# Invesco Leveraged High Yield Fund Limited

**Annual Financial Report**

**Year ended 30 September 2012**

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

☎ 0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

## Contents



## Investment Policy

The principal objective of the Company is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and Government bonds. The Company may also invest in equities and other instruments that Invesco Asset Management Limited (the 'Manager') considers appropriate.

The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The Company generally employs leverage in Its Investment Policy. Full details of the Company's Investment Policy can be found on pages 15 and 16.

## Share Capital

As at 30 September 2012, the issued share capital consisted of 111,292,526 ordinary shares of 5p each. During the year 100,000 shares were bought back and cancelled.

## Dividend Re-investment Plan

Capita Registrars manage a Dividend Re-investment Plan for the Company. Shareholders wishing to re-invest their dividends should contact Capita Registrars whose contact details can be found on page 13.

## ISA Eligibility

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

## Repo Financing

The Company participates in sale and repurchase (repo financing) arrangements in connection with its portfolio. Under these arrangements, the Company sells fixed interest securities and is contractually obliged to repurchase them at a fixed price on a fixed date.

## Glossary of Terms

There is a glossary of terms on pages 56 and 57 which defines some of the more technical terms used in the annual financial report.

# FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

## Performance Statistics

Terms marked † are defined in the Glossary of Terms on page 56.

| Balance sheet at 30 September | 2012 | 2011 | % CHANGE |
|---|---|---|---|
| Shareholders' funds (£'000) | 72,391 | 60,476 | +19.7 |
| Net asset value† per ordinary share | 65.1p | 54.3p | +19.9 |
| Mid-market price per ordinary share | 59.9p | 50.0p | +19.8 |
| Discount† per ordinary share | 8.0% | 7.9% | |
| Gross gearing† | 38% | 68% | |
| Net gearing† | 29% | 54% | |

| Total Return | YEAR ENDED 30 SEPTEMBER 2012 | YEAR ENDED 30 SEPTEMBER 2011 |
|---|---|---|
| 3 month LIBOR rate | 0.6% | 1.0% |
| Net asset value† | 29.1% | –8.1% |
| Share price *(Source: Thomson Reuters Datastream)* | 31.6% | –11.7% |
| **Revenue** | | |
| Gross income (£'000) | 6,879 | 7,203 |
| Net revenue available for ordinary shares (£'000) | 5,988 | 6,283 |
| Dividends per ordinary share: | | |
| – First interim | 1.25p | 1.25p |
| – Second interim | 1.25p | 1.25p |
| – Third interim | 1.25p | 1.25p |
| – Fourth interim | 1.25p | 1.25p |
| – Total | 5.00p | 5.00p |
| **Ongoing Charges†** | | |
| – ongoing charges | 1.49% | 1.37% |
| – performance fee | 0.00% | 0.00% |
| **Return per Ordinary Share** | | |
| Revenue return | 5.4p | 5.6p |
| Capital return | 10.4p | (10.9)p |
| Total return | 15.8p | (5.3)p |

## Ten Year Historical Record

| TO 30 SEPTEMBER (*LAUNCHED ON 15 OCTOBER 1999*) | GROSS INCOME £'000 | NET REVENUE AVAILABLE FOR ORDINARY SHARES £'000 | DIVIDENDS ON ORDINARY SHARES COST £'000 | RATE[2] p | TOTAL ASSETS LESS CURRENT LIABILITIES[1] £'000 | ORDINARY SHARES NET ASSET VALUE[2] p | MID-MARKET PRICE[2] p |
|---|---|---|---|---|---|---|---|
| 2003 | 6,216 | 3,927 | 1,594 | 10.00 | 63,200 | 107.5 | 85.0 |
| 2004 | 4,478 | 2,786 | 1,594 | 10.00 | 35,447 | 102.0 | 107.5 |
| 2005 | 2,948 | 2,196 | 2,000 | 10.00 | 43,301[3] | 105.2[3] | 108.0 |
| 2006 | 4,290 | 3,311 | 2,248 | 10.00 | 85,628 | 105.0 | 109.8 |
| 2007 | 8,222 | 6,475 | 4,985 | 10.00 | 146,475 | 101.7 | 102.5 |
| 2008 | 12,859 | 10,222 | 6,255 | 7.50 | 135,171 | 62.1 | 65.3 |
| 2009 | 7,378 | 6,406 | 5,570 | 5.00 | 88,598 | 56.6 | 55.0 |
| 2010 | 7,613 | 6,695 | 5,570 | 5.00 | 102,688 | 65.9 | 62.8 |
| 2011 | 7,203 | 6,283 | 5,570 | 5.00[4] | 101,701 | 54.3 | 50.0 |
| **2012** | **6,879** | **5,988** | **5,565** | **5.00** | **100,163** | **65.1** | **59.9** |

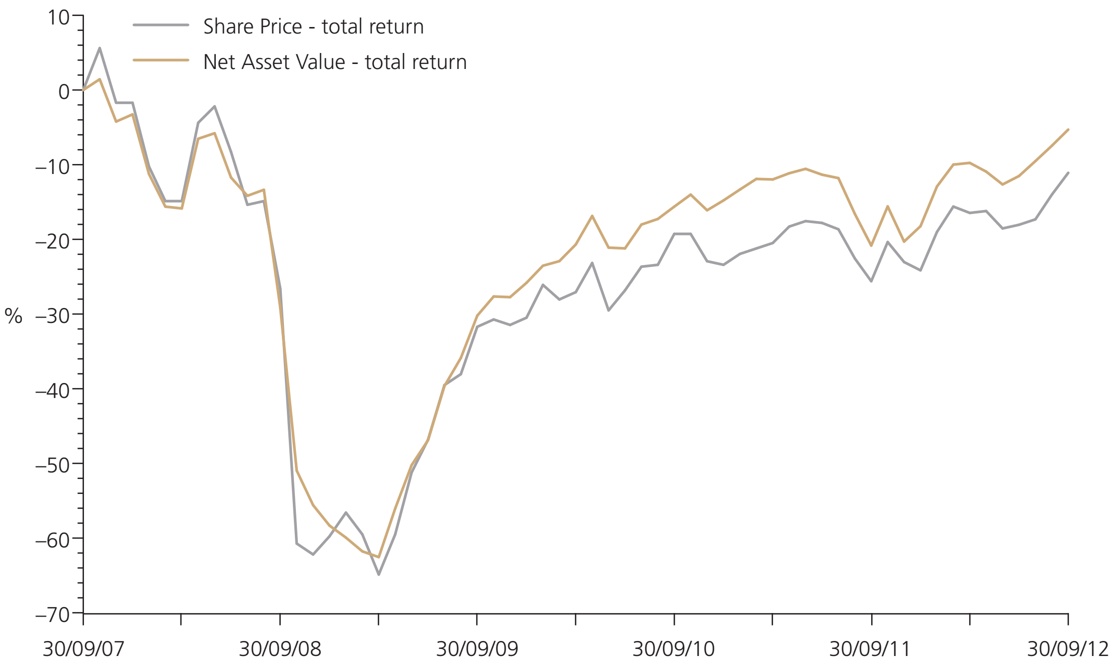
(1) Excludes both long-term and short-term loans and repo financing.

(2) Ordinary shares were consolidated to one ordinary share of 5p each for every five ordinary shares of 1p each on 26 April 2005. Prior period figures have been restated to take account of this.

(3) Restated for International Financial Reporting Standards.

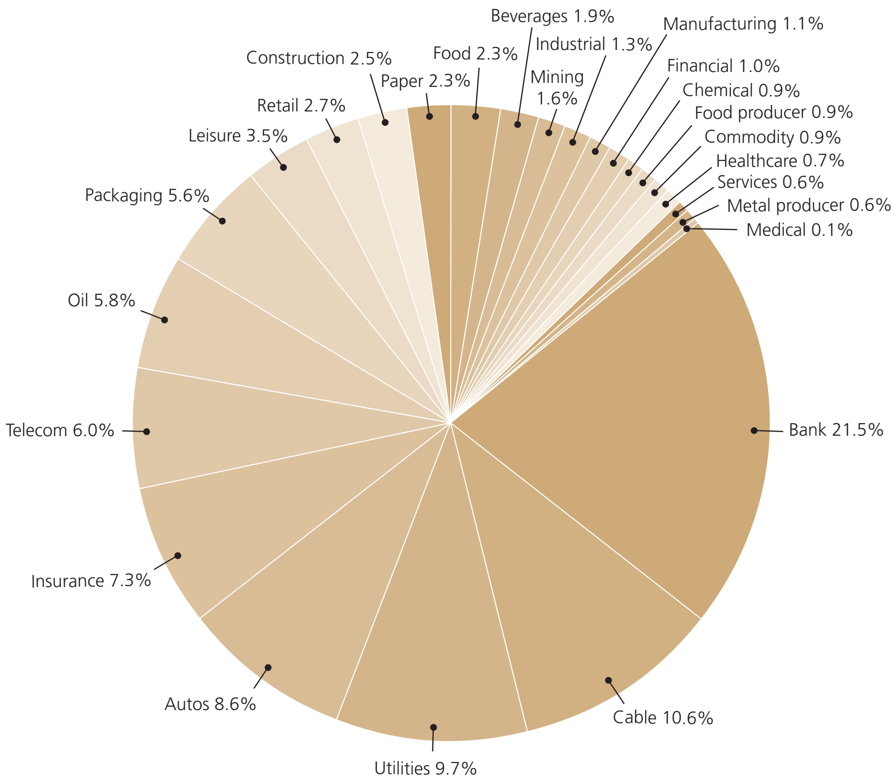
(4) Dividends are paid on a quarterly basis with effect from 1 October 2010 and are in respect of the year.

## Five Year Total Return Performance



## Split of Investments by Sector

At 30 September 2012

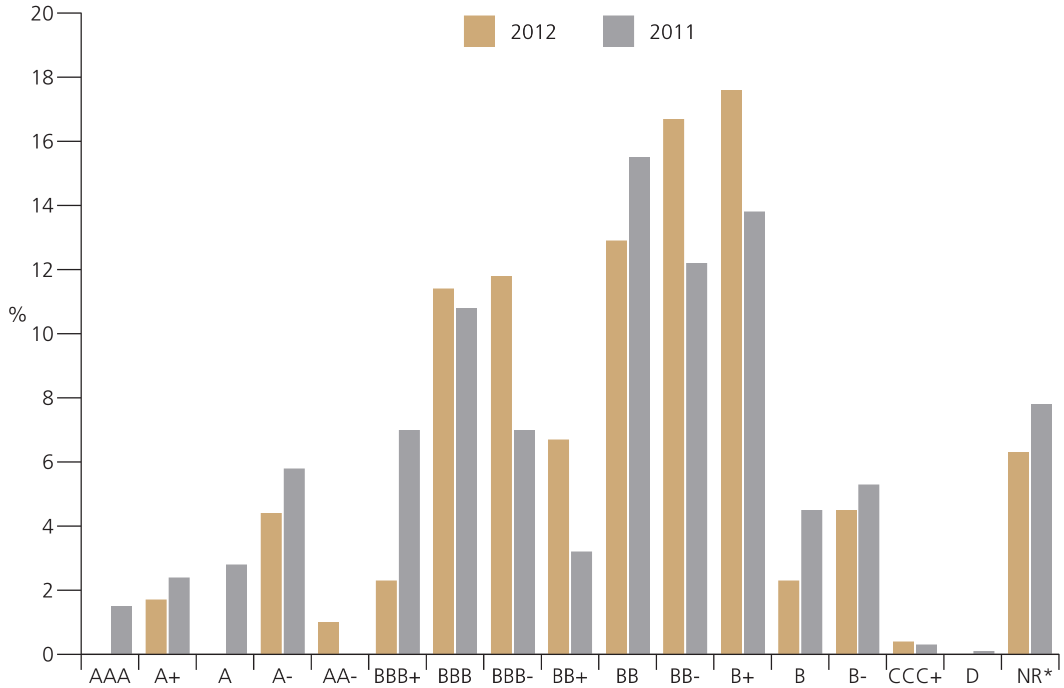



## BOND RATING ANALYSIS

AT 30 SEPTEMBER 2012

**Standard and Poor's Ratings, investment grade is BBB– and above.**

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




*includes equity, warrant and credit default swaps.

# CHAIRMAN'S STATEMENT

## Introduction

The year under review, whilst rewarding for shareholders, was not an easy one to predict nor in which to position the portfolio for optimum returns. The world economic turmoil showed no sign of abating and in such uncertain times, your investment managers demonstrated the high conviction that characterises their approach by investing in, for example, financial debt instruments against the market trend.

## Results for the Year

In such testing times, I am pleased to report that the Company's net asset value ('NAV') per share increased by 19.9% to 65.1p. The mid-market price of the Company's ordinary shares increased by 19.8% to 59.9p at the year end. NAV total return per share increased by 29.1% after fees and expenses.

## Dividend

Your Board believes that shareholders value highly the Company's dividend stream and has continued to prioritise revenue generation through investment in relatively high-yielding and secure debt positions. Despite a substantially lower level of gearing throughout the year, Company has produced earnings per share of 5.4p, which is comfortably in excess of the annual cost of the dividend. The Board and investment managers expect this situation to continue for the foreseeable future.

The Board declared a 4th interim dividend of 1.25p per share on 19 September 2012, making a total of 5p for the year (2011: 5p). The Board intends that the Company will maintain an annual dividend of not less than 5p per share, paid equally and quarterly, in the absence of unforeseen circumstances. One of the particular benefits of closed-end funds is their ability to smooth dividend payments through the use of the revenue reserve when required. Careful management of the Company's revenue reserve over the last few years has enabled the Company to build a significant revenue reserve equivalent to two years of annual dividends.

## Gearing

The ordinary shares are geared by the repo financing. Gearing was reduced in the first quarter of the period and net gearing stood at 29% at the year end (2011:54%). On an average basis, net gearing decreased to 34% for the year being reported from 41% last year.

Repo financing remains a very flexible method of providing additional capital when appropriate, and the very low interest rate environment affords the investment managers an ability to achieve an attractive 'carry' on the investments. The level of gearing is carefully monitored and managed by both the Board and the investment managers, fully cognisant of the greater capital volatility that comes with the enhancement to income.

## Share Buy Backs

Your Directors are again seeking the authority to buy back up to 16,682,749 shares (14.99% of the Company's issued share capital as at 27 November 2012) subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2014. In association with this authority the Board is seeking shareholder approval for the renewal of the waiver of the obligation under Rule 9 of the Takeover Code that would otherwise fall on Invesco Perpetual if its shareholding increased above 30% as a result of buy-backs.

It is the Board's current intention to buy back shares at a discount to NAV where the Board believes it is in shareholders' interests to do so. 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.

## The Board

There have been a number of changes to the Board during the year, most notably the retirement of George Baird on 30 September 2012 and my appointment as Chairman of the Company, also on this date. In addition, Hugh Ward retired from the Board with effect from 30 September 2012. The Board would like to take this opportunity to thank George and Hugh for their most valuable contribution to the Company since its launch in 1999 and to wish them well in the future.

There were two appointments to the Board during the year, with Michael Lombardi and Peter Yates each having been appointed as a Director of the Company with effect from 1 August 2012. Mr Lombardi is a corporate lawyer specialising in investment fund and structured finance transactions. Mr Yates is an experienced Chartered Accountant and has been appointed to the role of Chairman of the Company's Audit Committee. Their respective biographies and further information in relation to the selection and appointment process can be found on pages 12 and 23 of this report. It is the Board's recommendation that shareholders support the resolutions concerning their respective appointments at the Company's AGM to be held in January of the coming year, as the Directors intend to do themselves.

## Corporate Governance

The Board continues to be committed to maintaining the highest standards of Corporate Governance and is accountable to you as shareholders for the governance of the Company's affairs. The Directors believe that, during the year under review, they have complied with the provisions of the AIC Code of Corporate Governance as endorsed by the Financial Reporting Council.

