

City Merchants High Yield Trust Limited

Half-Yearly Financial Report for the Six Months to 30 June 2019

KEY FACTS

City Merchants High Yield Trust Limited is a Jersey incorporated investment company listed on the London Stock Exchange. The Company commenced trading on 2 April 2012 as a successor company to City Merchants High Yield Trust plc.

Investment Objective

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

Investment Policy

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

Performance Statistics

	FOR SIX MONTHS TO 30 JUN 2019	YEAR ENDED 31 DEC 2018
Total Return⁽¹⁾		
Net asset value ⁽²⁾	8.6%	-3.6%
Share price ⁽²⁾	13.5%	-7.6%
Dividend for the period/year	5p	10p
Period End Information		
	AT 30 JUN 2019	AT 31 DEC 2018
Net asset value per ordinary share⁽²⁾	188.89p	178.69p
Share price⁽¹⁾	193.25p	175.00p
Premium/(discount)	2.3%	(2.1)%
Gearing⁽²⁾		
Gross gearing	nil	nil
Net cash	3.3%	2.4%

⁽¹⁾ Source: Refinitiv.

⁽²⁾ Defined in the Glossary of Terms and Alternative Performance Measures on pages 61 to 64 of the 2018 annual financial report.

INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

Chairman's Statement

High yield bond markets enjoyed a buoyant start to the year. The Federal Reserve, the central bank of the United States, is often a major influence on the direction of financial markets and so it proved during the first six months of the year. It responded to growing indications of slowing economic activity with guidance suggesting a more favourable path for monetary policy, raising expectations that interest rates may be cut in the near future. This marked a fundamental change in the tone of its comments, which by late last year had prepared the ground for a tightening in monetary policy in 2019.

I am pleased to report an 8.6% increase in the Company's Net Asset Value (NAV) in the six months to the 30 June 2019. In comparison, the ICE Bank of America Merrill Lynch European Currency High Yield Index returned 8.2%* during this period. Furthermore, the Company's performance over longer periods remains favourable, for example over the three years to 30 June 2019 the NAV total return is 24.8%, compared to a 20.8%* return from the ICE Bank of America Merrill Lynch European Currency High Yield Index.

* Index performance shows sterling hedged total returns.

The Company is on course to achieve its full year dividend target of 10 pence per share and we have declared first and second interim dividends of 2.5 pence in respect of the current financial year.

The Company's share price ended the period at a premium of 2.3% to NAV. Continued demand for the Company's shares allowed us to issue a further 650,000 shares resulting in a £1.2 million increase in shareholders' funds. I have commented previously on the benefits to shareholders of steady growth in the size of the Company and it is pleasing to report further progress in this regard.

Turning to succession matters, I am delighted to welcome Heather MacCallum and Stuart McMaster to the Board as non-executive directors. Heather and Stuart's appointments form part of our succession planning which will also see Philip Taylor retire from the Board in September of this year. Winifred Robbins retired from the Board in March after ten years with the Company and its predecessor.

The prospective economic and political environment presents many potential risks to unsettle investors. These include continued wrangling over trade policy, tensions in the Middle East and of course the Brexit saga. Furthermore, there is no doubt that economic activity has softened in recent months. All that said, it can prove costly for investors to assume economic cycles, however long in the tooth, simply end of their own accord, while at the corporate level we continue to see evidence of opportunities for well-managed companies to prosper.

The Manager's Investment Report provides an update on the Company's investment strategy and the outlook for high yield markets. I would like to highlight two themes for the remainder of the year. First, while there continue to be attractive individual investment opportunities within high yield, the year to date strength of the market has seen credit spreads and yields return to below their long term averages, in turn suggesting progress for the asset class from here may prove to be harder going. Secondly, successful navigation of this type of market environment demands both a rigorous investment approach and careful analysis of the risks and potential return of each security, attributes which I believe are clearly evident in the Manager's successful long term performance record.

Tim Scholefield

Chairman

22 August 2019

Manager's Investment Report

Market Background

High yield bond markets had a strong start to 2019. European currency high yield had its best start to the year since 2012 and US high yield, its best start since 2009.

