in a phased and orderly manner. An independent search consultant, Fletcher Jones, has been engaged to initiate the recruitment process for a suitable replacement for Winifred Robbins during 2019.

The Committee is mindful of the Davies and Hampton-Alexander reviews of board gender diversity and is committed to giving due consideration to the Board's gender balance in connection with its refreshment programme.

Appointment, Re-election and Tenure of Directors

New Directors are appointed by the Board, following recommendation by the Nomination and Remuneration 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 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.invesco.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 2016 AIC Code. In this case, a Director serving longer than nine years will seek re-election annually. The Board has 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. As detailed in the Chairman's Statement, Winifred retired from the Board on 31 March 2019.

The Directors will seek annual re-election from 2019 in compliance with the 2019 AIC Code.

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 29 and 30.

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 facilitated by an external agency.

During the year the Board engaged the services of Lintstock Limited, an independent board evaluation specialist, to carry out an appraisal of the Board, the Chairman and the Manager. The results of this review confirmed that the Board and committees of the Board are effective, as are the individual Directors, and that the current directors provide a good range of experience and backgrounds and are independent of the Manager and Company Secretary. Accordingly, the Board recommends to shareholders the approval of AGM resolutions 5 to 8 relating to the re-election of the Directors.

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 AND REMUNERATION COMMITTEE MEETINGS
NUMBER OF MEETINGS	4	2	1
Tim Scholefield (Chairman of the Board)	4	2	1
Philip Austin (Chairman of the Management Engagement Committee)	4	2	1
John Boothman (Chairman of the Nomination and Remuneration Committee)	3	1	1
Winifred Robbins (retired 31 March 2019)	4	2	1
Philip Taylor (Chairman of the Audit Committee)	4	2	1

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 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 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 which 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 approach to corporate governance and the UK Stewardship Code can be found on the Manager's website at *www.invesco.co.uk*, together with a copy of the Manager's Stewardship Policy and the Manager's global proxy voting policy.

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

3 April 2019

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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.invesco.co.uk/citymerchants. The Committee members consider that collectively they have substantial recent and relevant financial experience and competence relevant to the sector.

Audit Committee Responsibilities

The responsibilities of the Audit Committee include:

- evaluation of the effectiveness of the internal controls and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's and the 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.

Audit Committee Activities

The Committee met twice during the year. The Committee undertook a review of the Company's internal controls and risk management including the risk control summary used to identify the Company's top risks. The result of this work is reflected in the Internal Controls and Risk Management and Principal Risks and Uncertainties sections on pages 12 and 13. Particular attention was also given to reviewing controls and policies with respect to cyber security.

Other activities undertaken by the Committee follow:

The audit programme and timetable were drawn up and agreed with the auditor in advance of the financial year end. 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 annual financial report. 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.

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018
continued

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 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 2018 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 (PwC) was selected to be the Company's external auditor following a competitive tender exercise in 2016 and this is the third audit undertaken by PwC. 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 PwC 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, which the Committee regularly meets with and receives reports from, the Company does not have its own internal audit function.

Philip Taylor
Chairman of the Audit Committee

3 April 2019

REPORT ON DIRECTORS' REMUNERATION AND INTERESTS

Remuneration Responsibilities

During the year the Board resolved that its Remuneration Committee function be combined with the Nomination Committee to form a joint Nomination and Remuneration Committee. All Directors are members of the Committee chaired by John Boothman.

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 2018 and remain unchanged. These rates applied during the year ended 31 December 2018 and, together with the previous fee rates, are shown in the table below.

Directors' fees were reviewed by the Board, following a recommendation from the Nomination and Remuneration Committee. The Board and Committee took into consideration the increasing demands and accountability of the corporate governance and regulatory environment, and reviewed fees of comparable investment companies and externally published remuneration surveys. An external remuneration consultant was not used. The Board agreed with the Nomination and Remuneration Committee's recommendation that the Directors' fees remain unchanged for another year.

Chairman's Annual Statement on Directors' Remuneration

For the year to 31 December 2018, the Directors were paid the fee rates in the table below. No additional discretionary payments were made in the current year (2017: £1,000 was paid to John Boothman).