## Outlook

After a year of good performance, it is important to remind ourselves that we have had a long bull market in fixed income and several factors such as very low government bond yields and tight corporate spreads suggest that some parts of the market are fully valued, particularly sovereign and investment grade corporate bonds. In contrast, low inflation and interest rates together with the actions of policy-makers are supportive. In such markets the Directors believe the Managers' flexible and active approach can be successful in providing an attractive return, although it is most unlikely that this year's capital performance will be repeated in the current financial year.

**Donald Adamson**
Chairman
27 November 2012

# INVESTMENT MANAGERS' REPORT



## Market Background

Over the 12 months to the end of September 2012 more credit risk-sensitive assets enjoyed strong returns as the market's fear of systemic risk in the eurozone's banking system, particularly acute in the third quarter of 2011, was gradually overturned by the actions of monetary and political authorities to put in place support for the eurozone's sovereign bond markets and to promote economic growth. Combined with a macroeconomic environment of low inflation and interest rate expectations, this burgeoning investor risk appetite pushed yields down sharply from the high levels seen at times last year.

According to data from Merrill Lynch, European high yield bonds had a total return for the 12 month period under review of 17.0% (in sterling terms). The aggregate yield for the asset class fell by 353 basis points to 8.04%. This compares to a return of 3.0% for euro investment grade corporate bonds (11.3% in local currency terms) and 16.3% for sterling investment grade. Gilts returned 8.8%.

With risk appetite rising and yields low across many areas of the bond market, this period has seen strong demand for high yield bonds. European high yield bond issuance was above the average of recent years in the first quarter of 2012, following very low levels in mid-2011 (source: Barclays). In the third quarter of this year, companies were encouraged by very supportive market conditions to raise capital, pushing the supply of new bonds well above average levels for the time of year, reaching €10.2 billion (across all currencies) in September. Many individual issues have been heavily oversubscribed despite having relatively low coupons. Throughout the period, the level of defaults has remained moderate. According to Moody's, the European high yield corporate default rate rose to 2.6% in August 2012, from 1.1% a year before.

The recovery of investor confidence has been built more than anything else on two actions by the European Central Bank ('ECB') under its new president, Mario Draghi. In November and February, the bank carried out Long Term Refinancing Operations, lending a total of more than €1 trillion to some 800 European banks for a three-year term, at a low rate of interest and with relaxed collateral requirements. This effectively addressed market concerns about the funding of the European banking system. Then this summer, Draghi signalled his intent that the ECB should move towards playing the role of the eurozone's lender of last resort, a commitment that was spelled out in the announcement of conditional but, crucially, unlimited, direct support for member states' sovereign debt under the Outright Monetary Transactions programme. Combined with political progress towards a single eurozone banking supervisor and larger and more flexible rescue funds, the eurozone now appears to be significantly closer to having some structure for debt mutualisation. This has helped to contain the risk premia on the sovereign and corporate debts of peripheral eurozone states.

Across the major developed economies, monetary policy has been loosened further. The US Federal Reserve ('Fed') has continued to put downward pressure on market interest rates, both through transactions – under the auspices of Operation Twist and the recently announced third round of quantitative easing ('QE3') – and through market guidance that Fed interest rates will remain at their current near-zero level until mid-2015. The Bank of England has also maintained its record low interest rate of 0.5% and has increased its programme of asset purchases by a total of £175 billion over the past 12 months. This easy policy reflects the ongoing, weak macroeconomic environment. Across Europe, economic growth remains near zero, with business sentiment low and unemployment levels high. The US economy has improved in the last year but the recovery has been modest and consumption is still being hampered by weak employment and housing markets.

## Portfolio Strategy

Our strategy is to construct a diversified portfolio of bonds from across the credit market which will provide an attractive level of income while seeking to keep default risk low. Our investments are concentrated in higher credit quality high yield bonds and in higher yielding investment grade bonds. In sector terms, we see financials as the biggest area of value in the corporate bond markets. We hold senior and subordinated bank debt, with a preference for large, northern European banks. Companies in this sector have continued to make progress in reforming and strengthening their capital structures. We see individual opportunities across the credit market, although there is clearly less value than a year ago when many bonds were trading considerably below par and with high yields relative to history. We think that some areas of the corporate bond market, particularly non-financials and the higher credit quality categories, now offer relatively little value.

In the year under review, the Company's NAV rose from 54.3p to 65.1p, with a total NAV return of 29.1%, gross of dividend. We commenced the year with net gearing of 54% and with net assets of £60.5 million. We reduced net gearing over the year to close at a level of 29%, while net assets rose to £72.4 million. Funding costs remain relatively low. The dividend is 5p and is well covered by the income of the portfolio.

Over the early months of this review period we took advantage of volatile markets to add exposure to high yield bonds and to financials. As the market rallied into the first quarter of 2012, we sold and trimmed positions. We have continued to take opportunities to add attractive yields to the portfolio while reducing our gearing to the market as it has rallied over the period. A large number of banks have tendered to buy back outstanding debt in the last year, seeking to take advantage of their higher liquidity levels to reduce their funding costs. In most cases, we have chosen to retain our positions rather than sell.

## Outlook

The corporate bond market is being supported by several important factors. Inflation and interest rates are low. There is strong demand currently for corporate debt and this is pushing down funding costs. Furthermore, political and monetary authorities have shown real commitment in the last year to address the eurozone debt crisis and to stimulate growth. However, the market has reacted to this good news with a strong rally and bond yields are now significantly lower than they were. Also, economic growth remains weak and that is a negative factor for corporates in any circumstances. While we continue to see value and opportunities in the market, we are increasingly cautious. We expect that corporate bond returns will be more highly correlated with income, with less capital growth, and our focus is on finding securities that will add attractive income streams to the portfolio.

**Paul Read/Paul Causer**
Investment Managers
27 November 2012

# INVESTMENT PORTFOLIO

## AT 30 SEPTEMBER 2012

All investments are fixed interest bonds unless otherwise stated.

The definitions of the Moody/Standard & Poor ratings below are set out on page 57.

### Bonds and Equity Investments

| COMPANY | COUPON % | MATURITY DATE | RATING | AT MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|---|---|
| **Euro** | | | | | |
| UPC | 7.625 | 15 Jan 2020 | Ba3/BB– | 1,717 | 6.1 |
| | 8.125 | 01 Dec 2017 | Ba3/BB– | 1,707 | |
| | 9.750 | 15 Apr 2018 | B2/B– | 1,273 | |
| | 9.500 | 15 Mar 2021 | B3/B– | 895 | |
| Ally Financial | 7.500 | 21 Apr 2015 | B1/B+ | 3,435 | 3.7 |
| Santos Finance | Floating 8.250 | 22 Sep 2070 | NR/BB | 2,427 | 2.6 |
| UBS Capital Securities | Floating 8.836 | Perpetual | Ba2/BBB– | 2,403 | 2.6 |
| Unicredit | Floating 8.125 | Perpetual | Ba2/BB+ | 2,140 | 2.4 |
| Telecom Italia | 5.250 | 17 Mar 2055 | Baa2/BBB | 1,179 | 2.2 |
| | 7.750 | 24 Jan 2033 | Baa2/BBB | 847 | |
| Rexam | Floating 6.750 | 29 Jun 2067 | Ba2/BB | 1,921 | 2.1 |
| Bank of America | 4.625 | 07 Aug 2017 | Baa2/A– | 1,749 | 1.9 |
| Alliander | Floating 4.875 | Perpetual | A3/A– | 1,675 | 1.8 |
| Origin | Floating 7.875 | 16 Jun 2071 | Baa3/BB | 1,625 | 1.8 |
| SSE | Floating 5.025 | Perpetual | Baa2/BBB | 1,612 | 1.7 |
| Allianz Finance | Floating 5.750 | 08 Jul 2041 | A2/A+ | 1,608 | 1.7 |
| Lottomatica | Floating 8.250 | 31 Mar 2066 | Ba2/BB | 1,566 | 1.7 |
| RWE | Floating 4.625 | Perpetual | Baa2/BBB– | 1,562 | 1.7 |
| Commerzbank | 7.750 | 16 Mar 2021 | Ba1/BBB | 1,524 | 1.7 |
| Aviva | Floating 6.875 | 22 May 2038 | A3/BBB | 772 | 1.2 |
| | Floating 4.729 | Perpetual | Baa1/BBB | 347 | |
| Intesa Sanpaolo | Floating 8.375 | Perpetual | Ba2/BB+ | 1,115 | 1.2 |
| Wind Acquisition | 11.750 | 15 Jul 2017 | B3/BB– | 804 | 1.2 |
| | 7.375 | 15 Feb 2018 | Ba3/BB | 295 | |
| Lloyds Banking Group – LBG Capital No 2 (ECN) | 6.385 | 12 May 2020 | Ba3/BB+ | 1,088 | 1.1 |
| Levi Strauss | 7.750 | 15 May 2018 | B2/B+ | 975 | 1.1 |
| Ineos | 9.250 | 15 May 2015 | B1/B+ | 857 | 0.9 |
| Reynolds | 7.750 | 15 Oct 2016 | B1/B+ | 829 | 0.9 |
| Gategroup Finance | 6.750 | 01 Mar 2019 | B1/BB | 817 | 0.9 |
| Campofrio | 8.250 | 31 Oct 2016 | Ba3/BB– | 803 | 0.9 |
| ECO-BAT Finance | 7.750 | 15 Feb 2017 | B1/B+ | 801 | 0.9 |
| Matterhorn Mobile | Floating 5.599 | 15 May 2019 | B1/BB– | 798 | 0.9 |
| Xefin | 8.000 | 01 Jun 2018 | Ba3/B+ | 789 | 0.9 |
| BPCE | Floating 9.000 | Perpetual | Ba2/BBB– | 787 | 0.8 |
| Abengoa | 8.500 | 31 Mar 2016 | B1/B+ | 772 | 0.8 |
| Zinc Capital | 8.875 | 15 May 2018 | B2/B+ | 546 | 0.6 |
| Schaeffler Finance | 6.750 | 01 Jul 2017 | Ba3/B+ | 422 | 0.5 |
| Sappi Papier | 6.625 | 15 Apr 2018 | Ba2/BB | 406 | 0.4 |
| Stora Enso | 5.500 | 07 Mar 2019 | Ba2/BB | 402 | 0.4 |
| Fiat Finance & Trade | 6.375 | 01 Apr 2016 | Ba3/BB– | 395 | 0.4 |
| Mark IV Europe | 8.875 | 15 Dec 2017 | Ba3/BB– | 380 | 0.4 |
| Cirsa Finance | 8.750 | 15 May 2018 | B3/B+ | 375 | 0.4 |
| Telenet Finance | 6.750 | 15 Aug 2024 | Ba3/B+ | 201 | 0.4 |
| | 6.250 | 15 Aug 2022 | Ba3/B+ | 161 | |
| Beverage Packaging* | 9.500 | 15 Jun 2017 | Caa2/CCC+ | 353 | 0.4 |
| CNP Assurances | Floating 2.400 | Perpetual | A– | 350 | 0.4 |
| Codere Finance | 8.250 | 15 Jun 2015 | Caa2/B– | 348 | 0.4 |
| Ono Finance | 11.125 | 15 Jul 2019 | Caa1/B– | 339 | 0.4 |
| Lecta | 8.875 | 15 May 2019 | B1/B+ | 198 | 0.2 |
| Fortis Bank | Floating 2.248 | Perpetual | Ba3/BB | 183 | 0.2 |
| Techem | 6.125 | 01 Oct 2019 | Ba3/B+ | 147 | 0.2 |
| | | | | 50,720 | 55.1 |

**A subsidiary of the Reynolds Group Inc.*

# INVESTMENT PORTFOLIO
continued

| COMPANY | COUPON % | MATURITY DATE | RATING | AT MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|---|---|
| **Sterling** | | | | | |
| Virgin Media Finance | 7.000 | 15 Jan 2018 | Baa3/BBB– | 2,151 | 3.5 |
| | 8.875 | 15 Oct 2019 | Ba2/BB– | 1,122 | |
| Lloyds Banking Group | | | | | |
| – Lloyds TSB | 7.625 | 22 Apr 2025 | Baa3/BBB– | 2,084 | 3.4 |
| – LBG Capital No 2 (ECN) | 9.000 | 15 Dec 2019 | Ba3/BB+ | 1,010 | |
| Iron Mountain | 7.250 | 15 Apr 2014 | B1/B+ | 2,020 | 2.2 |
| Enterprise Inns | 6.500 | 06 Dec 2018 | NR/BB– | 1,752 | 1.9 |
| Intergen | 9.500 | 30 Jun 2017 | Ba3/BB– | 1,425 | 1.5 |
| Société Générale | Floating 8.875 | Perpetual | Ba2/BBB– | 1,329 | 1.4 |
| Barclays Bank | Floating 14.000 | Perpetual | Ba1/BBB | 1,252 | 1.4 |
| Aviva | 6.125 | Perpetual | A3/BBB | 1,190 | 1.3 |
| Jaguar Land Rover | 8.250 | 15 Mar 2020 | Ba3/BB– | 1,079 | 1.2 |
| Thames Water | 7.750 | 01 Apr 2019 | B1/NR | 1,063 | 1.2 |
| DFS Furniture | 9.750 | 15 Jul 2017 | B2/B+ | 1,040 | 1.1 |
| Pipe | 9.500 | 01 Nov 2015 | B3/B | 1,013 | 1.1 |
| Southern Water | 8.500 | 15 Apr 2019 | NR/BB– | 998 | 1.1 |
| General Electric Capital | Floating 5.500 | 15 Sep 2066 | A2/AA– | 931 | 1.0 |
| Boparan | 9.875 | 30 Apr 2018 | Ba3/B+ | 852 | 0.9 |
| Odeon & UCI Finco | 9.000 | 01 Aug 2018 | B3/B | 505 | 0.5 |
| EDP Finance | 8.625 | 04 Jan 2024 | Ba1/BB+ | 503 | 0.5 |
| Matalan Finance | 8.875 | 29 Apr 2016 | B1/BB– | 483 | 0.5 |
| Gala Finance | 8.875 | 01 Sep 2018 | B3/B+ | 477 | 0.5 |
| Santander | Floating 7.300 | 27 Jul 2019 | Baa3/BBB+ | 465 | 0.5 |
| Novae | 6.500 | 27 Apr 2017 | Baa3/NR | 454 | 0.5 |
| Bakkavor Finance | 8.250 | 15 Feb 2018 | B2/B– | 449 | 0.5 |
| Legal & General | Floating 6.385 | Perpetual | Baa2/BBB+ | 449 | 0.5 |
| AXA | Floating 6.667 | Perpetual | Baa1/BBB | 428 | 0.5 |
| Premier Farnell | 89.2p | Cum Red Pref | NR/NR | 427 | 0.5 |
| Unicredit | Floating 8.593 | Perpetual | Ba2/BB+ | 414 | 0.4 |
| Care UK | 9.750 | 01 Aug 2017 | B2/B+ | 398 | 0.4 |
| Bupa Care Homes | 11.800 | 30 Jun 2014 | NR/NR | 268 | 0.3 |
| Skipton | Floating 10.000 | 12 Dec 2018 | Ba2/NR | 249 | 0.3 |
| Cattles | 6.875 | 17 Jan 2014 | NR/NR | 6 | — |
| | 7.125 | 05 Jul 2017 | NR/NR | 3 | |
| | | | | 28,289 | 30.6 |
| **US Dollar** | | | | | |
| General Motors | | 10 Jul 2019 | Warrant | 1,821 | 2.1 |
| | | 10 Jul 2016 | Warrant | 134 | |
| General Motors (Motors Liquidation) | 0.000 | 15 Jul 2033 | NR/NR | 44 | |
| Compagnie Générale de Géophysique – Veritas | 7.750 | 15 May 2017 | Ba3/BB– | 1,289 | 1.4 |
| Hutchison Whampoa | 6.000 | Perpetual | Baa2/BBB | 1,286 | 1.4 |
| Vedanta Resources | 6.750 | 07 Jun 2016 | Ba3/BB | 1,215 | 1.3 |
| Catlin | Floating 7.249 | Perpetual | NR/BBB+ | 1,210 | 1.3 |
| Stora Enso | 7.250 | 15 Apr 2036 | Ba2/BB | 1,114 | 1.2 |
| Citigroup | | Preference | NR/NR | 838 | 0.9 |
| Cemex | 9.250 | 12 May 2020 | NR/B– | 699 | 0.8 |
| Chrysler | 8.000 | 15 Jun 2019 | B2/B | 662 | 0.7 |
| Société Générale | 8.750 | Perpetual | Ba2/BBB– | 627 | 0.7 |
| Nara Cable | 8.875 | 01 Dec 2018 | B1/B+ | 564 | 0.6 |
| Aperam | 7.750 | 01 Apr 2018 | B2/BB– | 511 | 0.6 |
| Schaeffler Finance | 8.500 | 15 Feb 2019 | Ba3/B+ | 344 | 0.4 |
| Prudential | 6.500 | Perpetual | Baa1/A– | 305 | 0.3 |
| Peabody | 4.750 | 15 Dec 2066 | NR/NR | 263 | 0.3 |
| Rothschilds | Floating 0.938 | Perpetual | NR/NR | 217 | 0.2 |
| Novasep | 8.000 | 15 Dec 2016 | Caa1/B– | 63 | 0.1 |
| | | | | 13,206 | 14.3 |
| Total investments | | | | 92,215 | 100.0 |