The main driver of this strong performance has been the shift by central banks from contemplating rate hikes to discussing rate cuts.

Confronted by weakening economic data, the US Federal Reserve (Fed) began pivoting toward easing monetary policy at the start of the year. By the time of its June meeting, interest rate cuts were actively being discussed with a 25bps cut in the Fed Funds rate fully priced in by 30 June 2019. The Fed subsequently made the 25bps cut on 31 July 2019.

The European Central Bank (ECB) followed the Fed's lead in March, in announcing plans for a new Targeted Longer-Term Refinancing Operation designed to help funding for banks so as to increase lending. More recently, ECB President, Mario Draghi has signalled that the bank is looking at resuming Quantitative Easing. Given the self-imposed limits the ECB has on holding public sector debt, the expectation is that this will need to include corporate bond purchases.

Index data from ICE Bank of America Merrill Lynch shows that in year to date to the 30 June 2019, European currency high yield returned 8.2%* and BBB rated euro corporate bonds returned 6.9%* over the period.

* Index performance shows sterling hedged total returns.

However, not all bonds have rallied. A meaningful number continue to trade at significant discounts to par. Some are bonds from companies facing serious difficulties, or companies that have disappointed on earnings, or that have been deemed to be more cyclical at a time when the economy is softening or that are in an unfavoured sector. Some are even finding themselves in difficulty because they are relatively small in size. The extent of the dispersion is greater than we have seen for some time and in our view most likely reflects concerns about the potential for credit problems when this very long period of economic expansion ends.

By 30 June 2019 credit spreads (the premium over government bonds that companies need to pay to borrow) for European high yield had fallen 138bps from 522bps at year end to 384bps. US high yield credit spreads fell 126bps from 533bps to 407bps over the same period.

Portfolio strategy

The portfolio holds a core of non-financial high yield corporate bonds, focused on seasoned issuers that we consider have a low likelihood of default. Alongside these core positions the portfolio also has a smaller allocation to more speculative positions. The expectation with these bonds is that the return, if our analysis is correct, will come from both capital appreciation and income.

At a sector level, the portfolio's largest exposure is to financials (both subordinated bank and subordinated insurance bonds). As at 30 June 2019, 36% of the portfolio is invested in this area of the market. Elsewhere, the portfolio's largest allocations are to telecoms, food, utility and retail companies.

As well as investing in sterling denominated bonds, the Company also seeks to exploit opportunities in both the European and US markets. As at 30 June 2019, 35% of the portfolio is allocated to US dollar denominated bonds and a further 14% allocated to euro denominated bonds. Although a significant portion of the currency exposure from these positions is hedged back to sterling, around 9% exposure to US dollars and a further 2% to euros has been left unhedged.

The dispersion mentioned earlier continues to create opportunities for us to buy bonds at what we believe are appropriate yields. In fact, the first few months of 2019 saw companies having to offer higher coupons in the new issuance market than we have seen for some time. One example is Power Solutions, a company that makes lead-acid car batteries. Its earnings should prove stable because replacing a car battery is typically non-discretionary spending. And yet, because of the uncertainty within the autos market overall, it has had to pay 8.5% to borrow for eight years in the US dollar market.

Outlook

The dovish shift by central banks has re-ignited the search for yield and investor demand for new issues is very strong. That said, credit spreads and the overall level of yield have fallen back below their five-year averages. In aggregate they are now at levels where we feel less comfortable that they are appropriate for the risk, although we are still able to find bonds to buy. We have, however, taken advantage of the recent market strength to dial back some of the risk in the portfolio, with profits taken on some of the bonds that have outperformed. This provides the flexibility to add back exposure should we see the market weaken in the months ahead.

Rhys Davies Paul Read Paul Causer

Portfolio Managers

22 August 2019

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risk factors relating to the Company can be summarised as follows:

Strategic Risks

- *Market risk* – the Company invests primarily in fixed interest securities, the majority of which are traded on global security markets. The principal risk for investors in the Company is a significant fall and/or a prolonged period of decline in these markets. This could be triggered by unfavourable developments globally and/or in one or more regions. The Board cannot mitigate the effect of such external influences on the portfolio. Market risk also arises from movements in foreign currency exchange rates and interest rates.
- *Investment objectives* – the Company's investment objectives and structure no longer meet investors' demands.
- *Lack of liquidity in the Company's shares* – lack of liquidity and lack of marketability of the Company's shares leading to stagnant share price and wide discount.