Annual Report on Directors' Remuneration

Directors' Remuneration for the Year

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

	2018 £	2017 £
Tim Scholefield - Chairman	33,000	16,859
Philip Taylor – Chairman of the Audit Committee	27,000	25,000
Philip Austin – Chairman of the Management Engagement Committee	23,000	21,000
John Boothman – Chairman of the Nomination and Remuneration Committee	23,000	22,000*
Winifred Robbins (retired 31 March 2019)	23,000	21,000
Clive Nicholson – Chairman (retired 15 June 2017)	—	19,492
Total	129,000	125,351

*Includes discretionary payment of £1,000.

Directors' Interests

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

	31 DECEMBER 2018	31 DECEMBER 2017
Tim Scholefield (Chairman)	14,700	5,000
Philip Austin	10,640	10,640
John Boothman	75,000	50,000
Winifred Robbins (retired 31 March 2019)	412,175	412,175
Philip Taylor	192,561	192,561

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year. 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 15) 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 23, 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.

Signed on behalf of the Board of Directors

Philip Taylor
Audit Committee Chairman

3 April 2019

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 Merchants High Yield Trust Limited (the "Company") as at 31 December 2018, 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 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 balance sheet as 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- 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 ethical requirements that are relevant to our audit of the financial statements of the Company, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall materiality was £1.7 million (2017: £1.8 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 ("the Administrator") 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.

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 (2017: £1.8 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 5% of overall materiality, being £85,000 (2017: 90,000) 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 judgement, 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 30 (Audit Committee Report), page 43 (Accounting Policies) and page 47 (Note 11 to the Financial Statements).* 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 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. The nature of the investment valuations is not complex as these are 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, this could have significant impact on the financial statements.	We tested 100% of the valuation of the investments by agreeing the prices used in the valuation to independent third party sources. We also tested a sample of the purchases and sales transactions during the year. A recalculation of the total unrealised gain or loss was performed. 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 (International) Limited. No material differences were identified by our testing which required reporting to those charged with governance.

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

continued

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Income recognition *Refer to page 30 (Audit Committee Report), page 44 (Accounting Policies) and page 44 (Note 4 to the Financial Statements).* Investment income comprises mainly interest received and dividends from investments. As income is received from various fixed and floating interest securities by way of interest receipts, with differing coupon rates and sometimes from securities purchased at amounts different to their nominal values, the recognition of income is complex. In addition dividends are received from certain 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 income recognition for compliance with accounting standards and performed testing to check that income had been accounted for in accordance with the stated accounting policy. For a sample of fixed and floating interest securities, we traced the rates of interest to independent sources and recalculated the interest income due from the investments. To test for completeness, we tested for a sample of investment holdings in the portfolio to ensure the interest earned had been properly recorded. In addition, we tested dividend receipts by agreeing the dividend rates for investments to independent third party sources. Our testing did not identify any material differences which required reporting to those charged with governance.

Other information

The Directors are responsible for the other information. The other information comprises all the information included in the Annual Financial Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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, the requirements of Jersey law and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 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 Directors' 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company and the wider economy.
- 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.

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

continued

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 33 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 ten 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

3 April 2019

Electronic Publication

The maintenance and integrity of the City Merchants High Yield Trust Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2018 REVENUE £'000	2018 CAPITAL £'000	2018 TOTAL £'000	2017 REVENUE £'000	2017 CAPITAL £'000	2017 TOTAL £'000
(Loss)/profit on investments held at fair value	11	—	(12,911)	(12,911)	—	4,586	4,586
Exchange differences		—	355	355	—	(156)	(156)
(Loss)/profit on derivative instruments – currency hedges		—	(3,395)	(3,395)	—	1,555	1,555
Income	4	11,247	—	11,247	10,766	—	10,766
Investment management fees	5	(875)	(470)	(1,345)	(895)	(481)	(1,376)
Other expenses	6	(436)	(1)	(437)	(441)	(3)	(444)
Profit/(loss) before finance costs and taxation		9,936	(16,422)	(6,486)	9,430	5,501	14,931
Finance costs	7	(28)	(15)	(43)	(29)	(16)	(45)
Profit/(loss) before taxation		9,908	(16,437)	(6,529)	9,401	5,485	14,886
Taxation	8	—	—	—	(16)	—	(16)
Profit/(loss) after taxation		9,908	(16,437)	(6,529)	9,385	5,485	14,870
Return per ordinary share	9	10.3p	(17.1p)	(6.8p)	10.0p	5.9p	15.9p

