Invesco Perpetual UK Smaller Companies Investment Trust plc

Annual Financial Report Announcement

For the year ended 31 January 2019

FINANCIAL HIGHLIGHTS

AT 31 JANUARY	**2019**	**2018**	**CHANGE**
Net asset value(1) (NAV) per share	481.8p	543.6p	–11.4%
Total shareholders' funds (£'000)	158,285	178,571	–11.4%
Share price	465.0p	520.0p	–10.6%
Discount(1)	3.5%	4.3%	
Gearing(1):			
– gross gearing	nil	nil	
– net gearing	nil	nil	
– net cash	6.6%	3.1%	
Maximum authorised gearing	9.5%	8.4%	

FOR THE YEAR ENDED 31 JANUARY	**2019**	**2018**	
Total return (with income reinvested):			
NAV(1) (2)	–7.8%	+23.9%	
Benchmark Index(1) (2) (3)	–7.4%	+15.1%	
FTSE All-Share Index(2)	–3.8%	+11.3%	
Share price(2)	–6.8%	+24.8%	
Return(1) and dividend per ordinary share:			
Revenue return	10.72p	8.36p	
Capital return	(51.50)p	96.65p	
Total return	(40.78)p	105.01p	
First interim dividend	3.65p	3.55p	
Second interim dividend	3.65p	3.55p	
Third interim dividend	3.65p	3.55p	
Final dividend	7.65p	10.15p	
Total dividends	18.60p	20.80p	–10.6%
Dividend payable for the year (£'000):			
– from revenue	3,521	3,573	
– from capital	2,589	3,260	
	6,110	6,833	
Capital dividend as a % of year end net assets	1.6%	1.8%	
Ongoing charges(1) – excluding performance fee	0.88%	0.82%	
Performance fee(4)	0.07%	1.27%	

Notes: (1) See Glossary of Terms and Alternative Performance Measures in the annual financial report.

(2) Source: Refinitiv (Thomson Reuters).

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

(4) Performance fee is calculated on the capital outperformance of the NAV against the Benchmark Index; both excluding income reinvested.

STRATEGIC REPORT

FOR THE YEAR ENDED 31 JANUARY 2019

CHAIRMAN'S STATEMENT

Performance

Against a backdrop of difficult market conditions and continued political and economic uncertainty, for the year ended 31 January 2019 your Company returned -7.8% in net asset value (NAV) terms, marginally underperforming its benchmark index, the Numis Smaller Companies Index (excluding Investment Companies), which returned -7.4%, (in each case measured on a total return basis). The share price total return for the year was -6.8% (2018: +24.8%).

The Company also underperformed by 4.0% against the wider UK stock market (as measured by the FTSE All Share Index), which declined by 3.8% over the same period.

Despite the negative results for the year, the longer-term share price performance of your Company remains good, as can be seen by the following graph, showing its five-year total return results well in excess of both the benchmark index and the Company's peer group average.

Discount and Dividend Yield

Over the past 12 months the underlying share price discount to NAV narrowed slightly from 4.3% to 3.5%. As at the latest practicable date prior to the publication of this report, being 2 April 2019, the discount stands at 4.2%, confirming it as one of the narrowest within the UK small-cap peer group. Nevertheless, the Board continues to monitor the discount level and may seek to limit any future volatility through the prudent use of share buybacks.

Significantly, your Company's dividend yield of 4.0% (as at 31 January 2019) continues to outstrip most of its peers following the Board's commitment in 2015 to enhance it through the use of realised capital profits.

Dividends

The 2015 initiative referred to above significantly increased the annual dividend level to an initial yield target of 4% (based on the then prevailing share price). The total dividend for this year of 18.60p per share also equates to a 4% yield on the year-end share price which was 465p, representing a decrease from the previous year's total dividend of 20.80p per share.

The Company pays quarterly dividends - in September, December, March and June. For the year ended 31 January 2019, three interim dividends of 3.65p each have already been paid and the Board has announced a proposed final dividend of 7.65p per share, making a total for the year of 18.60p per share. The final dividend will be payable, subject to shareholder approval, on 7 June 2019 to shareholders on the register on 3 May 2019 and the shares will go ex-dividend on 2 May 2019.

Revenue per share has increased from 8.36p last year to 10.72p this year, which means that the resulting balance of dividend being paid from capital reserves, represents 1.6% of net assets, lower than 2018's 1.8%. It also continues to represent only a small proportion of the longer-term returns achieved by the manager.