Investment Management Risk

- *Performance* – the portfolio persistently underperforms relevant indices and/or peers because of the investments selected. Performance will also be affected by market risk, addressed above, and by credit risk. A significant portion of the Company's portfolio consists of non-investment grade securities which by their nature have a higher risk of default as well as the likelihood of price volatility.
- *Borrowing Risk* – borrowings for investment purposes will amplify the reduction in NAV in a falling market, which in turn is likely to adversely affect the Company's share price. The Company will borrow principally using repo financing arrangements. In certain circumstances it may have to realise investments at short notice to repay amounts owing under those arrangements and may not be able to realise the expected market value of those assets.

Third Party Service Providers Risk

- *Unsatisfactory performance of third party service providers (TPPs)* – failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operations of the Company and affect its ability to pursue successfully its investment policy and expose it to reputational risk. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.
- *Information technology resilience and security* – the Company's operational structure means that all cyber risk (information technology and physical security) arises at its TPPs. This cyber risk includes fraud, sabotage or crime perpetrated against the Company or any of its TPPs.

Regulation and Corporate Governance Risk

- *Failure to comply with or adverse changes to law or regulation* – a serious breach of law or regulation could lead to suspension from the Official List and from trading on the London Stock Exchange, a fine or a qualified audit report. Adverse changes to law or regulation could affect the ability of the Company to operate or the practicality of its domicile.

More detailed information including mitigating procedures and controls in relation to these principal risks and uncertainties is summarised on pages 12 and 13 of the Company's 2018 annual financial report.

In the view of the Board, these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the period under review.

RELATED PARTIES

Note 22 of the 2018 annual financial report gives details of related party transactions. The basis of these has not changed for the six months being reported. The 2018 annual financial report is available on the Company's section of the Manager's website at: www.invesco.co.uk/citymerchants.

GOING CONCERN

The financial statements are prepared on a going concern basis. The Directors consider that going concern 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 reaching this conclusion, the Directors have taken into account the Company's investment objective, its risk management policies, the diversified nature of its investment portfolio, the liquidity of its investments which could be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses from its assets.

BOND RATING ANALYSIS (STANDARD AND POOR'S RATINGS)

The definitions of these ratings are set out on page 64 of the 2018 annual financial report.

RATING	30 JUN 2019		31 DEC 2018	
	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
Investment Grade:				
A	—	—	1.2	1.2
A–	2.2	2.2	2.2	3.4
BBB+	1.7	3.9	1.7	5.1
BBB	3.2	7.1	3.2	8.3
BBB–	8.0	15.1	7.8	16.1
Non-investment Grade:				
BB+	13.6	28.7	12.5	28.6
BB	4.8	33.5	6.3	34.9
BB–	14.2	47.7	16.8	51.7
B+	6.1	53.8	5.7	57.4
B	10.5	64.3	12.0	69.4
B–	12.0	76.3	9.7	79.1
CCC+	1.6	77.9	1.0	80.1
CCC	2.7	80.6	1.7	81.8
CCC–	0.2	80.8	0.4	82.2
D	0.7	81.5	—	82.2
NR* (including equity)	18.5	100.0	17.8	100.0
Total	100.0		100.0	
Summary of Analysis				
Investment Grade	15.1		16.1	
Non-investment Grade	66.4		66.1	
NR (including equity)	18.5		17.8	
	100.0		100.0	

* NR: not rated.

DIRECTORS' RESPONSIBILITY STATEMENT

in respect of the preparation of the half-yearly financial report.

The Directors are responsible for preparing the financial report, using accounting policies consistent with applicable law and International Financial Reporting Standards.

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements contained within the half-yearly financial report have been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the FCA's *Disclosure Guidance and Transparency Rules*; and
- the interim management report includes a fair review of the information required on related party transactions.