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The profit after taxation is the total comprehensive income. The supplementary revenue and capital columns are both prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations of the Company. No operations were acquired or discontinued in the 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 2016		148,609	22,174	3,410	174,193
Net proceeds from issue of new shares	15	6,912	—	—	6,912
Total comprehensive income for the year		—	5,485	9,385	14,870
Dividends paid	10	(63)	—	(9,278)	(9,341)
At 31 December 2017		155,458	27,659	3,517	186,634
Net proceeds from issue of new shares	15	2,993	—	—	2,993
Total comprehensive income for the year		—	(16,437)	9,908	(6,529)
Dividends paid	10	(23)	—	(9,586)	(9,609)
At 31 December 2018		158,428	11,222	3,839	173,489

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

BALANCE SHEET
AT 31 DECEMBER

	NOTES	2018 £'000	2017 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	168,188	175,009
Current assets			
Other receivables	12	3,128	2,834
Derivative financial instruments – unrealised net profit	13	—	450
Cash and cash equivalents		4,181	8,792
		7,309	12,076
Current liabilities			
Other payables	14	(427)	(451)
Derivative financial instruments – unrealised net loss	13	(1,581)	—
Net current assets		5,301	11,625
Net assets		173,489	186,634
Capital and reserves			
Stated capital	15	158,428	155,458
Capital reserve	16	11,222	27,659
Revenue reserve	16	3,839	3,517
Shareholders' funds		173,489	186,634
Net asset value per ordinary share	17	178.69p	195.40p

These financial statements were approved and authorised for issue by the Board of Directors on 3 April 2019.

Signed on behalf of the Board of Directors

Philip Taylor
Audit Committee Chairman

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	2018 £'000	2017 £'000
Cash flow from operating activities		
(Loss)/profit before finance cost and taxation	(6,486)	14,931
Tax on overseas income	—	(16)
Adjustment for:		
Purchases of investments	(57,228)	(67,177)
Sales of investments	51,102	52,472
	(6,126)	(14,705)
Loss/(profit) on investments at fair value	12,911	(4,586)
Net cash movement from derivative instruments – currency hedges	2,031	801
(Increase)/decrease in receivables	(258)	222
(Decrease)/increase in payables	(24)	26
Net cash flow from operating activities after taxation	2,048	(3,327)
Cash flow from financing activities		
Finance cost paid	(43)	(45)
Net proceeds from issue of shares	2,993	6,912
Net equity dividends paid – note 10	(9,609)	(9,341)
Net cash outflow from financing activities	(6,659)	(2,474)
Net decrease in cash and cash equivalents	(4,611)	(5,801)
Cash and cash equivalents at beginning of the year	8,792	14,593
Cash and cash equivalents at end of the year	4,181	8,792
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:		
Cash held at custodian	1,614	1,542
Short-Term Investment Company (Global Series) plc, money market fund	2,567	7,250
Cash and cash equivalents	4,181	8,792
Cash flows from operating activities includes:		
Dividends received	521	473
Interest received	10,465	10,494

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

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', updated by the Association of Investment Companies in February 2018, is consistent with the requirements of IFRS, the Directors have prepared the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with the SORP.

(ii) *Going Concern*

As explained under 'Annual Continuation Vote' on page 15, 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. The Directors also determined that the financial statements should be prepared on a going concern basis as reported on page 33. 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.

The following standards became effective during the year:

- IFRS 9: Financial Instruments (effective 1 January 2018).
- IFRS 15: Revenue from contracts with customers (effective 1 January 2018).