# TOP TEN INVESTMENTS

AT 30 SEPTEMBER 2012

All investments are fixed interest bonds unless otherwise stated.

| COMPANY | COUPON % | MATURITY DATE | 2012 AT MARKET VALUE £'000 | 2012 % OF PORTFOLIO | 2011 AT MARKET VALUE £'000 | 2011 % OF PORTFOLIO |
|---|---|---|---|---|---|---|
| UPC | 7.625 | 15 Jan 2020 | 1,717 | 6.1 | 1,600 | 5.1 |
| | 8.125 | 01 Dec 2017 | 1,707 | | 1,720 | |
| | 9.750 | 15 Apr 2018 | 1,273 | | 1,236 | |
| | 9.500 | 15 Mar 2021 | 895 | | — | |
| Lloyds Banking Group – Lloyds TSB & LBG Capital | 7.625 | 22 Apr 2025 | 2,084 | 4.5 | 1,598 | 3.5 |
| | 6.385 | 12 May 2020 | 1,088 | | 851 | |
| | 9.000 | 15 Dec 2019 | 1,010 | | 765 | |
| Ally Financial | 7.500 | 21 Apr 2015 | 3,435 | 3.7 | 3,099 | 3.4 |
| Virgin Media Finance | 7.000 | 15 Jan 2018 | 2,151 | 3.5 | 2,083 | 3.5 |
| | 8.875 | 15 Oct 2019 | 1,122 | | 1,042 | |
| Unicredit | Floating 8.125 | Perpetual | 2,140 | 2.8 | 1,694 | 1.9 |
| | Floating 8.593 | Perpetual | 414 | | — | |
| Santos Finance | Floating 8.250 | 22 Sep 2070 | 2,427 | 2.6 | 2,289 | 2.5 |
| UBS Capital Securities | Floating 8.836 | Perpetual | 2,403 | 2.6 | 2,398 | 2.7 |
| Aviva | 6.125 | Perpetual | 1,190 | 2.5 | 663 | 1.0 |
| | Floating 6.875 | 22 May 2038 | 772 | | — | |
| | Floating 4.729 | Perpetual | 347 | | 299 | |
| Telecom Italia | 5.250 | 17 Mar 2055 | 1,179 | 2.2 | 1,128 | 2.1 |
| | 7.750 | 24 Jan 2033 | 847 | | 817 | |
| Iron Mountain | 7.250 | 15 Apr 2014 | 2,020 | 2.2 | 1,995 | 2.2 |

# BOND RATING ANALYSIS

AT 30 SEPTEMBER 2012

**(Standard and Poor's Ratings, investments grade is BBB– and above)**

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

| RATING | 2012 % OF PORTFOLIO | 2012 CUMULATIVE TOTAL % | 2011 % OF PORTFOLIO | 2011 CUMULATIVE TOTAL % |
|---|---|---|---|---|
| AAA | — | — | 1.5 | 1.5 |
| A+ | 1.7 | 1.7 | 2.4 | 3.9 |
| A | — | 1.7 | 2.8 | 6.7 |
| A– | 4.4 | 6.1 | 5.8 | 12.5 |
| AA– | 1.0 | 7.1 | — | 12.5 |
| BBB+ | 2.3 | 9.4 | 7.0 | 19.5 |
| BBB | 11.4 | 20.8 | 10.8 | 30.3 |
| BBB– | 11.8 | 32.6 | 7.0 | 37.3 |
| BB+ | 6.7 | 39.3 | 3.2 | 40.5 |
| BB | 12.9 | 52.2 | 15.5 | 56.0 |
| BB– | 16.7 | 68.9 | 12.2 | 68.2 |
| B+ | 17.6 | 86.5 | 13.8 | 82.0 |
| B | 2.3 | 88.8 | 4.5 | 86.5 |
| B– | 4.5 | 93.3 | 5.3 | 91.8 |
| CCC+ | 0.4 | 93.7 | 0.3 | 92.1 |
| D | — | 93.7 | 0.1 | 92.2 |
| NR (including equity, warrant and credit default swaps) | 6.3 | 100.0 | 7.8 | 100.0 |
| | 100.0 | | 100.0 | |

# DIRECTORS

**Donald Adamson** *(Jersey resident) (Chairman of the Board with effect from 30 September 2012)*

Mr. Adamson was appointed a Director of the Company on 15 October 1999. He has over 30 years' experience of fund management, corporate finance and private equity in Edinburgh, London and Jersey. He serves as director or chairman of a number of listed and privately-held investment companies. He was awarded an M.A. in Economics and History from University College, Oxford, carried out post-graduate research at Nuffield College, Oxford and is a member of the Chartered Institute for Securities and Investment. He is chairman of the Offshore Committee of the Association of Investment Companies.

**Peter Yates** *(Jersey resident) (Chairman of the Audit Committee and Management Engagement Committee with effect from 30 September 2012)*

Mr. Yates was appointed a Director of the Company on 1 August 2012. Mr Yates, an experienced Chartered Accountant and former President of the Jersey Society of Chartered and Certified Accountants, was previously a partner of PricewaterhouseCoopers working in the United Kingdom and Jersey for over 31 years.

**Michael Lombardi** *(Jersey resident)*

Mr. Lombardi was appointed a Director of the Company on 1 August 2012. After training with Dundas & Wilson in Edinburgh, Michael qualified as a lawyer in England, Hong Kong, Bermuda and Jersey. He is a senior corporate partner of the Jersey Law firm Ogier and has specialised in investment fund and structured finance transactions for over 25 years.

**Gordon Neilly** *(UK resident)*

Mr. Neilly was appointed a Director of the Company on 15 October 1999. He graduated from Edinburgh University in 1981, joined Thomson McLintock & Co and became a member of the Institute of Chartered Accountants of Scotland in 1984. He was finance director and business development director of Ivory & Sime plc from 1990 to 1997. He was a founding partner and chief executive of Intelli Corporate Finance, which was acquired by Canaccord Genuity in 2009. He moved to Cantor Fitzgerald Europe in 2012 as Head of Corporate Finance and is a non-executive director of Personal Assets Trust plc.

**Clive Spears** *(Jersey resident)*

Mr. Spears was appointed a Director of the Company on 18 May 2011. He has over 32 years' experience with the Royal Bank of Scotland Group of which the last 18 years were spent in Jersey until his retirement in 2003. His experience has spanned corporate finance, treasury products, global custody, trust and fund administration, internal audit and compliance. Since his retirement he has acted as a consultant and non-executive director both in the investment management industry and local commerce. He is an Associate Member of the Institute of Financial Services, a member of the Institute of Directors and a member of the Chartered Institute for Securities and Investment.

**George Baird** and **Hugh Ward** retired on 30 September 2012.

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

# ADVISERS AND PRINCIPAL SERVICE PROVIDERS

## Manager

Invesco Leveraged High Yield Fund Limited is managed by Invesco Asset Management Limited. Day-to-day management is the responsibility of Paul Read and Paul Causer, who have been involved in the Company's management since 2001 and are members of the UK Fixed Income team.

Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG
☎ 020 7065 4000

## Company Secretary, Administrator and Registered Office

R&H Fund Services (Jersey) Limited
PO Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW
Company Secretarial Contact: Hilary Jones
☎ 01534 825323
Registered in Jersey No. 75059

## Registrars

Capita Registrars (Jersey) Limited
PO Box 378
St Helier
Jersey JE4 0FF
☎ 0871 664 0300
Calls cost 10p per minute plus network charges. Lines are open 9am to 5.30pm Monday to Friday (excluding Bank Holidays).

Shareholders holding shares directly and not through a savings scheme or ISA and have queries relating to their shareholding, should contact Capita on the above number.

Shareholders can also access their details via Capita's website: www.capitaregistrars.com or www.capitashareportal.com

Capita provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.capitadeal.com or by ringing ☎ 0871 664 0364
Calls cost 10p per minute plus network charges. Lines are open 8am to 4.30pm Monday to Friday (excluding Bank Holidays).

## Dividend Re-investment Plan

Capita also manage a Dividend Re-investment Plan for the Company.

Shareholders wishing to re-invest their dividends should contact the Registrars.

## Custodian

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

## Auditor

Deloitte LLP
Lord Coutanche House
PO Box 403
66-68 Esplanade
St Helier
Jersey JE4 8WA

## Corporate Broker

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

## Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team available to assist you from 8.30am to 6pm every working day. Please feel free to take advantage of their expertise by ringing ☎ 0800 085 8677.

The shares of Invesco Leveraged High Yield Fund Limited are quoted on the London Stock Exchange.

## Net Asset Value ('NAV') Publication

The NAV is published daily in the Financial Times and Daily Telegraph and is calculated as at the close of business each day and notified to the London Stock Exchange the next business day. It can also be found on the Manager's website.

## Share Price Listings

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

In addition, share price information can be found under the following:

| | |
|---|---|
| **Reuters** | ILH.L |
| **Bloomberg** | ILH.LN |

**Internet addresses**

| | |
|---|---|
| Interactive Investor | www.iii.co.uk |
| Association of Investment Companies | www.theaic.co.uk |

## Savings Plan and ISA

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

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

**Invesco Perpetual Investment Trust Savings Scheme**

The Invesco Perpetual Investment Trust Savings Scheme allows investors to make purchases from £25 per month or through lump sum investments from £1,000.

**Invesco Perpetual Investment Trust ISA**

The Invesco Perpetual Investment Trust ISA allows investments up to £11,280 in shares of Invesco Leveraged High Yield Fund Limited in the current tax year. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

For full details of these Invesco Perpetual investment schemes please contact the Invesco Perpetual's Investor Services Team free on ☎ 0800 085 8677.

## Manager's Website

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

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

## Financial Calendar

In addition, the Company publishes information according to the following calendar:

**Announcements**

| | |
|---|---|
| Half-yearly results | May |
| Annual results | November/December |
| Interim Management Statements | January and July |

| | |
|---|---|
| **Year End** | 30 September |
| **Dividends Payable** | January, April, July and October |
| **Annual General Meeting** | January |

**Location of Annual General Meeting**

To be held at 10.30 a.m. on 24 January 2013 at R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW.

# REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 SEPTEMBER 2012

## Introduction

The Directors present their Report for the year ended 30 September 2012, which incorporates the Business Review and Corporate Governance Statement.

# BUSINESS REVIEW

## Business and Status

The Company was incorporated and registered with limited liability in Jersey (number 75059) on 10 September 1999 under the Companies (Jersey) Law 1991. The Company is a closed-ended investment company and its ordinary shares are listed on the London Stock Exchange.

## Life of the Company

The Articles require an ordinary resolution (a 'subsequent continuation resolution') to approve the continuation of the Company as a closed-ended investment company to be proposed at the Annual General Meeting ('AGM') of the Company in 2014 and every AGM thereafter. If any subsequent continuation resolution is not passed, the Directors shall within 180 days of such meeting convene one or more EGMs of the Company at which a special resolution to reorganise or reconstruct the Company or to provide a cash alternative to shareholders shall be proposed. If such a special resolution is not passed, then a further EGM shall be convened requiring the Company to be wound up voluntarily.

## Investment Policy

The Company's Investment Policy comprises its investment objective, investment policy and risk and investment limits and is designed so as to provide shareholders with information on the policies that the Company will follow relating to asset allocation, risk diversification and gearing, including maximum exposures.

The Manager monitors the investment portfolio on an ongoing basis to ensure adherence to the Company's Investment Policy.

### Investment Objective

The Company's principal objective is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and Government bonds. The Company may also invest in equities and other instruments that the Manager considers appropriate.

The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The Company generally employs leverage in its Investment Policy.

### Investment Policy and Risk

The investment portfolio is constructed in order to gain exposure to attractive ideas within the investment parameters of the investment portfolio and to express the Company's views on fixed interest markets. The investment process comprises three key elements which drive portfolio construction – macroeconomic analysis, credit analysis and value assessment. The Manager aims to control stock-specific risk by ensuring that the investment portfolio is appropriately diversified. In-depth, continual analysis of the fundamentals of all holdings gives the Manager an understanding of the financial risks associated with any particular stock.

The Company may enter into derivative transactions (including, but not limited to, options, futures, and contracts for difference, credit derivatives and interest rate swaps) periodically for the purposes of efficient portfolio management. Derivative transactions may only be entered into if they are compatible with the Company's Investment Policy and fall within the limits determined by the Board from time to time. The Company will not enter into derivative transactions for speculative purposes.

For the purposes of efficient portfolio management, which may include the reduction of risk, reduction of cost, and the enhancement of capital or income, including transactions designed to hedge all or part of the investment portfolio, to replicate or gain synthetic exposure to a particular investment position where this can be done more effectively or efficiently through the use of derivatives than through investment in physical securities, or to transfer risk or obtain protection from a particular type of risk which might attach to portfolio investments, the Company may enter into a derivative transaction provided the maximum exposure (including any initial outlay in respect of the transaction) to which the Company is committed by virtue of the transaction, when aggregated with all other outstanding derivative positions, is covered by the Company's net assets.

The Company may enter into stock lending, repurchase and/or reverse repurchase agreements for the purposes of efficient portfolio management. The Manager may also invest in money market instruments and currencies.

The principal component of the Company's gearing is repo financing. Under the repo financing, the Company sells fixed interest securities held by it to a counterparty for consideration that is less than such assets' market value and agrees to repurchase on a fixed date the same assets for a fixed price above the consideration received by it on the sale. The difference in these two amounts equates to the cost (effectively interest) of the repo financing.

**Investment Limits**

The Board has prescribed limits on the Investment Policy, among which are the following:

– investments in equities are restricted to no more than 20% of the Company's investment portfolio;
– no single investment (bond or equity) may exceed 10% of gross assets;
– no more than 5% of gross assets may be exposed to unquoted investments;
– no more than 15% of the Company's total assets will be invested in other investment companies (including investment trusts); and
– gearing may be used to raise exposure to bonds and equities and may not exceed an amount equal to twice shareholders' funds after such adjustments, exclusions and deductions as are specified in the Articles.

## Key Performance Indicators

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

- portfolio performance;
- net asset value ('NAV');
- share price;
- premium/discount;
- dividends; and
- ongoing charges.

Since June 2004, the Company's focus has been on absolute returns. **Portfolio performance** from this time until the present year end of 30 September 2012 is compared to 3 month LIBOR and the Company's total return **NAV** on the graph on page 3. The graph on page 4 spans the same period and shows the NAV total return versus the NAV capital return, together with the Company's **share price** total return. The 'NAV' total return of shares over the year to 30 September 2012 was 29.1% (2011: –8.1%). At the year end the Company's mid-market share price was 59.9p (2011: 50.0p).