The half-yearly financial report has not been audited or reviewed by the Company's auditor.

Signed on behalf of the Board of Directors.

Tim Scholefield

Chairman

22 August 2019

THIRTY LARGEST INVESTMENTS AT 30 JUNE 2019

ISSUER/ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO	ISSUER/ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Aviva		Financials	UK			Virgin Money		Financials	UK		
6.125% Perpetual	A3/BBB			3,934		8.75% Perpetual	NR/NR			2,789	1.6
8.875% Preference	NR/NR			1,622							
				5,556	3.2	Pinnacle Bidco		Financials	UK		
Altice		Telecommunications	France/ Luxembourg			6.375% 15 Feb 2025 (SNR)	B3/B			2,632	1.5
7.375% 01 May 2026	B2/B			3,373							
6.625% 15 Feb 2023	B2/B+			1,289		Balfour Beatty		Industrials	UK		
7.5% 15 May 2026	B2/B+			498		10.75p Cnv Preference	NR/NR			2,506	1.4
				5,160	2.9	Royal Bank of Scotland		Financials	UK		
Intesa Sanpaolo		Financials	Italy			7.64% FRN Perpetual	Ba2/BB-			1,492	
8.375% FRN Perpetual	Ba3/BB-			2,972		8% Cnv FRN Perpetual	Ba2u/B+			593	
7% Perpetual	Ba3/BB-			1,038		8.625% FRN Perpetual	Ba2u/B+			371	
7.75% Perpetual	Ba3/BB-			746						2,456	1.4
				4,756	2.7	Catlin Insurance		Financials	Bermuda		
Barclays		Financials	UK			7.249% FRN Perpetual	NR/A-			2,406	1.4
9.25% Perpetual	Ba2/BB+			1,133							
8% FRN Perpetual	Ba3/B+			1,052		Algeco Scotsman		Consumer Services	UK		
7% Perpetual	NR/B+			1,007		8% 15 Feb 2023 (SNR)	B2/B-			1,579	
7.125% FRN Perpetual	NR/NR			635		10% 15 Aug 2023 (SNR)	Caa1/CCC			811	
7.875% Var Perpetual	Ba3/B+			529						2,390	1.4
2.75% FRN Perpetual	Ba2/BB+			118		DKT Finance		Financials	Denmark		
				4,474	2.5	7% 17 Jun 2023 (SNR)	B3/B-			1,231	
Lloyds Banking Group		Financials	UK			9.375% 17 Jun 2023 (SNR)	B3/B-			946	
7.875% Perpetual	Baa3/BB-			4,433	2.5					2,177	1.2
Koninklijke KPN		Telecommunications	Netherlands			Virgin Media Finance		Consumer Services	UK		
6.875% FRN 14 Mar 2073	Ba2/BB+			4,121	2.3	6.25% 28 Mar 2029	Ba3/BB-			2,110	1.2
Vodafone Group		Telecommunications	UK			Pension Insurance		Financials	UK		
6.25% 03 Oct 2078	Ba1/BBB-			1,626		8% 23 Nov 2026	NR/NR			2,105	1.2
4.875% 03 Oct 2078	Ba1/BBB-			1,326		Drax Finco		Utilities	UK		
7% FRN 04 Apr 2079	Ba1/BBB-			822		4.25% 01 May 2022 (SNR)	NR/BB+			2,034	1.2
1.5% Cnv 12 Mar 2022	NR/NR			296		Electricite De France		Utilities	France		
				4,070	2.3	6% Perpetual	Baa3/BB			1,392	
Enel		Utilities	Italy			5.875% Perpetual	Baa3/BB			633	
7.75% 10 Sep 2075	Ba1/BBB-			2,779						2,025	1.2
6.625% 15 Sep 2076	Ba1/BBB-			828		Burger King France		Consumer Services	France		
				3,607	2.0	8% 15 Dec 2022 (SNR)	NR/CCC			1,534	
Stonegate		Consumer Services	UK			5.25% FRN 01 May 2023	B3/B-			476	
4.875% 15 Mar 2022 (SNR)	B2/B-			1,841						2,010	1.2
5.1625% FRN 15 Mar 2022 (SNR)	B2/B-			900		Société Générale		Financials	France		
7% FRN 15 Mar 2022 (SNR)	B2/B-			802		7.375% 31 Dec 2065	Ba2/BB+			1,996	1.1
				3,543	2.0	Fiat Chrysler Automobiles		Consumer Goods	Netherlands		
Telecom Italia		Telecommunications	Luxembourg/ Italy			4.5% 15 Apr 2020	Ba2/BB+			1,989	1.1
7.721% 04 Jun 2038	Ba1/BB+			1,779		Marb Bondco		Financials	UK		
5.303% 30 May 2024	Ba1/BB+			1,632		6.875% 19 Jan 2025 (SNR)	NR/BB-			1,900	1.1
				3,411	1.9	Citigroup Capital		Financials	USA		
Matalan Finance		Consumer Goods	UK			6.829% FRN Perpetual	Baa3/BB+			1,891	1.1
9.5% 31 Jan 2024 (SNR)	Caa2/CCC			1,765		UniCredit International Bank		Financials	Luxembourg/ Italy		
6.75% 31 Jan 2023 (SNR)	B2/B-			1,388		8.125% FRN Perpetual	B1/BB-			924	
				3,153	1.8	8% FRN Perpetual	NR/NR			902	
Premier Foods Finance		Consumer Goods	UK							1,826	1.0
6.25% 15 Oct 2023	B2/B			2,257						89,413	50.7
5.7671% FRN 15 Jul 2022 (SNR)	B2/B			781		Other investments				86,772	49.3
				3,038	1.7						
Enterprise Inns		Consumer Services	UK			Total investments				176,185	100.0
6.375% 15 Feb 2022 (SNR)	NR/BB-			1,284							
6% 06 Oct 2023	NR/BB-			1,062							
7.5% 15 Mar 2024	NR/B			503							
				2,849	1.6						