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

(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. There have been no significant judgements, estimates or assumptions for the current or preceding year, except for the allocation of management fee and finance costs (see note 2(g)).

(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.

NOTES TO THE FINANCIAL STATEMENTS
continued

2. Principal Accounting Policies (continued)

(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.

	2018 £'000	2017 £'000
Income from investments		
UK dividends	447	447
UK investment income – interest	5,099	4,099
Overseas investment income – interest	5,667	6,191
Overseas dividends	29	27
	11,242	10,764
Other income		
Deposit interest	5	2
Total income	11,247	10,766

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.

	2018			2017		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	875	470	1,345	895	481	1,376

Details of the investment management agreement are disclosed in the Strategic Report on page 14. At the period end the management fee accrued was £325,000 (2017: £350,000).

6. Other Expenses

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

	2018			2017		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
General expenses (i)	277	1	278	287	3	290
Directors' fees (ii)	129	—	129	125	—	125
Auditor's remuneration:						
– for the audit of the financial statements (including any expenses)	30	—	30	29	—	29
	436	1	437	441	3	444

(i) General expenses include £41,000 (2017: £40,000) 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 the Manager of £26,000 (2017: £25,000). It is based on an initial fee of £22,500 plus RPI increases in May of each year.

Custodian dealing costs of £942 (2017: £2,516) are charged wholly to capital.

(ii) The maximum Directors' fees authorised by the Articles of Association are £150,000 per annum. The Directors' Remuneration Report provides further information on Directors' fees.

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.

	2018			2017		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Commitment fees due on loan facility	26	14	40	26	14	40
Bank charges	2	1	3	3	2	5
	28	15	43	29	16	45

The Company has a 364 day committed £20 million multi-currency revolving credit facility with Bank of New York Mellon with a maturity date of 4 May 2019. 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 (2017: none).

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

In addition, the Company has repo financing arrangements in place, which were not used during the year or the previous year.

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 result in a revenue tax, the only overseas tax arises on assets domiciled in countries with which Jersey has no double-taxation treaty.

	2018 £'000	2017 £'000
Overseas taxation	—	16

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

9. Return per Ordinary Share

Return per ordinary 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 96,209,286 (2017: 93,655,436) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

10. Dividends on Ordinary Shares

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

	2018		2017	
	PENCE	£'000	PENCE	£'000
Dividends paid and recognised in the year:				
Fourth interim	2.5	2,388	2.5	2,300
First interim	2.5	2,388	2.5	2,312
Second interim	2.5	2,414	2.5	2,362
Third interim	2.5	2,419	2.5	2,367
	10.0	9,609	10.0	9,341

Dividends paid in the year have been charged to revenue except for £23,000 (2017: £63,000) 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 years ended 31 December:

	2018		2017	
	PENCE	£'000	PENCE	£'000
Dividends in respect of the year:				
First interim	2.5	2,388	2.5	2,312
Second interim	2.5	2,414	2.5	2,362
Third interim	2.5	2,419	2.5	2,367
Fourth interim	2.5	2,427	2.5	2,388
	10.0	9,648	10.0	9,429

The fourth interim dividend for 2018 was paid on 25 February 2019 to shareholders on the register on 25 January 2019.

11. Investments Held at Fair Value Through Profit and 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

	2018 £'000	2017 £'000
Opening book cost	159,830	141,041
Opening investment holding profits	15,179	14,677
Opening valuation	175,009	155,718
Movements in the year:		
Purchases at cost	57,228	67,177
Sales – proceeds	(51,138)	(52,472)
– net realised profit	434	4,013
Movement in investment holding profit	(13,345)	573
Closing valuation	168,188	175,009
Closing book cost	166,354	159,830
Closing investment holding profit	1,834	15,179
Closing valuation	168,188	175,009
Realised profit in the year	434	4,084
Movement in investment holding profit in the year	(13,345)	502
Total (loss)/profit in the year	(12,911)	4,586

(b) Transaction costs

The Transaction costs on investments amount to £nil on sales and £nil on purchases (2017: £1,000 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.