The Board monitors the price of the Company's shares in relation to their NAV and the **premium/ discount** at which they trade. Over the year, the shares have traded at an average discount to NAV of 8.8%. The Board and Manager closely monitor movements in the Company's ordinary share price and dealings in the Company's ordinary shares. To enable the Board to take action to deal with any significant overhang or shortage of ordinary shares in the market, it seeks approval from shareholders every year to allow for the buy back of ordinary shares (for cancellation or to be held as treasury shares). This may assist in the management of any discount the Company may trade at, but the primary reason for buying back ordinary shares is to enhance investor value.

Any buy back of shares will be made within guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Buybacks will only be made where the Directors consider it to be in the interests of shareholders as a whole, taking into consideration the working capital and cashflow requirements of the Company. During the year, 100,000 ordinary shares of 5p each were bought back at 56.325p per share and cancelled. The enhancement to NAV was 0.01%.

The Board also has the power to issue new ordinary shares if it is in shareholders' interests to do so.

**Dividends** are a key component of the total return to shareholders, and the level of potential dividend payable and income from the portfolio is reviewed at every board meeting. The Company has paid 5p each year in respect of the four financial years to 30 September 2012. The Company will only pay dividends, in respect of a year on the ordinary shares to the extent that it has profits available for that purpose, which will largely depend on the amount of income the Company receives on its investments, the timing of such receipts and on the cost of the repo financing. Any reduction in income receivable by the Company, or increase in the cost of the repo financing, will lead to a correspondingly greater percentage reduction in earnings per share and therefore in the Company's ability to pay dividends. Such a reduction could arise, for example, from lower rates of interest paid on investments. A fall in the value of the Company's assets may also affect the Company's ability to pay dividends. Accordingly, the amount of dividends payable by the Company may fluctuate.

The expenses of managing the Company are carefully monitored by the Board at every meeting. It is the intention of the Board to minimise the **ongoing charges** which provide a guide to the effect on performance of all annual operating costs of the Company. At the year end the ongoing charges had risen from 1.37% report last year to 1.49% as a result of additional one-off director recruitment fees and the lower average net assets of the current year.

## Financial Position

As at 30 September 2012, the Company's net assets were valued at £72 million (2011: £60 million).

These comprised a portfolio of predominantly corporate and government bonds. Due to the realisable nature of the majority of the Company's assets, cash flow does not have the same significance as for an industrial or commercial company. The Company's principal cash flows arise from the purchases and sales of investments, repo financing and the income from investments against which must be set the costs of borrowing and management expenses.

### Gearing Policy

The principal component of the Company's gearing is repo financing. Using repo financing, the Company sells fixed interest securities held by it to a counterparty for consideration that is less than such assets' market value and agrees to repurchase on a fixed date the same assets for a fixed price above the consideration received by it on the sale. The difference in these two amounts equates to the cost (effectively interest) of the repo financing. The consideration for the sale of the asset is lower than the market value to provide sufficient margin of cover to the counterparty. The Company retains the right to receive interest paid on the securities while they are subject to the repo financing arrangements although it does not retain legal ownership of those securities. Effectively the Company is borrowing sums secured on an individual asset basis. The Company recognises the interest which it has in the securities that are subject to repo financing by retaining the value of such securities on its balance sheet together with the liability associated with the fixed repurchase under the repo financing.

Under the Company's Investment Policy, gearing may be used to raise exposure to bonds and equities and may not exceed an amount equal to twice shareholders' funds after such adjustments, exclusions and deductions as are specified in the Company's Articles.

From time to time, the Company arranges facilities for repo financing with counterparties. The Company manages counterparty exposure to ensure that under normal circumstances its exposure to the creditworthiness or solvency of any one counterparty does not exceed 20% of its gross assets. The Company's exposure to any one counterparty is calculated for these purposes as the difference between the aggregate amount owed by that counterparty to the Company less the aggregate amount owed by the Company to that counterparty.

The effective cost of the repo financing is allocated over the period to repurchase at a constant rate and is charged 50% to revenue and 50% to capital. Each repo financing arrangement typically has a fixed life of between one and six months. The short-term nature of the repo financing means that the effective cost of the Company's borrowings will fluctuate from time to time in accordance with the market rates of repo financing (which are closely related to interest rates).

Gearing levels may change from time to time in accordance with the Manager's assessment of risk and reward. Under normal market conditions the Directors expect to maintain gearing levels such that borrowings will typically represent between 50% and 150% of shareholders' funds.

## Future Trends

Details of the main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Investment Managers' Report on pages 7 and 8. Further details as to the risks affecting the Company are set out under 'Principal Risks and Uncertainties'.

## Principal Risks and Uncertainties

**Investment Policy (incorporating the Investment Objective)**

There is no guarantee that the Company's investment objective will be achieved or provide the returns sought by shareholders. The Board has established guidelines to ensure that the investment policy that has been approved is pursued by the Manager.

**Market Risk**

The majority of the Company's investments are traded on the major securities markets. The principal risk for investors in the Company is of a significant fall in the markets and/or a prolonged period of decline in the markets relative to other forms of investment. The value of investments held within the investment portfolio is influenced by many factors including the general health of the world economy, interest rates, inflation, government policies, industry conditions, political and diplomatic events, tax laws, competition, environmental laws and by changing investor demand. In addition, there is a risk that European policy makers fail to maintain the current fragile market confidence by not implementing an effective and lasting solution to the Eurozone crisis. The Manager strives to maximise the total return from the investments held, but these investments are influenced by market conditions and the Board acknowledges the external influences on investment portfolio performance.

**Investment Risk**

The investment process employed by the Manager is set out in the first paragraph under Investment Policy and Risk on page 15.

Investment portfolio performance is dependent on the performance of high yield corporate bonds in the UK and elsewhere in the Company's investment universe. These stocks are particularly influenced by prevailing interest rates, government monetary policy and by demand for income. The Manager strives to maximise both capital growth and high income from the investment portfolio and the Board naturally recognises the external influences on investment portfolio performance.

The Company is likely, from time to time, to maintain a more concentrated investment portfolio (both in terms of individual holdings and in terms of its exposure to particular industries) than those of many other investment funds. Accordingly, shareholders should be aware that the investment portfolio potentially carries a higher level of risk than a more diversified investment portfolio.

The Company is permitted from time to time to invest in other listed investment companies (including investment trusts) subject to a limit on such investment of 15% of its Total Assets. As a consequence of these investments, the Company may itself be indirectly exposed to gearing through the borrowings of these other investment companies. The Company is not currently invested in any listed investment companies (including investment trusts).

The performance of the Manager is carefully monitored by the Board, and the continuation of the Manager's mandate is reviewed each year.

Past performance of the Company is not necessarily indicative of future performance.

A fuller discussion of the economic and market conditions facing the Company and the current and future performance of the investment portfolio of the Company, see both the Chairman's Statement and Manager's Report on pages 5 to 8.

**Foreign Exchange Risk**

The movement of exchange rates may have unfavourable or favourable impact on returns as the Company holds non-sterling denominated investments and cash. This risk is mitigated by the use of non-sterling denominated repo financing. The foreign currency exposure of the Company is monitored by the Manager on a daily basis and formally at Board meetings.

### Ordinary Shares

The market value of the ordinary shares will be affected by a number of factors, including the dividend yield from time to time of the ordinary shares, prevailing interest rates and supply and demand for those ordinary shares, along with wider economic factors and changes in the law, including tax law, and political factors. The market value of, and the income derived from, the Company's ordinary shares can fluctuate and may go down as well as up.

The market value of the ordinary shares may not always reflect the NAV per ordinary share. The market price of an ordinary share may therefore trade at a discount to its NAV. As at 30 September 2012, an ordinary share of the Company traded at a discount of 8.0%. The Board and the Manager maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying NAV and the buy back and issuance facilities help the management of this process.

### Gearing

The ordinary shares are geared by the repo financing. As at 30 September 2012, net gearing was 29% at the year end (2011: 54%) and an investment in the ordinary shares should therefore be regarded as highly geared and consequently a higher risk investment.

Gearing levels may change from time to time in accordance with the Manager's assessment of risk and reward. As a consequence, any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its NAV (which is likely to adversely affect the Company's share price). Any reduction in the number of ordinary shares in issue (for example, as a result of buy backs) will, in the absence of a corresponding reduction in borrowings or repo financing, result in an increase in the Company's gearing.

If it were not possible to roll over any repo financing on any repurchase date on acceptable terms, the amounts then owing by the Company under the repo financing arrangement would become payable to the counterparty. Also, although the repo financing requires the counterparties to sell the assets to the Company on the repurchase date at a fixed price, 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 or any of the value of the assets from that counterparty.

In adverse market conditions, the risks of counterparty default may be greater than at any other time.

There is no guarantee that it will be possible to re-finance the repo financing or any other borrowings on their maturity either at all or on terms that are acceptable to the Company.

The Company currently has arranged facilities for repo financing with three counterparties. All borrowings, including repo financing, are actively managed by the Manager and monitored by the Board. If one or more of the counterparties with which the Company enters into repo financing decided to stop accepting non-investment grade bonds as collateral for repo financing or decided otherwise to restrict the repo financing currently provided to the Company then the Company may be unable, or it may be impracticable, to continue utilising repo financing and/or to replace its current repo financing as it expires. In certain circumstances, such as a material increase in the margins payable on repo financing, it may be uneconomical for the Company to continue utilising repo financing. The counterparties may force closure of the repo financing positions in which case the Company may be forced to repay the repo financing at short notice and the Company may be forced to sell assets at short notice to repay that debt and may not be able to realise the expected market value of those assets.

### High Yield Corporate Bonds

Corporate bonds are subject to credit, liquidity, duration and interest rate risks. Adverse changes in the financial position of an issuer of corporate bonds or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.

The majority of the Company's investment portfolio at the year end consists of non-investment grade securities. To the extent that the Company invests in non-investment grade securities, the Company may realise a higher current yield than the yield offered by investment grade securities, but investment in such securities involves a greater volatility of price and a greater risk of default by the issuers of such securities, with consequent loss of interest payment and principal. Non-investment grade securities are likely to have greater uncertainties of risk exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations.

A lack of liquidity in corporate bonds may make it difficult for the Company to sell those bonds at or near their purported value. This may particularly be the case if the Company is forced to sell assets quickly, for example, to repay any repo financing that becomes unexpectedly repayable or which it is not possible to rollover or in the event of a liquidation of the Company. A lack of liquidity in corporate bonds may also make it difficult or impossible to rebalance the Company's investment portfolio as and when it believes it would be advantageous to do so. To mitigate these risks, the investment manager actively monitors both the ratings and liquidity of the bond portfolio in relation to the Company's known repo financing requirements.

**Derivatives**

The Company may enter into derivative transactions (including options, futures, contracts for difference, credit derivatives and interest rate swaps) for the purpose 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 investment portfolio, to replicate or gain synthetic exposure to a particular investment position where this can be done more effectively or efficiently through the use of derivatives than through investment in physical securities or to transfer risk or obtain protection from a particular type of risk which might attach to portfolio investments.

The Company may hedge against exposure to changes in currency rates to the extent that repo financing has not offset such exposure.

Derivative instruments can be highly volatile and expose investors to a high risk of loss. The low initial margin deposits or low initial amounts payable in relation to or to enter into some derivatives enable a higher degree of leverage than might be acquired in respect of a direct investment in the underlying asset. As a result, relatively small fluctuations in the value of the underlying asset or the subject of the derivative may result in a substantial fluctuation in the value of the derivative, either up or down. In addition, the amount of loss to the Company through holding a derivative may not be restricted to, and indeed may be many times greater than, the initial margin deposit or amount payable in respect of the derivative. Daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses.

Where derivatives are used for hedging, there is a risk that the returns on the derivative do 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.

Trading in derivatives markets may be unregulated or subject to less regulation than other markets.

Derivatives markets are historically relatively new and there are uncertainties as to how these markets will perform during periods of unusual price volatility or instability, market liquidity or credit distress, including current market circumstances. The Company could suffer substantial losses from its derivatives holdings in these or other situations.

**Reliance on Third Party Service Providers**

The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company is reliant upon the performance of third party service providers for its executive function. The Company's most significant contract is with the Manager, to who the responsibility for the Company's portfolio is delegated. The Company has other contractual arrangements with third parties to act as company secretary, auditor, registrar, custodian and broker. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to successfully pursue its investment policy and expose the Company to reputational risk.

The Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to pursue its investment policy.

The Board seeks to manage these risks in a number of ways:

- The Manager monitors the performance of all third party providers in relation to agreed service standards on a regular basis, and any issues and concerns are dealt with promptly and reported to the Board. The Manager formally reviews the performance of all third party providers and reports to the Board on an annual basis.
- The Board reviews the performance of the Manager at every board meeting and otherwise as appropriate. The Board has the power to replace the Manager and reviews the management contract formally once a year.
- The day-to-day management of the portfolio is the responsibility of Paul Read and Paul Causer, who are Co-Heads of the Invesco Perpetual Fixed Interest Team. They have 17 years and 18 years' experience in fixed income markets, respectively and have been the investment managers of the Company since 2001. The Board has adopted guidelines within which the investment managers are permitted wide discretion. Any proposed variation outside these guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting.
- The risk that the investment managers might be incapacitated or otherwise unavailable is mitigated by the fact that they work closely with each other and they also work within, and are supported by the wider Invesco Perpetual Fixed Interest team.

**Regulatory**

The Company is subject to various laws and regulations by virtue of its status as a Company registered under the Companies (Jersey) Law 1991, as an investment company and its listing on the London Stock Exchange. A serious breach of regulatory rules may lead to suspension from the London Stock Exchange or a qualified Audit Report. Other control failures, either by the Manager or any other of the Company's service providers, may result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews the level of compliance with financial regulatory requirements on a daily basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Board ensures that satisfactory assurances are received from service providers. The Manager's compliance and internal audit officers produce regular reports for review by the Company's Audit Committee.

Any changes in the Company's tax status or in taxation legislation or accounting practice could affect the value of investments held by the Company, affect the Company's ability to provide returns to shareholders or alter the post-tax returns to shareholders.

**Other Risks**

As a result of the Company's policy of charging 50% of management fees and financing costs (including the cost of the repo financing) to capital, maintenance of its NAV requires that the Company's investment portfolio achieves capital growth equivalent to the total amount of such costs and that all other costs are covered by income. Any changes to the way in which the Company accounts for expenses, tax or tax relief as a result of changes to recommended accounting practices, accounting standards, or tax legislation could have an adverse effect on the level of profits available for the payment of dividends.

## Audit Information

The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

# CORPORATE GOVERNANCE STATEMENT

## Corporate Governance Principles

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

The Board of Invesco Leveraged High Yield Fund Limited has considered the principles and recommendations of the AIC Code of Corporate Governance ('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 UK Corporate Governance Code, as well as setting out additional principles and recommendations on the issues that are of specific relevance to Invesco Leveraged High Yield Fund Limited.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as detailed in the Report and as set out below.

The UK Corporate Governance Code includes provisions relating to:

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

For the reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of Invesco Leveraged High Yield Fund Limited, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The terms of reference for the Board and the Audit Committee are reviewed and updated periodically to bring them in line with latest best practice and to ensure compliance with the AIC Code. The Company's corporate governance procedures are considered regularly by the Board and amended as necessary.

## Directors

The Board normally consists of five non-executive Directors, all of whom are considered wholly independent of the Company's Manager and advisers.

The Board considers that the independence of Donald Adamson and Gordon Neilly, who have served on the Board for over nine years, are not compromised by their length of service but, to the contrary, is strengthened by their experience.

### Chairman

The Chairman of the Company is Donald Adamson, an independent non-executive Director who has no conflicting relationships. He has been a member of the Board since 1999 and was the audit committee chairman up to 30 September 2012, when he was appointed as Chairman of the Board following the retirement of George Baird on the same day.