CONDENSED STATEMENT OF CHANGES IN EQUITY

	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
FOR THE SIX MONTHS ENDED 30 JUNE 2019				
At 31 December 2018	158,428	11,222	3,839	173,489
Net proceeds from issue of new shares – note 6	1,187	—	—	1,187
Total comprehensive income for the period	—	9,971	4,845	14,816
Dividends paid – note 4	(10)	—	(4,858)	(4,868)
At 30 June 2019	159,605	21,193	3,826	184,624
FOR THE SIX MONTHS ENDED 30 JUNE 2018				
At 31 December 2017	155,458	27,659	3,517	186,634
Net proceeds from issue of new shares – note 6	1,961	—	—	1,961
Total comprehensive income for the period	—	(7,650)	4,867	(2,783)
Dividends paid – note 4	—	—	(4,776)	(4,776)
At 30 June 2018	157,419	20,009	3,608	181,036

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	FOR THE SIX MONTHS TO 30 JUN 2019			FOR THE SIX MONTHS TO 30 JUN 2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Profit/(loss) on investments held at fair value	—	10,697	10,697	—	(6,446)	(6,446)
Loss on derivative financial instruments						
– currency hedges	—	(11)	(11)	—	(1,174)	(1,174)
Exchange differences	—	(470)	(470)	—	215	215
Income – note 5	5,535	—	5,535	5,536	—	5,536
Investment management fee – note 2	(445)	(240)	(685)	(443)	(238)	(681)
Other expenses	(231)	—	(231)	(213)	—	(213)
Profit/(loss) before finance costs and taxation	4,859	9,976	14,835	4,880	(7,643)	(2,763)
Finance costs	(10)	(5)	(15)	(13)	(7)	(20)
Profit/(loss) before taxation	4,849	9,971	14,820	4,867	(7,650)	(2,783)
Taxation – note 3	(4)	—	(4)	—	—	—
Profit/(loss) after taxation	4,845	9,971	14,816	4,867	(7,650)	(2,783)
Return per ordinary share	5.0p	10.2p	15.2p	5.1p	(8.0)p	(2.9)p
Weighted average number of shares in issue			97,509,360			95,655,092