	2018 £'000	2017 £'000
Prepayments and accrued income	3,092	2,834
Amount due from the liquidation of CMHYT plc (predecessor vehicle)	36	—
	3,128	2,834

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.

	2018 £'000	2017 £'000
Forward currency contracts – net unrealised (loss)/profit	(1,581)	450
	(1,581)	450

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.

	2018 £'000	2017 £'000
Accruals	427	451
	427	451

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.

	2018 NUMBER	2017 NUMBER	2018 £'000	2017 £'000
Allotted ordinary shares of no par value				
Brought forward	95,516,204	92,011,204	155,458	148,609
Net issue proceeds	1,575,000	3,505,000	2,993	6,912
Dividends paid from stated capital	—	—	(23)	(63)
	97,091,204	95,516,204	158,428	155,458

Details of the stated capital and rights attaching to the Company's ordinary shares are shown in the Director's Report on page 57.

For the year to 31 December 2018 1,575,000 (2017: 3,505,000) 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 £3,010,000 (2017: £6,946,000), at an average price of 191.09p (2017: 198.19p), and the net proceeds after issue costs were £2,993,000 (2017: £6,912,000). The net proceeds included an aggregate amount of £23,000 (2017: £63,000) 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 550,000 ordinary shares were issued at an average price of 184.74p.

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 of disposals of investments. The revenue reserve shows the net revenue after payment of any dividend from the 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 year end were as follows:

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2018 PENCE	2017 PENCE	2018 £'000	2017 £'000
Ordinary shares	178.69	195.40	173,489	186,634

Net asset value per ordinary share is based on net assets at the year end and on 97,091,204 (2017: 95,516,204) 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 management risk on page 12 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.

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.

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 security fundamentals give the portfolio managers the best possible understanding of the risks associated with a particular security. 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 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 is reviewed by Directors at each Board meeting. The Company may use forward currency contracts to mitigate currency risk. Drawings in foreign currencies on the borrowing facility can also 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. All facility drawings and derivative contracts are limited to currencies and amounts commensurate with asset exposure to those currencies.

18. Financial Instruments (continued)

18.1.1 Currency Risk (continued)

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 2018	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	22,947	57,587
Cash and cash equivalents	635	587
Other receivables (due from brokers and dividends)	389	986
Forward currency contracts	(23,225)	(47,554)
Foreign currency exposure on net monetary items	746	11,606
Investments at fair value through profit or loss that are equities	1,437	—
Total net foreign currency	2,183	11,606

31 DECEMBER 2017	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	30,086	48,459
Cash and cash equivalents	107	914
Other receivables (due from brokers and dividends)	422	685
Forward currency contracts	(25,792)	(34,970)
Foreign currency exposure on net monetary items	4,823	15,088
Investments at fair value through profit or loss that are equities	—	74
Total net foreign currency	4,823	15,162

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

Currency Sensitivity

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

	2018	2017
£/Euro	±1.0%	±2.3%
£/US Dollar	±3.6%	±2.9%

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

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

2018	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue loss	(13)	(88)
Capital loss	(22)	(418)
Total return after taxation for the year	(35)	(506)
Effect on net asset value	0.0%	–0.3%

2017	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue loss	(41)	(58)
Capital loss	(111)	(440)
Total return after taxation for the year	(152)	(498)
Effect on net asset value	–0.1%	–0.3%

If sterling had weakened against the euro or dollar to this extent, the effect would have been the exact opposite.

In the opinion of the Directors, the above sensitivity analysis is not representative of the year 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 available repo financing arrangements and a credit facility it can use to finance investment activity, details of which are shown in note 7. The Company uses these 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.

18. Financial Instruments (continued)

18.1.2 Interest Rate Risk (continued)

2018	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	13,249	25,034	38,283
Cash and cash equivalents	4,181	—	4,181
	17,430	25,034	42,464
Exposure to fixed interest rates:			
Investments held at fair value through profit or loss	5,989	117,069	123,058
Net exposure to interest rates	23,419	142,103	165,522

2017	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	—	42,065	42,065
Cash and cash equivalents	8,792	—	8,792
	8,792	42,065	50,857
Exposure to fixed interest rates:			
Investments held at fair value through profit or loss	1,822	124,845	126,667
Net exposure to interest rates	10,614	166,910	177,524

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio list on pages 19 to 22. The weighted average effective interest rate on these investments is 6.5% (2017: 6.6%). The weighted average effective interest rate on cash and cash equivalents is 0.52% (2017: 0.21%).