### Senior Independent Director

All Directors are equally responsible under the law for the proper conduct of the Company's affairs. The Directors are also responsible for ensuring that their policies and operations are in the interests of the Company's shareholders and that the interests of the creditors and suppliers to the Company are properly considered. In view of this, the Board does not consider it appropriate to identify a senior independent director as recommended by the AIC Code. All the Directors are available to shareholders if they have concerns which contact through the normal channels of Chairman, Manager or Company Secretary have failed to resolve, or for which such contact is inappropriate.

**Board Balance**

The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 12.

## Appointment, Re-election, Tenure and the Nomination of Directors

There is no separate nomination committee as the Board is considered too small for the purposes of the AIC Code. Directors are selected and appointed by the Board as a whole. The Directors are therefore responsible for reviewing the size, structure and skills of the Board and considering any necessary changes or new appointments.

George Baird and Hugh Ward both retired from the Board on 30 September 2012. The Board wishes to thank them for their valuable contribution during their years of service.

Prior to their retirement, in order that the Board continues to have the appropriate balance of skills, experience and knowledge of the Company, it was agreed that two new Directors be appointed. The Board carried out the process of identifying the new Directors with reference to the above requirements as well as diversity of the Board and the ability of new Directors to devote sufficient time to the Company to carry out his or her duties effectively. The Board appointed an external search consultancy to identify potential candidates. A number of strong candidates were identified and, after due consideration, the Board appointed Peter Yates and Michael Lombardi as Directors of the Company with effect from 1 August 2012.

Peter Yates has taken on the Chairmanship of the Audit Committee following the appointment of Donald Adamson as Chairman to the main board. The Board considers that, with their considerable knowledge and experience, Peter and Michael will make a valuable contribution to the Board and, therefore, recommends that shareholders support resolutions 4 and 5 at the Company's AGM.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection on the Manager's website, at the registered office of the Company and will be available at the AGM. The Articles of Association require that each Director shall retire and be subject to election at the first AGM after appointment and re-election at least every three years thereafter. Peter Yates and Michael Lombardi will therefore be standing for election at the AGM. Having served on the Board for over nine years, Donald Adamson and Gordon Neilly will stand for re-election at this year's AGM. Clive Spears was re-elected at the Company's AGM in 2012 and will therefore stand for re-election in 2015.

## Board, Committee and Directors' Performance Evaluation

The Directors recognise the importance of the AIC Code in terms of evaluating the performance of the Board as a whole, its respective Committees and individual Directors. During the year, the performance of the Board, Committees of the Board and individual Directors was assessed in terms of:

- attendance at Board and Committee Meetings;
- the independence of individual Directors;
- the ability of individual Directors to make an effective contribution to the Board and Committees of the Board due to the diversity of skills and experience each Director brings to meetings; and
- the Board's ability to effectively challenge the Manager's recommendations, suggest areas of debate and fix timetables for debates on the future strategy of the Company.

The Directors concluded that the performance evaluation process had proved successful with the Board, the Committees of the Board and the individual Directors scoring well in all areas. The Board and the Committees of the Board continued to be effective and the individual Directors continued to demonstrate commitment to their respective roles and responsibilities.

## Attendance at Board and Committee Meetings

All Directors are considered to have a good attendance record at Board and Committee meetings of the Company. The following table sets out the attendance of individual Directors:

# REPORT OF THE DIRECTORS
continued

| ATTENDED/HELD | BOARD MEETING | AUDIT COMMITTEE | MANAGEMENT ENGAGEMENT COMMITTEE |
|---|---|---|---|
| George Baird (retired 30 September 2012) | 3/4 | 1/2 | 1/1 |
| Donald Adamson | 4/4 | 2/2 | 1/1 |
| Michael Lombardi (appointed 1 August 2012) | 1/1 | n/a | n/a |
| Gordon Neilly | 3/4 | 2/2 | 1/1 |
| Clive Spears | 4/4 | 2/2 | 1/1 |
| Hugh Ward (retired 30 September 2012) | 4/4 | 2/2 | 1/1 |
| Peter Yates (appointed 1 August 2012) | 1/1 | n/a | n/a |

Apart from the Board, Audit and Management Engagement Committee meetings detailed above, there were a number of meetings held by a Committee of the Board to deal with ad hoc items.

## Directors' Remuneration

Details of the Company's policy on remuneration and of payments to Directors are given in the Directors' Remuneration Report on page 29.

## Board Responsibilities

Directors have a duty to promote the success of the Company taking into consideration the likely consequences of any decision in the long-term; 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 to maintain a reputation for high standards of business conduct; and the need to act fairly as between shareholders of the Company. The Directors are equally responsible 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 their policies and operations are in the interests of all of the Company's shareholders and that the interests of creditors and suppliers to the Company are properly disclosed.

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

A formal schedule of matters reserved for the Board detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Company's objectives, policies 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; setting long-term objectives and strategy; assessing risk; reviewing investment performance; approving loans and borrowings; and controlling risks. The schedule of matters reserved for the Board will be available for inspection at the AGM and is otherwise available at the registered office of the Company and on the Manager's website.

## Supply of Information

To enable the members of the Board to fulfil their roles, the Manager and Company Secretary ensure that all Directors have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are regularly provided throughout their terms in office with all necessary information on industry and regulatory matters. The Manager and Board have formulated an induction training programme for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors, including briefings from key members of the Manager's staff which ensure that Directors can keep up-to-date with new legislation and changing risks.

The Board meets regularly, at least four times each year, and additional meetings are arranged as necessary. Regular contact is maintained by the Manager and Company Secretary with the Board between formal meetings. Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook;

strategic direction; performance against stock market indices; asset allocation; cash management; gearing policy; revenue forecasts for the financial year; marketing and investor relations; corporate governance; and industry and other issues.

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

## The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, R&H Fund Services (Jersey) Limited. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and ongoing assessment and review of the Company Secretary is a matter for the Board as a whole.

## Internal Controls and Risk Management

The Directors acknowledge that they are responsible for the Company's systems of internal financial and non-financial controls which have been in place throughout the year and up to the date of this report. The effectiveness of the Company's operations has been reviewed, and the control systems codified to facilitate regular monitoring and management of risks and to facilitate regular review by the Audit Committee.

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board.

The Board reviews financial reports and performance against revenue forecasts and relevant stock market criteria. In addition, the Manager, Company Secretary and custodian maintain their own systems of internal controls and the Board and Audit Committee receive regular reports from the Manager's Internal Audit and Compliance Departments. Formal reports are also produced on the internal controls and procedures in place for secretarial and administrative, custodial, investment management and accounting activities and are reviewed annually by the Board.

The controls systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

## Accountability and Audit

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 32 and the Report of the Independent Auditor is set out on page 33.

## Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider that this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In considering this, the Directors took into account the Company's investment objective (see page 15), risk management policies and capital management policies (see note 18 to the financial statements), the diversified portfolio, the liquidity of the securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities, including its repo financing, and ongoing expenses from its assets.

## Audit Committee

The Audit Committee comprises all the Directors under the Chairmanship of Peter Yates. He was appointed to the Board on 1 August 2012 and appointed as Chairman of the Audit Committee with effect from 30 September 2012, succeeding Donald Adamson upon his appointment as Chairman of the Board. Committee members consider that, collectively, they are appropriately experienced to fulfil the role required. The Committee has written terms of reference which clearly define its responsibilities and duties and which ensure best practice and compliance with the AIC Code. The terms of reference, which set out the Audit Committee's role and authority, will be available for inspection at the AGM and can be inspected at the registered office of the Company as well as on the Manager's website.

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, systems of internal control and the management of financial risks, the audit process, relationships with external auditors, the Company's processes for monitoring compliance with laws and regulations, its code of business conduct and for making recommendations to the Board. It is responsible for the appointment, re-appointment and removal of the auditors as laid out in the terms of reference. The Audit Committee is also responsible for reviewing the Manager's whistleblowing arrangements.

The Committee meets at least twice each year to review internal financial and non-financial controls, to approve the contents of the draft half-yearly and annual financial reports to shareholders and to review accounting policies. In addition, the Committee reviews the Auditor's independence, objectivity and effectiveness, the quality of the services of the service providers to the Company and together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. Representatives of the Manager's Internal Audit and Compliance Departments are present at each meeting of the Committee. Representatives of Deloitte LLP, the Company's Auditor, attend the Committee meeting at which the draft annual financial report is reviewed and are given the opportunity, should they so wish, to speak to committee members without the presence of representatives of the Manager. The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, the Manager's systems of internal control, the management of financial risks, the audit process, relationships with the external auditors, the Company's processes for monitoring compliance with laws and regulations, its code of business conduct and for making recommendations to the Board.

The Company's internal financial controls and risk management systems have been reviewed with the Manager against the risk parameters approved by the Board. The Committee has also received a satisfactory report on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers. The Committee has reviewed and accepted the Manager's 'whistleblowing' policy under which staff can, in confidence, raise concerns about possible improprieties or irregularities in relation to the Company.

The audit focus and timetable was drawn up and agreed with the Auditor in advance of the Company's financial year end and the results of the audit work were reported on by the Auditor in their audit review for the Committee. The audit review was considered by the Committee and discussed with the Auditor and the Manager prior to approval and signature of these financial statements.

The Committee reviewed the financial statements for the year ended 30 September 2012 with the Manager and the Auditor at the conclusion of the audit process. There were no significant issues arising from the audit and production of the financial statements that needed to be brought to the Board's attention.

The Committee has recommended approval by the Board of an audit fee of £24,400, exclusive of expenses. The Committee has considered and is satisfied with the objectivity and the independence of the Auditor.

During the year the Auditor, Deloitte LLP did not provide any non-audit services to the Company. Normally, it is the Company's policy not to seek substantial non-audit services from its Auditor. The scope for any non-audit service is reviewed by the Audit Committee and approved prior to the Auditor's engagement.

## Stewardship

The Board considers that the Company has a responsibility as an investor towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure those standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. A copy of the Manager's Policy on Corporate Governance and Stewardship can be found at *www.invescoperpetual.co.uk*

## Shareholder Relations

Shareholder relations are given a high priority by the Board, Manager and the Company Secretary. The prime medium by which the Company communicates with its shareholders is through the annual and half-yearly financial reports, which aim to provide shareholders with a full understanding of the Company's activities and results. The information is supplemented by the daily publication of the net asset value of the Company's ordinary shares; publication of interim management statements; monthly and daily factsheets and information on the Manager's website. A presentation is made by the Manager following the business of the AGM each year. Shareholders have the opportunity to address questions to the Chairman and the Chairmen of the Committees of the Board at the AGM. All shareholders are encouraged to attend the AGM.

There is regular dialogue between the Manager and individual major shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help to develop a balanced understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual financial results. All meetings between the Manager and institutional shareholders are reported to the Board. There is an opportunity for individual shareholders to question the Chairman of the Board and the Chairman of the Audit and Management Engagement Committees, at the AGM.

It is the intention of the Board that the annual financial reports are issued to shareholders so as to provide 20 working days' notice of the AGM. Shareholders who wish to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or otherwise in writing to the Company Secretary at the address detailed on page 13. The Company responds to letters from individual shareholders on a range of issues.

Shareholders can also visit the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts* in order to contact the Company's Directors or Manager and to access copies of annual and half-yearly financial reports, interim management statements, shareholder circulars, stock exchange announcements, factsheets and the Company's share price. Shareholders are also able to access copies of the schedule of matters reserved for the Board; terms of reference for Board Committees; and, following any shareholder meetings, proxy voting results via the website.

## The Manager

**Investment Management Agreement**

Invesco Asset Management Limited was appointed Manager under an agreement dated 8 October 1999. The Directors have delegated to the Manager responsibility for the day-to-day investment management activities of the Company.

The management fee rate is 1.0% per annum of net assets, payable quarterly. In addition, a performance related fee is payable at the end of the Company's financial year if the Company's 'Total Return' in a year exceeds the 'Hurdle Return' for the year. The 'Total Return' is calculated as the change in NAV per share for the year multiplied by the time-weighted number of ordinary shares in issue during that period plus the aggregate of dividends declared in respect of the year. If a performance fee is payable, it is equal to 20% of the amount by which the Total Return (including any underperformance component) exceeds the 'Hurdle Return'. The Hurdle Return is the sterling LIBOR plus 1% per annum plus any underperformance in previous years. The agreement is terminable by one year's written notice by the Company or three months' notice if Paul Causer and/or Paul Read cease to be involved in the management of the Company's investment portfolio. The management fee for the year is £678,000 (2011: £694,000); no performance fee was earned in the year.

**The Manager's Responsibilities**

The Directors have delegated to the Manager the responsibility for the day-to-day investment management activities of the Company, for seeking and evaluating investment opportunities and for analysing the accounts of the 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. Within the guidelines specified by the Board, the Manager has discretion over the investment portfolio. The Manager also advises on borrowings.

R&H Fund Services (Jersey) Limited provide company secretarial and administrative services ensuring that the Company complies with legal, regulatory and corporate governance requirements and attending on Directors at Board and shareholder meetings.

# REPORT OF THE DIRECTORS

continued

**Assessment of the Manager**

The Management Engagement Committee comprises the entire Board of Directors. The Committee meets at least annually, specifically to consider the ongoing investment management, secretarial and administrative requirements of the Company. The ongoing requirements of the Company and services received are assessed with reference to key performance indicators as set out on page 16.

Performance is reviewed by reference to the 3 month LIBOR rate. The quality and timeliness of reports to the Board is also taken into account and the overall conduct of the Company's affairs by the Manager is considered. Based on its recent review of activities, and taking into account the performance of the portfolio, the other services provided by the Manager, and the risk and governance environment in which the Company operates, the Board believes that the continuing appointment of Invesco Asset Management Limited remains in the best interests of the Company and its shareholders.

**The Management Engagement Committee**

The Board is considered small for the purposes of the AIC Code and all the Directors are members of the Management Engagement Committee under the Chairmanship of Peter Yates. The Management Engagement Committee has written terms of reference, which clearly define its responsibilities and duties. They will be available for inspection at the AGM and can be inspected on the Manager's website and at the registered office of the Company. The Committee meets annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager.

A statement of Invesco Asset Management Limited's responsibilities as Manager of the Company and the assessment of the Investment Manager by the Management Engagement Committee can be found on page 27.

## Social and Environmental Policies

As an investment company with no employees, property or activities outside investment, environmental and social policies as well as community issues have limited application.

The Manager considers various factors when evaluating potential investments. While a company's policy towards the environment and social responsibility is considered as part of the overall assessment of risk and the suitability of the company for the investment portfolio, the Manager does not necessarily preclude an investment being made on these grounds alone.

The Company is able to supply documents or information to shareholders in electronic form (e.g. by e-mail) or by means of a website. This delivers environmental benefits through the reduced use of paper and of the energy required for its production and distribution.

# DIRECTORS

## Directors' Disclosable Interests

The beneficial interests of the Directors in the share capital of the Company are set out below and are unchanged as at 27 November 2012:

| | 30 SEPTEMBER 2012 | 30 SEPTEMBER 2011 |
|---|---|---|
| **Ordinary Shares** | | |
| Donald Adamson | 552,141 | 504,632 |
| George Baird | Nil | Nil |
| Michael Lombardi | 100,000 | n/a |
| Gordon Neilly | 109,999 | 109,999 |
| Clive Spears | Nil | Nil |
| Hugh Ward | 20,342 | 18,593 |
| Peter Yates | 100,000 | n/a |

Save as aforesaid, no Director had any interest, beneficial or otherwise, in the shares of the Company during the year.

## Directors' Remuneration

### Remuneration Responsibilities

The Board have resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration responsibilities are therefore regarded as part of the Board's responsibilities, to be addressed regularly as a whole.

All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered. The Board seeks advice, *inter alia*, from the Company Secretary when considering the level of Directors' fees.

### Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should be fair and reasonable in relation to the time commitment and responsibilities of the Directors. It is intended that this policy will continue for the year ending 30 September 2013 and subsequent years.