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

CONDENSED BALANCE SHEET

Registered in Jersey No. 109714

	AT 30 JUN 2019 £'000	AT 31 DEC 2018 £'000
Non-current assets		
Investments held at fair value through profit or loss	176,185	168,188
Current assets		
Other receivables	3,263	3,128
Amounts due from brokers	175	—
Proceeds due from issue of shares	192	—
Cash and cash equivalents	6,132	4,181
	9,762	7,309
Current liabilities		
Other payables	(433)	(427)
Amounts due to brokers	(159)	—
Derivative financial instruments – unrealised net loss	(731)	(1,581)
	(1,323)	(2,008)
Net current assets	8,439	5,301
Net assets	184,624	173,489
Capital and reserves		
Stated capital - note 6	159,605	158,428
Capital reserve	21,193	11,222
Revenue reserve	3,826	3,839
Shareholders' funds	184,624	173,489
Net asset value per ordinary share	188.89p	178.69p
Number of shares in issue at the period end – note 6	97,741,204	97,091,204

CONDENSED STATEMENT OF CASH FLOWS

	SIX MONTHS TO 30 JUN 2019 £'000	SIX MONTHS TO 30 JUN 2018 £'000
Cash flow from operating activities		
Profit/(loss) before finance costs and taxation	14,835	(2,763)
Tax on overseas income	(4)	—
Adjustment for:		
– Purchases of investments	(25,383)	(28,166)
– Sales of investments	28,067	28,388
	2,684	222
(Profit)/loss on investments at fair value	(10,697)	6,446
Net cash movement from derivative instruments – currency hedges	(850)	883
Increase in receivables	(135)	(617)
Increase/(decrease) in payables	11	(25)
Net cash flow from operating activities after taxation	5,844	4,146
Cash flow from financing activities		
Finance costs paid	(20)	(20)
Net proceeds from issue of shares	995	1,961
Net equity dividends paid – note 4	(4,868)	(4,776)
Net cash flow from financing activities	(3,893)	(2,835)
Net increase in cash and cash equivalents	1,951	1,311
Cash and cash equivalents at the start of the period	4,181	8,792
Cash and cash equivalents at the end of the period	6,132	10,103
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:		
Cash held at custodian	885	853
Short-Term Investment Company (Global Series) plc, money market fund	5,247	9,250
Cash and cash equivalents	6,132	10,103
Cash flow from operating activities includes:		
– Dividends received	211	233
– Interest received	5,142	5,016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of Preparation

The condensed financial statements have been prepared using the same accounting policies as those adopted in the 2018 annual financial report. They have been prepared on an historical cost basis, in accordance with the applicable International Financial Reporting Standards (IFRS), as adopted by the European Union and, where possible, in accordance with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in November 2014, as updated in February 2018.

2. Management Fees

Investment management fees and finance costs are allocated 35% to capital and 65% to revenue.

The management fee is payable quarterly in arrears and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of each quarter.

In addition, the Manager is paid a fee based on an initial amount of £22,500 plus RPI increases per annum for administrative purposes.

3. Taxation

The Company is subject to Jersey income tax at the rate of 0% (2018: 0%). The overseas tax charge consists of irrecoverable withholding tax.

4. Dividends Paid

SIX MONTHS TO 30 JUNE	2019		2018	
	PENCE	£'000	PENCE	£'000
Interim dividends in respect of previous period	2.5	2,427	2.5	2,388
First interim dividend	2.5	2,441	2.5	2,388
	5.0	4,868	5.0	4,776

Dividends paid in the period have been charged to revenue except for £10,000 which was charged to stated capital (six months to 30 June 2018: £nil). This amount is equivalent to the income accrued on the new shares issued in the period (see note 6).

A second interim dividend of 2.5p (2018: 2.5p) has been declared and will be paid on 19 August 2019 to ordinary shareholders on the register on 19 July 2019.