Investment Management Fee

Shareholders will be pleased to know that, for the future, the Board has agreed a simplified fee structure with the Manager - comprising the removal of the performance fee (which over the last five years had exceeded, in aggregate, the total amount of the base fees paid) offset by a small increase in the base management fee from 0.65% per annum to 0.75% per annum of gross funds under management. As part of these fee negotiations, the Board has agreed to pay the Manager all of the accrued but unpaid performance fees from previous periods, amounting to £785,000. This amount, together with the performance fee earned and payable for the year ended 31 January 2019 of £116,000, has already been taken into account in the calculation of the Company's NAV, therefore there is no financial effect for shareholders. These changes will be effective as from 1 February 2019.

The Board considers these changes to be a good outcome for the Company, its shareholders and potential investors, who will have greater transparency of the costs associated with their investment.

Future of the Company

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

At that time, the Board committed to put a further range of options to shareholders at the Company's 2020 AGM. Your Directors have subsequently reviewed the Company's position and prospects and consulted leading shareholders. The Company has good long-term performance and the Board has confidence in the portfolio managers' ongoing ability to find attractive investment opportunities. In addition, the newly revised fee structure and the commitment to maintain a relatively high level of dividend - which, in turn helps underpin its narrow discount - means that the Company is well positioned for the future.

Taking these factors into account and following consultation with leading shareholders, the Board believes there is little merit in putting forward the option of a tender or other cash exit in the near term, given that it could reduce the size of the Company to a point of non-viability, and, at the very least, have a negative impact on liquidity and increase the ongoing charges ratio.

As a result, the Board believes that it is desirable to allow the Company the opportunity to continue to grow over a longer market cycle and therefore, instead of waiting until 2020, it will give shareholders the opportunity to vote for the continuation of the Company at the forthcoming AGM on 6 June 2019.

If Resolution 15 is passed and the Company remains in being, the Directors intend to put further options to shareholders at the AGM in 2024, or sooner if the Board believes this to be in the interests of shareholders. If Resolution 15 is not passed, the Directors will put forward appropriate proposals at or before the AGM in 2020, in line with previous statements. The precise nature of these options will depend upon the circumstances prevailing at the time.

The Directors believe that a continuation of the Company is in the interests of shareholders and recommend that you vote in favour of the continuation resolution, as they intend to do in respect of their own shareholdings.

Board Composition and Succession Planning

Having served on the Board for 15 years, I will retire as a Director of the Company at the conclusion of the forthcoming AGM. The Nomination Committee has continued its review of the composition of the Board and the Company's succession plan and I am pleased to announce that Jane Lewis will be appointed Chairman of the Board and Nomination Committee on my retirement. The Board believes that her broad experience of investment companies and markets as well as the period that she has already spent as a non-executive director of your Company demonstrate her strong credentials to lead the Company forward.

The Board has appointed Trust Associates Limited, an external search consultant, to conduct a search for a new director.

General Meetings

This year's AGM will be held on Thursday, 6 June 2019. In line with good corporate governance, all Directors, with the exception of myself, will be standing for re-election. The Directors have carefully considered all of the resolutions proposed and believe them to be in the best interests of shareholders and the Company as a whole. Accordingly, the Directors recommend that shareholders vote in favour of each resolution, as will the Directors in respect of their own shareholdings.

Outlook

The year under review saw continued market and political uncertainty. The Portfolio Managers' Report that follows discusses these in more detail. However, one thing is certain - continued uncertainty around Brexit is likely to have an impact on the markets in which your Company invests for some time to come.

However, your portfolio managers have a disciplined approach to stock selection which has served shareholders well for many years. While they continue with their investment strategy of investing in good quality and well-managed companies, they are also mindful of the many potential pitfalls in markets that are anything but straightforward - and are well aware of the many political distractions on the horizon. Notwithstanding these cautionary factors, your Board continues to be fully supportive of, and reassured by, their considered and astute approach to portfolio construction.

Ian Barby
Chairman
4 April 2019

BUSINESS REVIEW

Strategy and Business Model

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

The Company has contracted the services of Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. The portfolio manager responsible for the day to day management of the portfolio is Jonathan Brown, assisted by Robin West, Deputy Portfolio Manager.