During the year, the Board has reviewed Directors' remuneration taking into consideration the increasing demands and accountability of the current corporate governance and regulatory environment and the additional workload that each Director has and will continue to experience. The Board considers that the current level of remuneration remains appropriate.

The Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits.

### Directors' Emoluments for the Year

The Directors who served during the year received the following emoluments in the form of fees:

| | 2012 | 2011 |
|---|---|---|
| George Baird (Chairman of the Board) | 22,500 | 22,500 |
| Donald Adamson (Chairman of the Audit Committee) | 19,500 | 19,500 |
| Alister Carey (retired 18 May 2011) | — | 11,052 |
| Michael Lombardi (appointed 1 August 2012) | 2,916 | — |
| Gordon Neilly | 17,500 | 17,500 |
| Clive Spears (appointed 18 May 2011) | 17,500 | 6,485 |
| Hugh Ward | 17,500 | 17,500 |
| Peter Yates (appointed 1 August 2012) | 2,917 | — |
| Total | 100,333 | 94,537 |

## Directors' and Officers' Liability Insurance

The Company maintains a Directors' and Officers' Liability Insurance policy at a level which is considered appropriate for the business.

## Share Capital

Under the Articles, shares may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to dividends, return of capital, voting or otherwise as the Company may by special resolution determine.

The Company may, by special resolution, alter its share capital in any manner permitted by the Companies (Jersey) Law 1991 (the 'Law'). Subject to the Law, the Company may also purchase, or agree to purchase in the future, any shares of any class (including redeemable shares) in its own capital in any way.

### Ordinary Shares

- The Company's capital structure consisted of 111,292,526 ordinary shares at the year end.
- During the year 100,000 ordinary shares were bought back and cancelled.
- At a general meeting of the Company every shareholder has one vote on a show of hands and on a poll one vote for each ordinary share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

- Details of the substantial shareholders in the Company are shown below.
- The Board's current powers to buy back shares are stated on page 29 and proposals for their renewal are disclosed below.
- 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.

## Substantial Shareholders

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

| | AS AT 31 OCTOBER 2012 | | AS AT 30 SEPTEMBER 2012 | |
|---|---|---|---|---|
| | HOLDING | % | HOLDING | % |
| Invesco Perpetual | 33,306,365 | 29.9 | 33,306,365 | 29.9 |
| Midas Capital | 4,760,000 | 4.3 | 5,310,000 | 4.8 |
| Transact (ND) | 4,195,794 | 3.8 | 4,186,847 | 3.8 |
| Raymond James Investment Services | 4,059,011 | 3.7 | 4,070,725 | 3.7 |
| GAM | 4,025,388 | 3.6 | 4,025,388 | 3.6 |
| Premier Asset Management | 3,480,000 | 3.1 | 3,480,000 | 3.1 |
| JO Hambro Investment Management | 3,463,700 | 3.1 | 3,463,700 | 3.1 |

## Special Business at the Annual General Meeting ('AGM')

Shareholders will find on page 53 the notice of the forthcoming AGM of the Company to be held on 24 January 2013. In addition to the ordinary business of the meeting, three resolutions are proposed as special business and are summarised below.

**Special Resolution 7** is to renew the authority for the Company to purchase its own ordinary shares. Your Directors are seeking the authority to purchase up to 16,682,749 (14.99% of the Company's issued share capital as at 27 November 2012) subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2014. 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.

**Special Resolution 8** is to permit the Company to hold general meetings (other than annual general meetings) on 14 days' notice. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless certain conditions are met. The first condition is that the Company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that the flexibility will be used only where the Board believed it is in the interests of shareholders as a whole.

**Special Resolution 9** is to approve renewal of the waiver from the Panel on Takeovers and Mergers of the obligation on the Invesco Concert Party to make a general offer for the entire issued share capital of the Company which may otherwise arise as a result of the exercise by the Company of the share buy back authority proposed to be granted by the shareholders pursuant to resolution 7. Under Rule 9 of the Takeover Code, any person who acquires an interest in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30% or more of the voting rights of a company which is subject to The Takeover Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares. Under Rule 37 of the Takeover Code, when a company purchases its own shares, any resulting increase in the percentage of shares carrying voting rights which a person or group of persons acting in concert is interested will be treated as an acquisition for the purposes of Rule 9 (although a shareholder who is neither a Director nor acting in concert with a Director will not normally incur an obligation to make an offer under Rule 9 of the Takeover Code). Under Rule 37, however, the holding of an investment manager of a company, together with the holdings of its concert parties, will be treated in the same way as a Director.

Funds under the discretionary management of Invesco Asset Management Limited, your Company's Manager, own ordinary shares in your Company and for the purposes of the Takeover Code, these funds, together with those under the discretionary management of any other member of the Invesco Group are deemed to be acting in concert (the 'Invesco Concert Party'). As at 27 November 2012, the Invesco Concert Party between them owned 33,306,365 ordinary shares in your Company, representing approximately 29.93% of the issued share capital.

If the Company were to utilise its proposed share buy back authority and the Invesco Concert Party's aggregate interest in ordinary shares were to increase in excess of 30%, then in the absence of a waiver from the Panel on Takeovers and Mergers, an obligation for the Invesco Concert Party to make a general offer to all shareholders in accordance with Rule 9 of the Takeover Code would be triggered. Your Company is therefore seeking from the shareholders (other than members of the Invesco Concert Party) a renewal of the waiver of such mandatory bid obligation to the extent that it would otherwise be triggered by any buy back by the Company.

The renewal of the waiver, if approved, will expire on the earlier of the conclusion of the 2014 AGM or 15 months from the date of passing the resolution. Further details can be found in the shareholder circular to be dated on or around 5 December 2012 entitled 'Proposed renewal of the waiver of the requirements of Rule 9 of the City Code on Takeovers and Mergers'.

Your Directors have carefully considered all the resolutions proposed in the Notice of the AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. Your Directors therefore recommend that shareholders vote in favour of each resolution.

The AGM of the Company will be held at the offices of R&H Fund Services (Jersey) Limited on 24 January 2013 at 10.30 am.

## Auditor

The Audit Committee has considered the independence of the Auditor and the objectivity of the audit process and is satisfied that Deloitte LLP has fulfilled its obligations to shareholders as Independent Auditor to the Company. There is no current intention to seek tenders in respect of the Audit contract.

A resolution proposing the re-appointment of Deloitte LLP as the Company's Auditor and a resolution to authorise the Directors to determine the Auditor's remuneration will be put to the forthcoming AGM.

## Creditor Payment Policy

It is the Company's policy to obtain the best terms for all business, including purchases of investments, and to abide by those agreed terms. The Company had an outstanding trade creditors balance of £797,000 (2011: £nil) at the year end.

**R&H Fund Services (Jersey) Limited**
*Company Secretary*

27 November 2012

# STATEMENT OF DIRECTORS' RESPONSIBILITIES
## in respect of the Preparation of the Annual Financial Report

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

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

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

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

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

The 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 Directors' Report (including a Business Review) and a Corporate Governance Statement that comply with that law and those regulations.

The Directors of the Company, 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
- the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

**Donald Adamson**
*Chairman*

*Signed on behalf of the Board of Directors*

27 November 2012

## Electronic Publication

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

# REPORT OF THE INDEPENDENT AUDITOR

To the Members of Invesco Leveraged High Yield Fund Limited

We have audited the financial statements of Invesco Leveraged High Yield Fund Limited for the year ended 30 September 2012 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cashflows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

## Respective responsibilities of directors and auditor

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

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2012 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

**Andrew Isham, BA, FCA**
**for and on behalf of Deloitte LLP**

Chartered Accountants and Recognized Auditor
St. Helier, Jersey, UK

27 November 2012

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER

| | NOTES | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 | 2011 REVENUE £'000 | 2011 CAPITAL £'000 | 2011 TOTAL £'000 |
|---|---|---|---|---|---|---|---|
| Profit/(loss) on investments at fair value | 11 | — | 8,589 | 8,589 | — | (11,406) | (11,406) |
| Exchange differences | | — | 1,751 | 1,751 | — | (718) | (718) |
| Profit on derivative instruments – currency hedges | | — | 1,763 | 1,763 | — | 522 | 522 |
| Income | 4 | 6,879 | — | 6,879 | 7,203 | — | 7,203 |
| Investment management fees | 5 | (339) | (339) | (678) | (347) | (347) | (694) |
| Other expenses | 6 | (310) | (1) | (311) | (276) | (1) | (277) |
| Profit/(loss) before finance costs and taxation | | 6,230 | 11,763 | 17,993 | 6,580 | (11,950) | (5,370) |
| Finance costs | 7 | (213) | (213) | (426) | (264) | (264) | (528) |
| Profit/(loss) before tax | | 6,017 | 11,550 | 17,567 | 6,316 | (12,214) | (5,898) |
| Taxation | 8 | (29) | — | (29) | (33) | — | (33) |
| Profit/(loss) after tax | | 5,988 | 11,550 | 17,538 | 6,283 | (12,214) | (5,931) |
| Return per ordinary share | 9 | 5.4p | 10.4p | 15.8p | 5.6p | (10.9)p | (5.3)p |

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER

| | NOTES | SHARE CAPITAL £'000 | SHARE PREMIUM £'000 | CAPITAL RESERVE £'000 | REVENUE RESERVE £'000 | TOTAL |
|---|---|---|---|---|---|---|
| At 1 October 2010 | | 5,570 | 113,634 | (58,524) | 12,689 | 73,369 |
| Total comprehensive income for the year | | — | — | (12,214) | 6,283 | (5,931) |
| Dividends paid | 10 | — | — | — | (6,962) | (6,962) |
| At 1 October 2011 | | 5,570 | 113,634 | (70,738) | 12,010 | 60,476 |
| Total comprehensive income for the year | | — | — | 11,550 | 5,988 | 17,538 |
| Shares bought back and cancelled | | (5) | — | (51) | — | (56) |
| Dividends paid | 10 | — | — | — | (5,567) | (5,567) |
| At 30 September 2012 | | 5,565 | 113,634 | (59,239) | 12,431 | 72,391 |

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

# BALANCE SHEET

## AS AT 30 SEPTEMBER

| | NOTES | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments held at fair value through profit or loss | 11 | 92,215 | 90,297 |
| **Current assets** | | | |
| Other receivables | 12 | 2,265 | 2,658 |
| Derivative financial instruments – unrealised gain | 14 | — | 336 |
| Cash and cash equivalents | | 6,868 | 8,715 |
| | | 9,133 | 11,709 |
| **Current liabilities** | | | |
| Other payables | 13 | (1,081) | (305) |
| Derivative financial instruments – unrealised loss | 14 | (104) | — |
| Securities sold under agreements to repurchase | | (27,772) | (41,225) |
| | | (28,957) | (41,530) |
| **Net current liabilities** | | (19,824) | (29,821) |
| **Total net assets** | | 72,391 | 60,476 |
| **Issued capital and reserves attributable to equity holders** | | | |
| Share capital | 15 | 5,565 | 5,570 |
| Share premium | 16 | 113,634 | 113,634 |
| Capital reserve | 16 | (59,239) | (70,738) |
| Revenue reserve | 16 | 12,431 | 12,010 |
| **Shareholders' funds** | | 72,391 | 60,476 |
| **Net asset value per ordinary share** | 17 | 65.1p | 54.3p |

These financial statements were approved and authorised for issue by the Board of Directors on 27 November 2012.

**Donald Adamson**
*Chairman*

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

# STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 SEPTEMBER

| | NOTES | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit/(loss) before tax | | 17,567 | (5,898) |
| Taxation | | (29) | (33) |
| Adjustments for: | | | |
| Purchases of investments | | (13,137) | (58,766) |
| Sales of investments | | 20,605 | 50,185 |
| | | 7,468 | (8,581) |
| (Decrease)/increase from securities sold under agreements to repurchase | | (13,453) | 11,906 |
| (Profit)/loss on investments | | (8,589) | 11,406 |
| Exchange differences | | (1,751) | 718 |
| Net cash inflow/(outflow) from derivative instruments – currency hedges | | 440 | (1,492) |
| Finance costs | | 426 | 528 |
| **Operating cash flows before movements in working capital** | | 2,079 | 8,554 |
| Decrease/(increase) in receivables | | 393 | (328) |
| Increase/(decrease) in payables | | 40 | (39) |
| **Net cash flows from operating activities** | | 2,512 | 8,187 |
| **Cash flows from financing activities** | | | |
| Interest paid | | (487) | (476) |
| Shares repurchased and cancelled | | (56) | — |
| Equity dividends paid | 10 | (5,567) | (6,962) |
| **Net cash used in financing activities** | | (6,110) | (7,438) |
| Net (decrease)/increase in cash and cash equivalents | | (3,598) | 749 |
| Exchange differences | | 1,751 | (718) |
| Cash and cash equivalents at beginning of year | | 8,715 | 8,684 |
| **Cash and cash equivalents at end of year** | | 6,868 | 8,715 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Principal Activity

The Company is a closed-end investment company incorporated in Jersey and it operates under the Companies (Jersey) Law 1991. The Company was incorporated on 10 September 1999. The principal activity of the Company is investment in a diversified portfolio of high yielding corporate and government bonds and, to a lesser extent, equities and other instruments as appropriate to its Investment Policy.

## 2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the current year and the preceding year, unless otherwise stated. The accounts have been prepared on a going concern basis. The disclosure on going concern on page 25 of the Report of the Directors forms part of the financial statements.

### (a) Basis of Preparation

(i) *Accounting Standards Applied*

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

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

(ii) *Adoption of New and Revised Standards*

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

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

- IFRS 9: Financial Instruments (effective for accounting periods starting on or after 1 January 2015).
- IFRS 10: Consolidated Financial Statements (effective for accounting periods starting on or after 1 January 2013).
- IFRS 12: Disclosure of Interests in Other Entities (effective for accounting periods starting on or after 1 January 2013).
- IFRS 13: Fair Value Measurement (effective for accounting periods starting on or after 1 January 2013).
- IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures for offsetting financial assets and financial liabilities (effective 1 January 2013).
- IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective 1 January 2014).
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015).
- Amendments to IFRS10, IFRS 12 and IAS 27 (October 2012) – Investment Entities (effective for accounting periods starting on or after 1 January 2014).

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

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 2. Principal Accounting Policies (continued)

### (a) Basis of Preparation (continued)

(iii) *Critical Accounting Estimates and Judgements*

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

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

Where there is no active market, illiquid/unlisted investments are valued at valuations determined by the Directors at fair value based on remunerations from Invesco's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Association Guidelines, using valuation techniques such as earnings multiples recent arm's length transactions and net assets.

### (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 share capital and expenses is denominated, as well as certain of its assets and liabilities.

(ii) *Transactions and Balances*

Transactions in foreign currency 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. Any gains or losses, whether realised or unrealised, are taken to the capital reserve or to the revenue reserve, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the statement of comprehensive income under profit or loss for the year.

### (c) Financial Instruments

(i) *Recognition of Financial Assets and Financial Liabilities*

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

(ii) *Derecognition of Financial Assets*

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

(iii) *Derecognition of Financial Liabilities*

The Company derecognises financial liabilities when its obligations are discharged, cancelled or expired.

(iv) *Trade Date Accounting*

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) *Classification of financial assets and financial liabilities*

*Financial assets*

The Company's investments are classified as held at fair value through profit or loss.

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.

(v) *Classification of financial assets and financial liabilities (continued)*

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Where there is no active market, unlisted/illiquid investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Association Guidelines, using valuation techniques such as earnings multiples, recent arm's length transactions and net assets.

Other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using effective interest method less any impairment.

*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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period.

## (d) Hedging and Derivatives

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are included in capital reserves.

Futures contracts may be entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital reserves.