5. Income

SIX MONTHS TO 30 JUNE	2019 £'000	2018 £'000
Investment income – interest:		
– UK	2,543	2,505
– Overseas	2,728	2,798
Dividends:		
– UK	224	224
– Overseas	34	7
Deposit interest	6	2
	5,535	5,536

6. Stated Capital, including Movements

Allotted ordinary shares of no par value.

	SIX MONTHS TO 30 JUN 2019	YEAR TO 31 DEC 2018
Stated capital:		
Brought forward	£158,428,000	£155,458,000
Issue proceeds net of costs	£1,187,000	£2,993,000
Dividend paid from stated capital	£(10,000)	£(23,000)
Carried forward	£159,605,000	£158,428,000
Number of ordinary shares:		
Brought forward	97,091,204	95,516,204
Issued in period	650,000	1,575,000
Carried forward	97,741,204	97,091,204
Per share:		
– average issue price	185.94p	191.09p

425,000 shares have been issued since the period end.

7. Classification Under Fair Value Hierarchy

Note 19 of the 2018 annual financial report sets out the basis of classification.

There were no Level 3 holdings at any period end, and the total (not shown) is therefore the aggregated of Level 1 and Level 2.

	AT 30 JUN 2019		AT 31 DEC 2018	
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 1 £'000	LEVEL 2 £'000
<i>Financial assets designated at fair value through profit or loss:</i>				
– Fixed interest securities ⁽¹⁾	—	167,716	—	159,386
– Convertibles	—	1,269	—	1,955
– Preference	3,151	—	2,855	—
– Convertible Preference	2,506	—	2,555	—
– Equities	1,543	—	1,437	—
Total for financial assets	7,200	168,985	6,847	161,341
<i>Financial liabilities designated at fair value through profit or loss:</i>				
– Derivative financial instruments: Currency hedges	—	(731)	—	(1,581)
Total for financial liabilities	—	(731)	—	(1,581)

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

8. Status of Half-yearly Financial Report

The financial information contained in this half-yearly report, which has not been audited by the Company's auditor, does not constitute statutory accounts as defined in Article 104 of Companies (Jersey) Law 1991. The financial information for the half year ended 30 June 2019 and the half year ended 30 June 2018 has not been audited. The figures and financial information for the year ended 31 December 2018 are extracted and abridged from the latest audited accounts and do not constitute the statutory accounts for that year.

By order of the Board
R&H Fund Services (Jersey) Limited
 Company Secretary

22 August 2019

DIRECTORS, ADVISERS AND EXTERNAL SERVICE PROVIDERS

Directors

Tim Scholefield (Chairman)
Philip Taylor (Audit Committee Chairman)
Philip Austin
John Boothman
Winifred Robbins (retired 31 March 2019)
Heather MacCallum (appointed 25 June 2019)
Stuart McMaster (appointed 25 June 2019)

Alternative Investment Fund Manager (Manager)

Invesco Fund Managers Limited
Perpetual Park, Perpetual Park Drive
Henley-on-Thames, Oxfordshire RG9 1HH
☎ 01491 417 000
🌐 www.invesco.co.uk/investmenttrusts

Manager's Website

Information relating to the Company can be found on the Manager's website, at www.invesco.co.uk/citymerchants.

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

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 825 200
Registered in Jersey No: 109714

General Data Protection Regulation

The Company's privacy notice can be found at:
🌐 www.invesco.co.uk/citymerchants

Corporate Broker

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

Depository

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

Invesco Client Services

Invesco has a Client Services Team available from 8.30am to 6pm, Monday to Friday (excluding bank holidays). Please note that the Team cannot give investment advice.

☎ 0800 085 8677
🌐 www.invesco.co.uk/investmenttrusts

Registrar

Link Market Services (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

If you hold your shares directly and have any queries you should contact the registrar on: ☎ 0871 664 0300

Calls cost 12p per minute plus your phone company's access charge. Lines are open from 9am to 5.30pm, Monday to Friday (excluding Bank Holidays).

From outside the UK +44 (0)371 664 0300. Calls from outside the UK will be charged at the applicable international rate.

Shareholders can also access their holding details via Link's website at:
🌐 www.signalshares.com

Dividend Re-Investment Plan

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

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



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