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

Investment Objective

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

Investment Policy

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

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

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

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

Dividend Policy

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

In normal circumstances, the dividend for the year is calculated to give a yield of 4% based on the year end share price.

Performance

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

- the movement in the net asset value (NAV) per share on a total return basis;
- the performance relative to the benchmark index and the peer group;
- the share price and discount;
- dividend per share; and
- the ongoing charges.

The ten year record for the NAV and share price performance compared with the Company's benchmark index can be found on page 4 in the annual financial report, and the five year discount record is on page 3 in the annual financial report. The ten year record for dividends and ongoing charges is shown on page 4 in the annual financial report. Returns versus volatility are shown on the graph on page 13 in the annual financial report.

Results and Dividends

In the year ended 31 January 2019, the net asset value total return was –7.8%, compared with a total return on the benchmark index of –7.4%, an underperformance of 0.4%. The discount at the year end was 3.5% (2018: 4.3%). The Portfolio Managers' Report shows an analysis of the relative performance in a table.

For the year ended 31 January 2019, three interim dividends of 3.65p per share were paid to shareholders in September and December 2018 and March 2019. A final dividend of 7.65p per share will be proposed to shareholders at the AGM on 6 June 2019 and will be paid on 7 June 2019 to shareholders on the register on 3 May 2019, subject to shareholder approval. This will give total dividends for the year of 18.6p (2018: 20.8p), representing a yield of 4% based on the year end share price. Of the total dividend 58% (2018: 52%) was generated from revenue in the year. The remainder was funded from capital and represents 1.6% (2018: 1.8%) of the year end net assets.

Financial Position and Borrowings

At 31 January 2019, the Company's net assets were valued at £158 million (2018: £179 million), comprising a portfolio of equity investments and net current assets, with no borrowings (2018: £nil). The Company currently has a facility with The Bank of New York Mellon under which borrowings are limited to the maximum of the lower of 30% of net assets and £15 million.

Outlook, including the Future of the Company

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

Principal Risks and Uncertainties

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Most of these risks are market related and are similar to those of other investment trusts investing primarily in listed markets. In carrying out this assessment, consideration is being given to the market and possible regulatory uncertainty arising from Brexit.

Market (Economic) Risk

Factors such as fluctuations in stock markets, interest rates and exchange rates are not under the control of the Board or the portfolio manager, but may give rise to high levels of volatility in the share prices of investee companies, as well as affecting the Company's own share price and the discount to its NAV. To a limited extent, futures can be used to mitigate this risk.

Investment Risk

The Company invests in small and medium-sized companies traded on the London Stock Exchange or on AIM. By their nature these are generally considered riskier than their larger counterparts and their share prices can be more volatile, with lower liquidity. In addition, as smaller companies may not generally have the financial strength, diversity and resources of larger companies, they may find it more difficult to overcome periods of economic slowdown or recession.

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

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

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

Shareholders' Risk

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

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

Borrowings

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

Reliance on the Manager and other Third Party Providers

The Company has no employees and the Directors are all non-executive. The Company is therefore reliant upon the performance of third party service providers for its executive function and service provisions. Third party service providers are subject to ongoing monitoring by the Manager and the Company. The Company's operational structure means that all cyber risk (information and physical security) arises at its third party service providers, including fraud, sabotage or crime against the Company. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company successfully to pursue its investment policy. The Company's main service providers, of which the Manager is the principal provider, are listed in the annual financial report.

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

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

Regulatory Risk

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

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

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

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Company is an investment trust, a collective investment vehicle designed and managed for long term investment. While the appropriate period over which to assess the Company's viability may vary from year to year, the long term for the purpose of this viability statement is currently considered by the Board to be at least five years, with the life of the Company not intended to be limited to that or any other period.

The main risks to the Company's continuation are: poor investment performance over an extended period; or shareholder dissatisfaction through failure to meet the Company's investment objective; or the investment policy not being appropriate in prevailing market conditions. Accordingly, failure to meet the Company's investment objective, and contributory market and investment risks, are deemed by the Board to be principal risks of the Company and are given particular consideration when assessing the Company's long term viability.

The investment objective of the Company has been substantially unchanged for many years. The 2015 amendment to dividend policy gave some additional weight to targeting increased dividend income to shareholders. This change does not affect the total return sought or produced by the portfolio manager but was designed to increase significantly returns distributed to shareholders. The Board considers the investment objective remains appropriate. This is confirmed by contact with major shareholders and demonstrated by demand for the Company's shares, as evidenced by the narrower discount to net asset value at which they now trade.