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

## (e) Cash and Cash Equivalents

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

## (f) Securities Sold Under Agreements to Repurchase ('repo financing')

The Company participates in repo financing arrangements in connection with its investment portfolio. Under these arrangements, the Company sells fixed interest securities but is contractually obliged to repurchase them at a fixed price on a fixed date. Securities which are the subject of repo financing arrangements are included in investments in the balance sheet at their fair value and the associated liability is recognised at amortised cost, being the capital amounts owing under the repo financing arrangements. The difference between sale and repurchase prices for such transactions is reflected in the statement of comprehensive income over the lives of the transactions, within interest payable which is allocated equally between capital and revenue. This accounting has been adopted because the repurchase price results in a lender's return for the transferee as the Company has retained substantially all the risks and rewards of ownership of the asset.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 2. Principal Accounting Policies (continued)

### (g) Revenue Recognition

Interest income arises from cash and cash equivalents and fixed income securities and is recognised in the statement of comprehensive income using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Where the Company elects to receive dividends in the form of additional shares rather than cash, the equivalent to the cash dividend is recognised as income in revenue and any excess in value of the shares received over this is recognised in capital.

### (h) Expenses

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 equally to capital and revenue. This is in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio. The performance fee is allocated wholly to capital as it arises from capital returns on the investment portfolio. All other expenses, except for custodian dealing costs, are charged through revenue.

### (i) 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

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, and therefore no segmental reporting is provided.

## 4. Income

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Income from investments** | | |
| UK dividends | 27 | 27 |
| UK bond interest | 2,143 | 2,232 |
| Overseas bond interest | 4,667 | 4,856 |
| Overseas dividends | 29 | 67 |
| | 6,866 | 7,182 |
| **Other income** | | |
| Deposit interest | 13 | 21 |
| **Total income** | 6,879 | 7,203 |

## 5. Investment Management Fees

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Investment management fee | 339 | 339 | 678 | 347 | 347 | 694 |
| | 339 | 339 | 678 | 347 | 347 | 694 |

Details of the investment management agreement are disclosed in the Report of the Directors. At the year end the management fee accrued was £181,000 (2011: £151,000). No performance related fee was accrued for the year (2011: £nil) as previous years' underperformance has not been fully recovered.

## 6. Other Expenses

| | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 | 2011 REVENUE £'000 | 2011 CAPITAL £'000 | 2011 TOTAL £'000 |
|---|---|---|---|---|---|---|
| General expenses – note (i) | 186 | 1 | 187 | 157 | 1 | 158 |
| Directors' fees – note (ii) | 100 | — | 100 | 95 | — | 95 |
| Auditor's remuneration: | | | | | | |
| – for audit of the financial statements | 24 | — | 24 | 24 | — | 24 |
| | 310 | 1 | 311 | 276 | 1 | 277 |

(i) General expenses include amounts due to R&H Fund Services (Jersey) Limited who act as Administrator and Company Secretary to the Company under an agreement dated 8 October 1999. This agreement is terminable by not less than three months' written notice subject to earlier termination as provided for therein. The fee is calculated at the rate of £11,000 (2011: £10,000) per annum for Company Secretarial services and £21,000 (2011: £21,000) per annum for Administration Services. In addition, custodian dealing costs of £1,000 (2011: £1,000) are charged wholly to capital.

(ii) The maximum Directors' fees authorised by the Articles of Association are £200,000 per annum.

## 7. Finance Costs

| | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 | 2011 REVENUE £'000 | 2011 CAPITAL £'000 | 2011 TOTAL £'000 |
|---|---|---|---|---|---|---|
| Interest due under repo financing | 213 | 213 | 426 | 264 | 264 | 528 |

## 8. Taxation

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Overseas taxation | 29 | 33 |

The Company is subject to Jersey income tax at the rate of 0% (2011: 0%). The overseas tax charge consists of irrecoverable withholding tax.

## 9. Return per Share

The basic revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation and on 111,342,253 (2011: 111,392,526) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

## 10. Dividends

| | 2012 PENCE | 2012 £'000 | 2011 PENCE | 2011 £'000 |
|---|---|---|---|---|
| Dividends paid and recognised in the year: | | | | |
| Second interim for 2010 | — | — | 2.50 | 2,785 |
| Fourth interim for 2011 | 1.25 | 1,393 | — | — |
| First interim for 2012/2011 | 1.25 | 1,392 | 1.25 | 1,392 |
| Second interim for 2012/2011 | 1.25 | 1,391 | 1.25 | 1,393 |
| Third interim for 2012/2011 | 1.25 | 1,391 | 1.25 | 1,392 |
| | 5.00 | 5,567 | 6.25 | 6,962 |

## 10. Dividends (continued)

Set out below are the dividends that have been declared in respect of the financial years ended 30 September:

| | 2012 PENCE | 2012 £'000 | 2011 PENCE | 2011 £'000 |
|---|---|---|---|---|
| Dividends in respect of the year: | | | | |
| First interim | 1.25 | 1,392 | 1.25 | 1,392 |
| Second interim | 1.25 | 1,391 | 1.25 | 1,393 |
| Third interim | 1.25 | 1,391 | 1.25 | 1,392 |
| Fourth interim | 1.25 | 1,391 | 1.25 | 1,393 |
| | 5.00 | 5,565 | 5.00 | 5,570 |

The fourth interim dividend for 2012 was paid on 31 October 2012 to shareholders on the register on 12 October 2012.

## 11. Investments Held at Fair Value Through Profit and Loss

### (a) Analysis of investments:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Investments listed on a recognised investment exchange | 92,215 | 90,297 |

### (b) Analysis of investment profits/(losses):

| | 2012 UK LISTED £'000 | 2012 OVERSEAS LISTED £'000 | 2012 TOTAL £'000 | 2011 UK LISTED £'000 | 2011 OVERSEAS LISTED £'000 | 2011 TOTAL £'000 |
|---|---|---|---|---|---|---|
| Opening valuation | 25,001 | 65,296 | 90,297 | 28,103 | 65,019 | 93,122 |
| Movements in the year: | | | | | | |
| Purchases at cost | 4,106 | 9,828 | 13,934 | 13,215 | 45,551 | 58,766 |
| Sales – proceeds | (4,572) | (16,033) | (20,605) | (12,540) | (37,645) | (50,185) |
| – net realised (loss)/profit | (3) | (297) | (300) | 2,223 | 1,448 | 3,671 |
| Movement in investment holding profit/(loss) in the year | 3,757 | 5,132 | 8,889 | (6,000) | (9,077) | (15,077) |
| Closing valuation | 28,289 | 63,926 | 92,215 | 25,001 | 65,296 | 90,297 |
| Closing book cost | 26,107 | 64,904 | 91,011 | 26,577 | 71,405 | 97,982 |
| Closing investment holding profit/(loss) | 2,182 | (978) | 1,204 | (1,576) | (6,109) | (7,685) |
| Closing valuation | 28,289 | 63,926 | 92,215 | 25,001 | 65,296 | 90,297 |
| Realised (loss)/profit in the year | (3) | (297) | (300) | 2,223 | 1,448 | 3,671 |
| Movement in investment holding profit/(loss) in the year | 3,757 | 5,132 | 8,889 | (6,000) | (9,077) | (15,077) |
| Total profit/(loss) in the year | 3,754 | 4,835 | 8,589 | (3,777) | (7,629) | (11,406) |

(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. Securities transferred under repo financing arrangements are registered in the name of the counterparty until these are repurchased by the Company, when these are re-registered in the name of the Company.

(d) Securities under agreements to repurchase had a market value of £44,023,000 (2011: £57,117,000).

(e) Included in the analysis of investments above are credit default swaps with a notional contract amount of £nil (2011: £6,887,000 payable) and a market value of £nil (2011: loss of £437,000). These instruments constitute level 2 investments within the classification of fair value heirarchy.

(f) The transaction costs on investments amount to £4,000 on purchases and £nil for sales (2011: £nil).

## 12. Other Receivables

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Prepayments and accrued income | 2,265 | 2,658 |
| | 2,265 | 2,658 |

## 13. Other Payables

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Amounts to brokers | 797 | — |
| Accruals | 284 | 305 |
| | 1,081 | 305 |

## 14. Derivative Financial Instruments

Derivative financial instruments comprise forward currency contracts and credit default swaps. The credit default swaps are shown as part of investments in note 11(e).

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Forward currency contracts – (loss)/profit unrealised | (104) | 336 |

## 15. Share Capital

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Authorised:** | | |
| 200,000,000 ordinary shares of 5p each (2011: 200,000,000 shares) | 10,000 | 10,000 |
| **Allotted, called-up and fully paid:** | | |
| 111,292,526 ordinary shares of 5p each (2011: 111,392,526 shares) | 5,565 | 5,570 |

During the year 100,000 ordinary shares were bought back at 56.325p and cancelled.

## 16. Reserves

The share premium arises from the excess of consideration received on the issue of shares over the nominal 5p value and is non-distributable.

The capital reserve includes investment holding gains 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 and share buy backs. It, and the revenue reserve, are distributable whenever a surplus is held.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 17. Net Asset Value per Share

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 | |
|---|---|---|---|---|
| | 2012 PENCE | 2011 PENCE | 2012 £'000 | 2011 £'000 |
| Ordinary shares | 65.1 | 54.3 | 72,391 | 60,476 |

Net asset value per ordinary share is based on net assets at the year end and on 111,292,526 (2011: 111,392,526) ordinary shares, being the number of ordinary shares in issue at the year end.

## 18. Financial Instruments

The Company's financial instruments comprise its investment portfolio (as shown on pages 9 and 10), cash, securities sold under agreements to repurchase (repo financing), derivative financial instruments, other receivables and other payables that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 2 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The principal risks that an investment company faces in its portfolio management activities are set out below:

***Market risk*** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:

*Currency risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;

*Interest rate risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and

*Other price risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.

***Liquidity risk*** – arising from any difficulty in meeting obligations associated with financial liabilities.

***Credit risk*** – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

### Risk Management Policies and Procedures

The Directors have delegated to the Manager the responsibility for the day-to-day investment activities, management of borrowings and hedging of the Company as more fully described in the Report of the Directors.

As an investment company investments include, but are not restricted to, corporate bonds, government bonds, preference shares, loan stocks and equities for the long-term so as to comply with its Investment Policy (incorporating the Company's investment objective). In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends. The risks applicable to the Company and the policies the Company uses to manage these risks for the two years under review follow.

***Market Risk***

The Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the portfolio on an ongoing basis. Risk management is an integral part of the investment management process. The Manager controls risk by ensuring that the Company's investment portfolio is appropriately diversified. In-depth and continual analysis of market and stock fundamentals give the Manager the best possible understanding of the risks associated with a particular stock.

As more fully described on pages 19 and 20 of the Report of the Directors, high-yield corporate bonds are subject to a variety of risks. A majority of the Company's investments are in non-investment grade securities and so adverse changes in the financial position of an issuer of corporate bonds or in the general economy may affect both the principal and the interest.

(a) *Currency Risk*

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

*Management of the currency risk*

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board on a regular basis. The Company uses both forward currency contracts and repo financing to mitigate currency movements that would affect the investment portfolio and cash. In addition, the Company can use non-sterling credit default swaps ('CDSs') to mitigate or increase currency risk depending on whether the Company has sold or bought the CDSs.

Repo financing is matched to the currency of the underlying assets, which minimises currency risk on the movement of exchange rates affecting the underlying investments. Non-sterling investments that are not pledged under repo financing, can be hedged using forward currency contracts.

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 30 September are shown in the table below. Where the Company's investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

| | 2012 | | 2011 | | |
|---|---|---|---|---|---|
| | EURO £'000 | US DOLLAR £'000 | EURO £'000 | US DOLLAR £'000 | SWISS FRANC £'000 |
| Investments at fair value through profit or loss that are monetary items (fixed interest) | 50,720 | 10,413 | 49,477 | 12,615 | 322 |
| Cash at bank | 1,555 | 1,675 | 588 | 2,393 | 14 |
| Other receivables (due from brokers, dividends receivable and accrued income) | 1,246 | 269 | 1,518 | 347 | 5 |
| Other payables (due to brokers and accruals) | (813) | (2) | (46) | (14) | — |
| Securities sold under agreement to repurchase | (19,042) | (3,527) | (27,570) | (4,809) | — |
| Forward currency contracts | (29,504) | — | (23,634) | (3,522) | (354) |
| Foreign currency exposure on net monetary items | 4,162 | 8,828 | 333 | 7,010 | (13) |
| Investments at fair value through profit or loss that are equities/warrants | — | 2,793 | — | 2,882 | — |
| Total net foreign currency exposure | 4,162 | 11,621 | 333 | 9,892 | (13) |

The above amounts are not representative of the exposure to risk during the two years reported because the levels of monetary foreign currency exposure change significantly throughout each year.

## 18. Financial Instruments (continued)

***Market Risk (continued)***

(a) ***Currency Risk (continued)***

*Currency sensitivity*

The following tables illustrate the sensitivity of the profit after taxation for the year with respect to the Company's monetary financial assets and liabilities and each of the exchange rates for £ to euro, US dollar and Swiss franc based on the following:

| | 2012 | 2011 |
|---|---|---|
| £/Euro | ±3.2% | ±1.9% |
| £/US dollar | ±1.5% | ±1.8% |
| £/Swiss franc | ±2.5% | ±6.5% |

The above percentages have been determined based on the market volatility in exchange rates in the year. The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of any forward foreign exchange contracts that offset the effects of changes in currency exchange rates. The effect of the strengthening or weakening of sterling against currencies to which the Company is exposed is calculated by reference to the volatility of exchange rates during the year using the standard deviation of currency fluctuations against the mean.

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

| | 2012 | | 2011 | | |
|---|---|---|---|---|---|
| | EURO £'000 | US DOLLAR £'000 | EURO £'000 | US DOLLAR £'000 | SWISS FRANC £'000 |
| Income statement – loss after taxation | | | | | |
| Revenue return | (118) | (13) | (71) | (27) | — |
| Capital return | (92) | (167) | 19 | (178) | 1 |
| Total loss after taxation for the year | (210) | (180) | (52) | (205) | 1 |

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

In the opinion of the Directors, this 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.

(b) ***Interest Rate Risk***

Interest rate movements may affect:
– the fair value of the investments in fixed interest rate securities;
– the level of income receivable on cash deposits; and
– the interest payable on variable rate borrowings.

*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 when making investment decisions and borrowings using repo financing. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed interest, floating rate securities and gearing levels. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the custodian, Bank of New York Mellon.

*Interest rate exposure*

At 30 September the exposure of financial assets and financial liabilities to interest rate risk is shown by reference to:

– floating interest rates (giving cash flow interest rate risk) – when the interest rate is due to be re-set; and

– fixed interest rates (giving fair value interest rate risk) – when the financial instrument is due for repayment.

| | 2012 WITHIN ONE YEAR £'000 | 2012 MORE THAN ONE YEAR £'000 | 2012 TOTAL £'000 | 2011 WITHIN ONE YEAR £'000 | 2011 MORE THAN ONE YEAR £'000 | 2011 TOTAL £'000 |
|---|---|---|---|---|---|---|
| Exposure to floating interest rates: | | | | | | |
| Investments at fair value through profit or loss | — | 29,835 | 29,835 | — | 26,462 | 26,462 |
| Cash at bank | 6,868 | — | 6,868 | 8,715 | — | 8,715 |
| | 6,868 | 29,835 | 36,703 | 8,715 | 26,462 | 35,177 |
| Exposure to fixed interest rates: | | | | | | |
| Investments at fair value through profit or loss | — | 59,160 | 59,160 | 13 | 60,972 | 60,985 |
| Securities sold under agreements to repurchase | (27,772) | — | (27,772) | (41,225) | — | (41,225) |
| | (27,772) | 59,160 | 31,388 | (41,212) | 60,972 | 19,760 |
| Net exposure to interest rates | (20,904) | 88,995 | 68,091 | (32,497) | 87,434 | 54,937 |

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio statement on pages 9 and 10. The weighted average effective interest rate on these investments is 7.4% (2011: 7.4%).