Interest Rate Sensitivity

The following table illustrates the sensitivity of the profit or loss 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.

	2018 £'000	2017 £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue profit	42	88
Capital loss	(5,841)	(7,289)
Total loss after taxation for the year	(5,799)	(7,201)
Effect on NAV per ordinary share	(6.0)p	(7.5)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 year as a whole, since the level of exposure changes frequently as borrowings can be drawn down and repaid as required throughout the year.

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 closely 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 55.

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 £6,847,000 (2017: £6,277,000). 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 £685,000 (2017: £628,000). 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

Financial liabilities at the balance sheet date comprised of other payables of £427,000 (2017: £451,000), all of which were payable in less than three months.

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.

18. Financial Instruments (continued)

18.3 Credit Risk (continued)

At the year end 66.1% (2017: 64.9%) 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 82.2% (2017: 82.2%) 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

Almost 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 Baa3.

Details of the Company's investments, including their credit ratings, are shown on pages 18 to 22. 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 10% of the Company's net asset value. At the balance sheet date the Company had £1.6 million (2017: £1.5 million) held at the custodian and £2.57 million (2017: £7.25 million) held in STIC.

There are no financial assets that are past due or impaired during the year (2017: 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 2(c). 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.

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 or the previous year.

2018	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted securities:			
– Fixed interest securities[(1)]	—	159,386	159,386
– Convertibles	—	1,955	1,955
– Preference	2,855	—	2,855
– Convertible preference	2,555	—	2,555
– Equities	1,437	—	1,437
Total for financial assets	6,847	161,341	168,188
Financial liabilities designated at fair value through profit or loss:			
– Derivative financial instruments – forward currency contracts	—	(1,581)	(1,581)
Total for financial liabilities	—	(1,581)	(1,581)

2017	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted securities:			
– Fixed interest securities[(1)]	—	166,558	166,558
– Convertibles	—	2,174	2,174
– Preference	3,516	—	3,516
– Convertible preference	2,687	—	2,687
– Equities	74	—	74
– Derivative financial instruments – forward currency contracts	—	450	450
Total for financial assets	6,277	169,182	175,459

(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 7.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 12 and 13. 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 40, was £173,489,000 (2017: £186,634,000).

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 as adopted by the EU, 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 31 with additional disclosure in note 6. Full details of Directors' interests are set out in the Report on Directors' Remuneration and Interests on page 31. 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 Strategic 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 2018

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 24 to 28 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 31 and 32 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 2018, the Company's stated capital consisted of 97,091,204 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 48 (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.invesco.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 Home House, 20 Portman Square, London W1H 6LW, at 3.30 pm on 25 June 2019. The Notice of the AGM and related notes can be found on pages 65 to 67.

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 Tim Scholefield a Director of the Company. Mr Scholefield contributes to the Company's long-term sustainable success by drawing on his considerable experience of the investment management industry and asset markets. He has extensive experience of the management and operation of investment trusts, and his independence from the manager means that he is able to act as Chairman to lead the Board effectively.

Resolution 6 is to re-elect Mr Philip Taylor a Director of the Company. Mr Taylor has many years of experience as an audit partner in PwC, this together with his time as a Commissioner on the board of the Jersey Financial Services Commission and as a past Member of the Conduct Committee of the UK Financial Reporting Council, provides deep and relevant insight into effective corporate governance, internal control and auditing.

Resolution 7 is to re-elect Mr Philip Austin a Director of the Company. Following a career in banking with HSBC, Mr Austin has over 12 years' experience as a non-executive director across investment trusts and other listed entities, which provide him with a broad understanding of investment performance, market risk and current corporate governance requirements.