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

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

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

Based on the above analysis, and that shareholders pass the resolution at the forthcoming AGM for the continuation of the Company, the Directors confirm that they expect the Company will continue to operate and meet its liabilities, as they fall due, during the five years ending January 2024.

Board Responsibilities

As set out in the Directors' Report in the annual financial report the Directors have a statutory duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and to have regard to their interests (s172 Companies Act 2006). However, the Company has no employees and no customers in the traditional sense. In accordance with the Company's nature as an investment trust the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager at every Board meeting and reviews its relationships with other service providers at least annually.

Board Diversity

The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. At the year end the Board consisted of five directors, two of whom are women, thereby constituting 40% female representation.

Social and Environmental Matters

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

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

PORTFOLIO MANAGERS' REPORT

Investment Review

The year under review was a difficult period for global stock markets. Gains in the first half were reversed as investors took fright at the worsening outlook for the global economy. The trade dispute between the US and China, tightening monetary policy and high valuations in the technology sector all gave investors a reason to sell. These issues were further magnified in the UK by the uncertainty around Brexit. The domestic economy slowed as both businesses and consumers reduced expenditure which, combined with the political uncertainty, made buying the UK market a tough call for international investors.

Over the last twelve months, the UK stock market, as measured by the FTSE All-Share Index, fell 3.8% on a total return basis. Larger companies received some benefit from the fall in Sterling due to their greater proportion of foreign earnings. However, more domestically focused smaller companies fared less well, falling 7.4% on a total return basis, as measured by the Numis Smaller Companies Index (excluding investment companies). Uncertainty around Brexit has prompted overseas investors to reduce exposure to the UK domestic economy. This headwind has led to a significant de-rating of many stocks within cyclical sectors such as retail, leisure and construction.

Portfolio Strategy and Review

Your Company's net asset value total return was –7.8% for the fiscal year. Positive contributions came from the technology and media sectors, while the portfolio's exposure to the retail sector negatively affected performance.

At the individual stock level, the best performers included: **Future (+41%)**, a publishing business which owns title such as TechRadar and What Hi-Fi, and is transitioning from printing magazines to a predominantly online business model. Management have significantly increased margins by generating new revenue streams from their content via online advertising and e-commerce. Financial administration platform, **AJ Bell (+126%)**, which allows individual investors to manage their portfolios online, had a very strong performance following its initial public offering ('IPO'). North Sea oil and gas producer **Faroe Petroleum (+48%)**, benefitted from a takeover approach and the holding was subsequently sold. **Softcat (+54%)**, a software and hardware re-selling business, benefitted from increased cyber security spending and growth in e-commerce activity amongst its small and medium sized enterprises customer base. Inevitably there were some disappointments in the period, most notably **Patisserie Holdings (-100%)**, which collapsed following the discovery of a fraud that had been perpetrated over a number of years. The scale and complexity of the apparent deceit was unlike anything we had previously encountered. It is disappointing that neither the board nor the auditor detected the issues earlier when the company could have been saved. **CVS (–66%)**, the veterinary services business, which had been a fantastic performer for us over many years, saw reduced margins due to increased staff costs. We had sold the bulk of the holding at higher levels but believe that the business may be attractive to an acquirer.

Invesco Perpetual UK Smaller Companies Investment Trust plc

Performance attribution for the year ended 31 January 2019

	TOTAL ABSOLUTE %
Net asset value total return(1)	(7.8)
Less: Benchmark total return(1)	(7.4)
Relative underperformance	(0.4)
Analysis of Relative Performance	
Portfolio total return including cash and excluding expenses	(6.9)
Less: Benchmark total return(1)	(7.4)
Portfolio outperformance	0.5
Net gearing effect	–
Management fees	(0.6)
Performance fee	(0.1)
Other expenses	(0.2)
Total	(0.4)

(1) Source: Refinitiv (Thomson Reuters).

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

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

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

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

Investment Strategy

Our investment strategy remains unchanged. The year end portfolio comprised 73 stocks, with the sector weightings being determined by where we are finding attractive companies at a given time, rather than by allocating assets according to a "top down" view of the economy. We continue to seek growing businesses, which have the potential to be significantly larger in the medium term. These tend to be companies that either have great products or services, that can enable them to take market share from their competitors, or companies that are exposed to higher growth niches within the UK economy or overseas. We prefer to invest in cash generative businesses that can fund their own expansion, although we are willing to back strong management teams by providing additional capital to invest for growth.