*Interest rate sensitivity*

The following table illustrates the sensitivity of the profit after taxation for the year to a 1.0% increase or decrease in interest rates in regard to the Company's monetary financial assets and financial liabilities. 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 monetary financial instruments held at the balance sheet date, with all other variables held constant.

| | 2012 INCREASE IN RATE £'000 | 2012 DECREASE IN RATE £'000 | 2011 INCREASE IN RATE £'000 | 2011 DECREASE IN RATE £'000 |
|---|---|---|---|---|
| Income statement – profit/(loss) after taxation | | | | |
| Revenue return | 69 | (69) | 87 | (87) |
| Capital return | (3,827) | 3,827 | (3,848) | 3,848 |
| Total profit/(loss) after taxation for the year | (3,758) | 3,758 | (3,761) | 3,761 |
| Effect on NAV | (3.4)p | 3.4p | (3.4)p | 3.4p |

The above exposure and sensitivity analysis are not representative of the year as a whole, since the level of exposure changes frequently as borrowings are drawn down and repaid throughout the year.

(c) *Other Price Risk*

Other price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the portfolio. It is the business of the Manager to manage the portfolio and borrowings to achieve the best returns.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 18. Financial Instruments (continued)

***Market Risk (continued)***

(c) *Other Price Risk (continued)*

*Management of other price risk*

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

The Company's portfolio is the result of the Manager's investment process and the result is not correlated with the market in which the Company invests, with the value of the portfolio moving as a result of the performance of the company shares held in the portfolio. The Company can hedge part of its portfolio denominated in foreign currency by using repo financing arrangements in the same foreign currency. It can also hold derivative positions in options and futures to hedge movements in the stocks in which the Company's portfolio has an exposure.

The Company's exposure to other changes in market prices at 30 September on its quoted equity investments and fixed interest investments was as follows:

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Fixed asset investments at fair value through profit or loss | | |
| – Bonds/CDSs | 88,995 | 87,010 |
| – Equity | 1,265 | 3,091 |
| – Warrants | 1,955 | 196 |
| Cash and cash equivalents | 6,868 | 8,715 |
| | 99,083 | 99,012 |

*Concentration of exposure to other price risks*

The Company's investment portfolio on pages 9 and 10 is not concentrated to any single country of domicile, however, it is recognised that an investment's country of domicile or listing does not necessarily equate to its exposure to the economic conditions in that country.

*Other price risk sensitivity*

At the year end, the Company held equity and warrant investments of £3,220,000 (2011: £3,287,000). The effect of a 10% increase or decrease in the fair values (including equity exposure through derivatives) on the profit after taxation for the year is £322,000 (2011: £329,000). 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 equities and equity exposure through derivatives at the balance sheet date with all other variables held constant.

***Liquidity Risk***

This is the risk that the Company will encounter in realising assets or raising/replacing repo financing to meet financial commitments. A lack of liquidity in corporate bonds may make it difficult for the Company to sell its bonds at or near their purported value compounding the liquidity pressure caused by the requirement to roll repo financing at repo maturity dates.

### Management of Liquidity Risk

The Manager, as part of the ongoing management of the Company, ascertains the Company's cash requirements taking account of the asset purchases and sales, income receivable from investments, running expenses and dividend payments as well as the ongoing borrowing requirements of the Company arising from repo financing. The Manager reviews the repo financing of the Company on a daily basis, with a view to new repo agreements ending at a quarter end, and rolling of existing repo agreements on a quarterly time basis. If any shortfalls could not be met by repo financing, the Manager could potentially realise the more liquid corporate bonds in the portfolio, taking into account the effect of this on performance as well as the objectives of the Company.

Further details can be found in the ‘Gearing Policy’ section on page 17 of the Report of the Directors, which also discusses the risks arising from repo financing and gearing of the investment portfolio.

### Liquidity Risk Exposure

The contractual maturities of the financial liabilities at 30 September, based on the earliest date on which payment can be required, was as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | THREE MONTHS OR LESS £'000 | LESS THAN ONE YEAR £'000 | TOTAL £'000 | THREE MONTHS OR LESS £'000 | LESS THAN ONE YEAR £'000 | TOTAL £'000 |
| Current liabilities | | | | | | |
| Other payables | 1,081 | — | 1,081 | 305 | — | 305 |
| Derivative financial instruments – currency hedges | 104 | — | 104 | — | — | — |
| Securities sold under agreement to repurchase | 27,772 | — | 27,772 | 41,225 | — | 41,225 |
| | 28,957 | — | 28,957 | 41,530 | — | 41,530 |

### *Credit Risk*

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered. This risk is mitigated by using only approved counterparties. The Company can enter into CDSs which enable the buyers of each CDS to receive credit protection, whereas the seller of each CDS guarantees the creditworthiness of the product. The risk of default is transferred from the holder of the security, to the seller of each CDS.

The portfolio may be adversely affected if the Company’s custodian suffers insolvency or other financial difficulties. The Board reviews the custodian’s annual control report and the Manager’s management of the relationship with the custodian. Cash balances are limited to a maximum of £10 million with any one depositary, with only approved depositories being used.

### Management of and Exposure to Credit Risk

The Company’s principal credit risk is the risk of default on the non-investment grade debt. Where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account to minimise the risk to the Company of default. Investments in bonds are across a variety of industrial sectors and geographical markets, to avoid concentration of credit risk. Transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account to minimise default risk. Details of the Company’s investments, including their credit ratings, are shown on pages 9 and 10.

The Company’s other main credit risk arises from the repo financing arrangements whereby, if a counterparty failed to sell the required assets to the Company on the repurchase date, the Company would be left with the claim against the defaulting counterparty for the stock and, if applicable, any margin held by the counterparty and not returned. The Company has managed this risk by only dealing with good quality counterparties whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount with any one counterparty.

Credit risk for equity investments is minimised as the Company only uses approved counterparties.

## 18. Financial Instruments (continued)

***Credit Risk (continued)***

### Credit Risk Exposure

The Company's exposure to credit risk is on securities pledged under repo financing that are held with three other counterparties, Barclays (A2/A+), Citibank (A3/A) and Credit Suisse (A1/A+). At the balance sheet date the credit exposure on these securities was £16.2 million (2011: £15.9 million), being the difference in the market value of securities pledged of £44.0 million (2011: £57.1 million) and the amounts borrowed of £27.8 million (2011: £41.2 million) under repo financing. At the year end, there was no impairment in the market value of the investments held or pledged under repo financing.

### Fair Values of Financial Assets and Financial Liabilities

The financial assets are either carried 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 and cash and cash equivalents). The carrying value of total gains and losses on investments, represent the total carrying amount of gains and losses on financial assets designated by the Company as financial assets at fair value through profit and loss.

The financial liabilities are carried at amortised cost except for derivatives (including CDSs) which are carried at fair value. At the year end the Company had no exposure to CDSs (2011: notional exposure of £6,887,000 and fair value loss of £437,000).

### Classification Under Fair Value Hierarchy

Nearly all of the Company's portfolio of investments are in the Level 2 category as defined in IFRS 7 'Financial Instruments: Disclosures' which is applicable for reporting periods beginning on or after 1 January 2009. The three levels set out in IFRS 7 follow:

Level 1 – fair value based on quoted prices in active markets for identical assets.

Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

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.

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

Normally, investment company investments would be valued using stock market active prices with investments disclosed as Level 1, and this is the case for the quoted equity investments that the Company holds. However, a majority of the investments are non-equity investments that are priced using Bloomberg, which in turn is based on broker quotes or pricing models. These investments are disclosed 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. There are no Level 3 investments.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | LEVEL 1 £'000 | LEVEL 2 £'000 | TOTAL £'000 | LEVEL 1 £'000 | LEVEL 2 £'000 | TOTAL £'000 |
| *Financial assets designated at fair value through profit or loss* | | | | | | |
| Debt securities | — | 88,995 | 88,995 | — | 87,447 | 87,447 |
| Equities and warrants | 3,220 | — | 3,220 | 3,287 | — | 3,287 |
| Derivative financial instruments: | | | | | | |
| – credit default swaps | — | — | — | — | 84 | 84 |
| – currency hedges | — | — | — | — | 336 | 336 |
| Total for financial assets | 3,220 | 88,995 | 92,215 | 3,287 | 87,867 | 91,154 |
| *Financial liabilities designated at fair value thorough profit or loss* | | | | | | |
| Deverbative financial instruments: | | | | | | |
| – credit default swaps | — | — | — | — | (521) | (521) |
| – currency hedges | — | (104) | (104) | — | — | — |
| Total for financial liabilities | — | (104) | (104) | — | (521) | (521) |

### Maturity Analysis of Contractual Liability Cash Flows

The financial liabilities of the Company comprise securities sold under agreement to repurchase which are all repayable within three months of the balance sheet date totalling £27,772,000, together with interest thereon of £49,000. Other liabilities may include forward currency contracts, credit default swaps, amounts due to brokers and accruals. All are paid under contractual terms. Forward currency contracts in place at the balance sheet date were all due within three months. Any amounts due to brokers, are usually payable on the purchase date of the investment plus three business days.

### Capital Management Policies and Procedures

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 15.

The main risks to the Company's investments are shown in the Directors' Report under the 'Principal Risks and Uncertainties' section on page 18. These also explain that the Company is able to gear and that gearing will amplify the effect on equity of changes in the value of the portfolio.

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

The Company is subject to externally imposed capital requirements with respect to the availability of the overdraft facility, by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Total equity at 30 September 2012, the composition of which is shown on the balance sheet on page 35, is £72,391,000 (2011: £60,476,000).

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 19. Contingent Liabilities

There were no material outstanding contingent liabilities as at 30 September 2012 (2011: nil).

## 20. Related Party Transactions and Transactions with the Manager

Under international GAAP and accounting standards, the Company has identified no related parties and there have been no related party transactions during the year. Invesco Asset Management Limited ('IAML'), a wholly owned subsidiary of Invesco Limited, acts as Manager to the Company. Details of the investment management agreement are disclosed in the Report of the Directors and management fees payable to IAML are shown in note 5.

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

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting ('AGM') of Invesco Leveraged High Yield Fund Limited (the 'Company') will be held at 10.30 am on 24 January 2013 at R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW, for the following purposes:

## Ordinary Business

1. To receive the Directors' Report and Financial Statements for the year ended 30 September 2012.
2. To re-elect Mr. Donald Adamson a Director of the Company.
3. To re-elect Mr. Gordon Neilly a Director of the Company.
4. To elect Mr. Peter Yates a Director of the Company.
5. To elect Mr. Michael Lombardi a Director of the Company.
6. To re-appoint the Auditor, Deloitte LLP, and authorise the Directors to determine their remuneration.

## Special Business

To consider and if thought fit, to pass the following resolutions of which resolution 7 and 8 will be proposed as special resolutions and resolution 9 will be proposed as an ordinary resolution:

7. THAT, pursuant to Article 12.4 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 one or more market purchases of ordinary shares of 5p in the capital of the Company ('ordinary shares') provided that:

      (i) the maximum aggregate number of ordinary shares authorised to be purchased is 16,682,749;

      (ii) the minimum price which may be paid for an ordinary share is 5p;

      (iii) the maximum price, exclusive of any expenses, which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary 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 the passing of this resolution or 15 months from the date of the passing of this resolution whichever is the earlier.

   (b) pursuant to Article 58A of the Law, to hold, if the Directors so resolve, as treasury shares any ordinary shares purchased pursuant to the authority conferred in paragraph (a) above.

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

9. THAT, the waiver granted by the Panel on Takeovers and Mergers of the obligations which may otherwise arise, pursuant to Rule 9 of the City Code on Takeovers and Mergers, for the Concert Party (as defined in the circular to shareholders of the Company to be dated 2 December 2012 (the 'Circular')) to make a general offer to the shareholders of the Company for all of the issued ordinary shares in the capital of the Company as a result of the purchase by the Company of up to 16,682,749 ordinary shares in the Company pursuant to the authority granted by the passing of resolution 7 above, as more fully described in the Circular, be and is hereby approved, with

such waiver to expire on the earlier of the conclusion of the AGM of the Company in 2014 or 15 months from the date of passing this resolution.

**Note to Resolution 9**

In order to comply with the Takeover Code, this resolution will be taken on a poll and each of the members of the Concert Party has undertaken not to vote on the resolution. Further explanatory details of this resolution can be found in the Report of the Directors on pages 30 and 31.

Dated 27th November 2012
By order of the Board

**R&H Fund Services (Jersey) Limited**
*Company Secretary*

Notes:

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

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

   - via Capita Registrars website www.capitashareportal.com; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars (Jersey) Limited, Victoria Chambers, Liberation Square, 1/3 Esplanade, St. Helier, Jersey JE4 0FF; 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 10.30 am on 22 January 2013.

   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 and Management Engagement Committees 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) until the close of the AGM 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 27 November 2012 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 111,292,526 ordinary shares of 5p each carrying one vote each.
10. A copy of the Notice as well as various other documents relating to the Company can be found at *www.invescoperpetual.co.uk/investmenttrusts*

# GLOSSARY OF TERMS

## Net Asset Value ('NAV')

The value of the Company's assets, principally investments made in other companies and cash held, minus any liabilities for which the Company is responsible, for example money owed to other people. The net assets are also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply for the shares.

## Discount/Premium

A description of the situation when the share price is lower or higher than the NAV per share. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage (%) of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium and the percentage is commonly shown prefixed with a minus sign.

## Gearing

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

### Net Gearing

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

## Total Assets

The aggregate gross value of the assets of the Company less the current liabilities (but, for this purpose, excluding repo financing or any other amounts borrowed for investment purposes from current liabilities).

## Ongoing Charges

The total expenses excluding interest incurred by the Company, including those charged to capital, as a percentage of average net assets (shareholders' funds).

## 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 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

Invesco Perpetual

The Manager of Invesco Leveraged High Yield Fund Limited is Invesco Asset Management Limited.

Invesco Asset Management Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Services Authority.

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

Invesco is one of the largest independent global investment management firms, with funds under management of $677.4 billion.*

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

** Funds under Management as at 31 October 2012*

# SPECIALIST FUNDS MANAGED BY INVESCO

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

### City Merchants High Yield Trust Limited

A Jersey-incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments combined with a degree of security. The Company is geared by bank debt.

### Invesco Income Growth Trust plc

Aims to provide shareholders with long-term growth in capital and real, long-term growth in dividends from an above-average yielding portfolio comprising mainly UK equities and equity-related securities. Seeks to achieve a total return in excess of the FTSE All-Share Index. The Company is geared by bank debt.

### Invesco Leveraged High Yield Fund 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 is highly geared.

### Invesco Perpetual Select Trust plc – Managed Liquidity Share 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 Share Portfolio

Portfolio Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio is geared by bank debt.

### Invesco Property Income Trust Limited

The Company is a closed-ended investment company with limited liability incorporated in Jersey. The objective is to repay its bank borrowings and other liabilities on or before 28 September 2014 and, having met these obligations, to provide a return for shareholders. The Company holds a diversified portfolio of European commercial properties and is geared by bank debt.

### Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company is geared by way of debenture stocks.

### 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 and fixed interest markets. The Company is geared by a debenture stock and bank debt.

### The Edinburgh Investment Trust plc

Invests in UK securities with long term objective of achieving:

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

The Company is geared by way of two debenture stocks.

## Investing in Smaller Companies

### Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders from investment in a broad cross-section of small to medium size UK-quoted companies. The Company may gear by bank debt.

## 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 Morgan Stanley Capital International (All Country) Far East Free (ex Japan) Index, measured in sterling. The Company is geared by bank debt.

### 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, predominately through investment in a diversified portfolio of equities worldwide. The portfolio is geared by bank debt.

## Investing for Total Returns

### Invesco Perpetual Select Trust plc – Balanced Risk Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities. The portfolio is constructed so as to balance risk, is long-only, using transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide gearing.

## Investing in Multiple Asset Classes

### Invesco Perpetual Select Trust plc

- UK Equity Share Portfolio
- Global Equity Share Portfolio
- Managed Liquidity Share Portfolio
- Balanced Risk Portfolio

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

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

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