Resolution 8 is to re-elect Mr John Boothman a Director of the Company. Mr Boothman brings to bear relevant experience from running banking and treasury activities, including a book of debt securities, at Deutsche Bank International Limited. He has also been chairman of two successful businesses and served a term with the Jersey regulator, which has provided insights into corporate governance and risk oversight.

Resolution 9 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 10 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 2020.

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 11 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 2020. 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 12 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

3 April 2019

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.invesco.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 2018 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 62) 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 140% for gross and 99% for commitment (2017: 129% and 96% respectively). The limits the AIFM has set for the Company remain unchanged at 300% and 250%, respectively;
- the AIFM summary remuneration policy is available from the corporate policies section of the Manager's website (www.invesco.co.uk) and from the Company's company secretary, on request (see contact details on page 69); and
- the AIFM remuneration paid for the year to 31 December 2018 is set out below.

AIFM Remuneration

The AIFM remuneration paid is based on the financial year of the AIFM, which is 31 December 2018.

The aggregate total remuneration of Invesco staff involved in AIF related activities of the Manager in respect of performance year (1 January 2018 to 31 December 2018) is £6.54 million of which £3.84 million is fixed remuneration and £2.70 million is variable remuneration. The number of beneficiaries is 33.

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

The aggregate total remuneration paid to the Identified Staff of the Manager for AIF related activities for the performance year (1 January 2018 to 31 December 2018) is £1.34 million of which £0.31 million is paid to Senior Management and £1.03 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates (all delegates are employed by various entities of the Invesco Ltd. Group).

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

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measure (APM)

An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. APMs used in this annual financial report are defined in this glossary and identified with an asterisk "*". The calculations shown in the corresponding tables are for the years ended 31 December 2017 and 2018.

(Discount)/Premium*

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

	PAGE		2018	2017
Share price	2	a	175.00p	199.50p
Net asset value per share	40	b	178.69p	195.40p
(Discount)/Premium		c = (a - b) / b	–2.1%	2.1%

Gearing*

The gearing percentage reflects the amount of borrowings that a company has invested, with debt at market value. This figure indicates the extra amount by which net assets 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 a company is ungeared. A negative percentage indicates that a company is not fully invested.

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

Gross Gearing

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of net assets.

	PAGE		2018 £'000	2017 £'000
Bank facility or repo financing	—		—	—
Gross borrowings		a	—	—
Net asset value	40	b	173,489	186,634
Gross gearing		c = a / b	nil	nil

Net Gearing or Net Cash

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

	PAGE		2018 £'000	2017 £'000
Bank facility or repo financing	—		—	—
Less cash and cash equivalents	40		(4,181)	(8,792)
Net cash		a	4,181	8,792
Net asset value	40	b	173,489	186,634
Net cash		c = a / b	2.4%	4.7%

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES
continued

Total Assets

Total assets are arrived at by totalling the value of the Company's listed investments at bid-market prices, unlisted at directors' valuation, cash and other 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.

Ongoing Charges Ratio*

The annualised ongoing charges, including those charged to capital but excluding non-recurring costs, transaction costs of investments, finance costs, taxation, and the costs of buying back or issuing shares. Ongoing charges are those of a type that are likely to recur in the foreseeable future. The ongoing charges ratio is the annualised ongoing charges incurred by the Company, expressed as a percentage of the average undiluted net asset value (at market value) reported in the period.

	PAGE		2018 £'000	2017 £'000
Investment management fees	44		1,345	1,376
Other expenses	45		437	444
Less costs in relation to custodian dealing charges, legal advice and board succession			(8)	(34)
Total expenses		a	1,774	1,786
Average daily net asset value		b	180,832	181,620
Ongoing charges ratio		c = a / b	0.98%	0.98%

Return per ordinary share (pence)

The return per ordinary share is the return (a gain or a loss) generated in the financial year divided by the weighted number of shares. The return per ordinary share is explained in detail in note 9 to the financial statements.

Total Return

Total return is the theoretical return to shareholders that measures the combined effect of any dividends reinvested, together with the rise or fall in the NAV or share price.