The sustainability of returns and profit margins is vital for the long-term success of a company. The assessment of a business's position within its supply chain and a clear understanding of how work is won and priced are key to determining if a company has "pricing power". It is also important to determine which businesses possess unique capabilities, in the form of intellectual property, specialist know-how or a scale advantage in their chosen market. We conduct around 350 company meetings and site visits a year, and these areas are a particular focus for us on such occasions.

Typically, we have around a third of our portfolio invested in the highly diverse industrials sector. We prefer companies that have a strong market share in a niche, which can often lead to superior profit margins. An example of this is marine services business **James Fisher and Sons**, which benefits from dominant positions in a variety of niches, including submarine rescue, where it is the world leader in the supply of specialist equipment and services to navies globally. It is also a leading player in the construction and maintenance of offshore wind farms around the UK.

Around a quarter of the portfolio is invested in the consumer goods and services sector. Whilst consumer spending has struggled over the last year, wage inflation has begun to outstrip the increases in the cost of living, which should lend some support to retail and leisure stocks. Although our retail exposure is only around 3.5% of the portfolio, we did add **Ted Baker** to the portfolio following a fall in its share price. The company has a strong brand, is expanding overseas, and produced a relatively resilient performance in a tough UK market. Within the leisure sector, we prefer pub groups with differentiated offerings, such as the value led proposition at **JD Wetherspoon** and the premium offering at **Young & Co's Brewery**. Within the media sub-sector, we own exciting growth businesses such as **4imprint**, a promotional products business focussed on North America, and online publishing company **Future**, whose proprietary ecommerce and digital advertising platforms are allowing it to transform the profitability of content.

Our exposure to the financial sector has grown over the last year. We generally favour administration businesses due to their significantly higher margins and the stability afforded by recurring revenue. However, we did acquire a position in **Amigo**, which is the leading player in the fast-growing guarantor loans market. In addition to buying investment platform **AJ Bell**, we added offshore fund administration business **JTC** to the portfolio, which we bought as an IPO. Within the real estate sub-sector our largest holding is **St. Modwen Properties**, which has successfully restructured itself under new management to primarily focus on housebuilding and developing logistics sites.

Technology and healthcare combined account for around 17% of the portfolio. In technology, we added to our position in **Kainos**, an IT services business which reduces government administrative costs by developing customer facing applications. A good example of this is DVLA website, which Kainos designed to make paying for car tax much more efficient. Their ability to slash administrative costs has led to a stream of public sector work despite the distractions of Brexit. In the healthcare sector we have added to our holding in **Clinigen**, which is a world leading specialist distributor of pharmaceuticals for use on an unlicensed and pre-approved basis. It also acquires the rights to drugs where there is potential to grow sales by extending usage of the product through further regulatory approvals. The business has a good record of growing profits and has plenty of future potential, both organically and via acquisition.

Outlook

In forming our investment strategy we remain keenly aware that debt and demographics are significant forces holding back economic growth. While increasing financial leverage enhanced global growth over the last 40 years, it has left governments and consumers with unprecedented levels of debt. Only a sustained period of GDP growth can meaningfully reduce debt ratios. Economic growth is derived from the size of the working population combined with their level of productivity. However, the working age population in G20 countries is now declining and significant productivity improvements are proving elusive. For this reason, we believe the relatively anaemic growth we have seen since the financial crisis will continue for some time to come.

There are always uncertainties to be navigated, and the coming year is no exception with Brexit, trade wars and a global economic slowdown. In light of this, we continue to favour stocks with "self-help" characteristics that enable them to grow independently of the economy. This can include the restructuring of underperforming businesses, sector consolidation, roll-out strategies or market share gains led by innovation.

The valuation of many stocks reduced materially over the last few months of 2018 which presents us with opportunities to invest in great businesses at sensible valuations. Additionally, there is likely to be a pause in the interest rate increases we have seen over the last 18 months, which should support equity markets. So we are far from disheartened, and with careful stock selection we remain hopeful of a decent outcome for the coming year.

Jonathan Brown
Portfolio Manager

Robin West
Deputy Portfolio Manager

The Strategic Report was approved by the Board of Directors on 4 April 2019.

Invesco Asset Management Limited
Company Secretary

INVESTMENTS IN ORDER OF VALUATION

AT 31 JANUARY 2019

Ordinary shares unless stated otherwise

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
Future	Media	6,169	4.1
Coats	General Industrials	4,665	3.1
4imprint	Media	3,992	2.7
Clinigen[AIM]	Pharmaceuticals & Biotechnology	3,813	2.6
James Fisher and Sons	Industrial Transportation	3,621	2.4
RWS[AIM]	Support Services	3,620	2.4
Consort Medical	Health Care Equipment & Services	3,540	2.4
Johnson Service[AIM]	Support Services	3,352	2.2
Sanne	Support Services	3,211	2.2
Equiniti	Support Services	3,179	2.1
Top Ten Holdings		**39,162**	**26.2**
Safestore	Real Estate Investment Trusts	3,168	2.1
Polypipe	Construction & Materials	3,150	2.1
St. Modwen Properties	Real Estate Investment & Services	3,057	2.1
Hill & Smith	Industrial Engineering	2,982	2.0
VP	Support Services	2,838	1.9
Hilton Food	Food Producers	2,818	1.9
Ultra Electronics	Aerospace & Defence	2,818	1.9
Microgen	Software & Computer Services	2,778	1.9
Robert Walters	Support Services	2,734	1.8
SDL	Software & Computer Services	2,690	1.8
Top Twenty Holdings		**68,195**	**45.7**
JTC	Financial Services	2,538	1.7
Savills	Real Estate Investment & Services	2,428	1.6
M&C Saatchi[AIM]	Media	2,350	1.6
Euromoney Institutional Investor	Media	2,321	1.6
Tarsus	Media	2,283	1.5
AJ Bell	Financial Services	2,194	1.5
Essentra	Support Services	2,176	1.5
FDM	Software & Computer Services	2,155	1.4
CLS	Real Estate Investment & Services	2,155	1.4
Keywords Studios[AIM]	Support Services	2,120	1.4
Top Thirty Holdings		**90,915**	**60.9**
Vectura	Pharmaceuticals & Biotechnology	2,077	1.4
Workspace	Real Estate Investment Trusts	2,050	1.4
Young & Co's Brewery – Non-Voting[AIM]	Travel & Leisure	2,037	1.4
JD Wetherspoon	Travel & Leisure	2,016	1.3
Severfield	Industrial Engineering	2,013	1.3
Diploma	Support Services	1,927	1.3
Hollywood Bowl	Travel & Leisure	1,854	1.2
Ted Baker	Personal Goods	1,806	1.2
Bovis Homes	Household Goods & Home Construction	1,758	1.2
Brooks Macdonald[AIM]	Financial Services	1,731	1.2
Top Forty Holdings		**110,184**	**73.8**

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
XPS Pensions	Financial Services	1,726	1.2
Amigo	Financial Services	1,707	1.1
Ricardo	Support Services	1,707	1.1
Kainos	Software & Computer Services	1,688	1.1
Bakkavor	Food Producers	1,652	1.1
Marston's	Travel & Leisure	1,637	1.1
NCC	Software & Computer Services	1,631	1.1
CVS[AIM]	General Retailers	1,621	1.1
Urban & Civic	Real Estate Investment & Services	1,590	1.1
Staffline[AIM]	Support Services	1,559	1.1
Top Fifty Holdings		**126,702**	**84.9**
boohoo.com[AIM]	General Retailers	1,556	1.1
Restore[AIM]	Support Services	1,553	1.1
Softcat	Software & Computer Services	1,498	1.0
Energean Oil & Gas	Oil & Gas Producers	1,453	1.0
Premier Oil	Oil & Gas Producers	1,375	0.9
Northgate	Support Services	1,374	0.9
Superdry	Personal Goods	1,371	0.9
Alfa Financial Software	Software & Computer Services	1,355	0.9
Victrex	Chemicals	1,240	0.8
Knights[AIM]	Support Services	1,217	0.8
Top Sixty Holdings		**140,694**	**94.3**
Arrow Global	Financial Services	1,196	0.8
Topps Tiles	General Retailers	1,187	0.7
Majestic Wine[AIM]	General Retailers	1,021	0.7
Secure Trust Bank	Banks	879	0.6
Hurricane Energy[AIM]	Oil & Gas Producers	794	0.5
Advanced Medical Solutions[AIM]	Health Care Equipment & Services	788	0.5
Dunelm	General Retailers	681	0.5
Horizon Discovery[AIM]	Pharmaceuticals & Biotechnology	609	0.4
Learning Technologies[AIM]	Software & Computer Services	555	0.4
Thruvision[AIM]	Electronic & Electrical Equipment	424	0.3
Top Seventy Holdings		**148,828**	**99.7**
Nucleus Financial[AIM]	Financial Services	293	0.2
Rathbone Brothers	Financial Services	90	0.1
Patisserie Holdings[UQ]	Travel & Leisure	–	–
Total Investments (73)		**149,211**	**100.0**