Net Asset Value Total Return*

Total return on net asset value per share, on a bid value with debt at market value, assuming dividends paid by the Company were reinvested at the NAV per share at the time the shares were quoted ex-dividend.

Share Price Total Return*

Total return to shareholders, on a mid-market price basis, assuming all dividends received were re-invested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

2018	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 December 2018	2		178.69	175.00
As at 31 December 2017	2		195.40	199.50
Change in year		a	–8.6%	–12.3%
Impact of dividend reinvestment		b	5.0%	4.7%
Total return for the year		c = a + b	–3.6%	–7.6%

2017	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 December 2017	2		195.40	199.50
As at 31 December 2016			189.32	191.00
Change in year		a	3.2%	4.5%
Impact of dividend reinvestment		b	5.5%	5.4%
Total return for the year		c = a + b	8.7%	9.9%

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 3.30 pm on 25 June 2019 at Home House, 20 Portman Square, London W1H 6LW, for the following purposes:

Ordinary Business

1. To receive the annual financial report for the year ended 31 December 2018.
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 Tim Scholefield a Director of the Company.
6. To re-elect Mr Philip Taylor a Director of the Company.
7. To re-elect Mr Philip Austin a Director of the Company.
8. To re-elect Mr John Boothman a Director of the Company.

Special Business

To consider and if thought fit, to pass the following resolutions, of which resolution 9 will be proposed as an ordinary resolution and resolutions 10 to 12 will be proposed as special resolutions:

9. 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.
10. 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.
11. 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 14,636,416 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.
12. THAT, the period of notice required for general meetings of the Company (other than AGMs) shall not be less than 14 days.

Dated this 3 April 2019

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 Link Asset Services website www.signalshares.com; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 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 3 April 2019 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 97,641,204 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.invesco.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.invesco.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	www.invesco.co.uk/citymerchants
The Association of Investment Companies	www.theaic.co.uk

Financial Calendar

The Company publishes information according to the following calendar:

Announcements

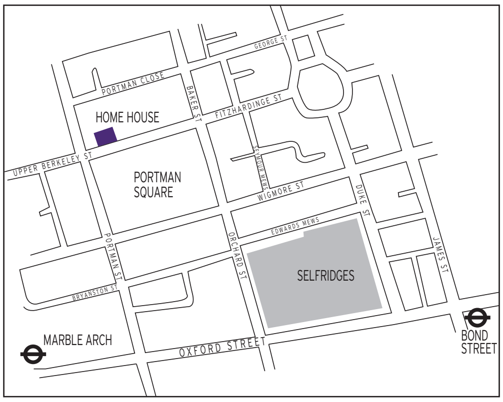
Annual financial report	March/April
Half-yearly unaudited financial report	August

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 3.30 pm on 25 June 2019 at Home House, 20 Portman Square, London W1H 6LW.



General Data Protection Regulation (GDPR)

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

ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

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.

Registrar

Link Market Services (Jersey) Limited
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 Link's website: www.signalshares.com

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

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

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

Dividend Re-Investment Plan

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

Independent Auditor

PricewaterhouseCoopers CI LLP
37 Esplanade
St Helier
Jersey JE1 4XA

Depositary, Custodian & Banker

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

Corporate Brokers

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

Invesco Client Services

Invesco has a Client Services team available from 8.30 am to 6.00 pm every working day. Please feel free to take advantage of their expertise by ringing:
☎ 0800 085 8677
Website: www.invesco.co.uk/investmenttrusts

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 is a business name of Invesco Fund Managers Limited.

Invesco is one of the largest independent global investment management firms, with assets under management in excess of $946 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.

** Funds under management as at 28 February 2019.*

SPECIALIST FUNDS MANAGED BY INVESCO

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

City Merchants High Yield Trust Limited

A Jersey incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments. The Company may use repo financing or 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 above the rate of inflation. The Company may use bank borrowings.

Invesco Enhanced Income Limited

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

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio

Aims to 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 primarily in UK quoted equities. The portfolio may use bank borrowings.

Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company 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 market. 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 Allocation Portfolio

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

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

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

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

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

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

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