AIM: Investments quoted on AIM.
UQ: Unquoted.

The percentage of the portfolio invested in AIM stocks at the year end was 21.0% (2018: 28.5%).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the preparation of the Annual Financial Report

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- 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.

The Directors consider that this annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Signed on behalf of the Board of Directors

Ian Barby
Chairman

4 April 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JANUARY

	NOTES	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000	2018 REVENUE £'000	2018 CAPITAL £'000	2018 TOTAL £'000
(Loss)/profit on investments held at fair value	9	—	(15,848)	(15,848)	—	45,127	45,127
Exchange differences		—	—	—	—	(9)	(9)
Income	2	4,080	—	4,080	4,116	—	4,116
Investment management fees	3	(166)	(943)	(1,109)	(215)	(1,217)	(1,432)
Performance fee	3	—	(116)	(116)	—	(2,596)	(2,596)
Other expenses	4	(391)	(2)	(393)	(326)	(2)	(328)
Profit/(loss) before finance costs and taxation		3,523	(16,909)	(13,386)	3,575	41,303	44,878
Finance costs	5	(2)	(9)	(11)	(2)	(10)	(12)
Profit/(loss) before taxation		3,521	(16,918)	(13,397)	3,573	41,293	44,866
Taxation	6	—	—	—	—	—	—
Profit/(loss) after taxation		3,521	(16,918)	(13,397)	3,573	41,293	44,866
Return per ordinary share	7	10.72p	(51.50)p	(40.78)p	8.36p	96.65p	105.01p

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JANUARY

	NOTES	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 January 2017		10,642	21,244	3,386	206,079	252	241,603
Total comprehensive income for the year		—	—	—	41,293	3,573	44,866
Dividends paid	8	—	—	—	(5,176)	(2,584)	(7,760)
Tendered shares bought back and held in treasury		—	—	—	(100,138)	—	(100,138)
At 31 January 2018		10,642	21,244	3,386	142,058	1,241	178,571
Total comprehensive income for the year		—	—	—	(16,918)	3,521	(13,397)
Dividends paid	8	—	—	—	(3,260)	(3,629)	(6,889)
At 31 January 2019		10,642	21,244	3,386	121,880	1,133	158,285

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

BALANCE SHEET
FOR THE YEAR ENDED 31 JANUARY

	NOTES	2019 £'000	2018 £'000
Non-current assets			
Investments held at fair value through profit or loss	9	149,211	176,074
Current assets			
Other receivables	10	438	268
Cash and cash equivalents		10,399	5,500
		10,837	5,768
Total assets		160,048	181,842
Current liabilities			
Other payables	11	(1,763)	(2,486)
Total assets less current liabilities		158,285	179,356
Non-current liabilities	12	-	(785)
Net assets		158,285	178,571
Capital and reserves			
Share capital	13	10,642	10,642
Share premium	14	21,244	21,244
Capital redemption reserve	14	3,386	3,386
Capital reserve	14	121,880	142,058
Revenue reserve	14	1,133	1,241
Total Shareholders' funds		158,285	178,571
Net asset value per ordinary share			
Basic	15	481.8p	543.6p

These financial statements were approved and authorised for issue by the Board of Directors on 4 April 2019.

Signed on behalf of the Board of Directors

Ian Barby
Chairman

Richard Brooman
Deputy Chairman

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JANUARY

	2019 £'000	2018 £'000
Cash flow from operating activities		
(Loss)/profit before finance cost and taxation	(13,386)	44,878
Adjustments for:		
Purchases of investments	(29,667)	(59,968)
Sales of investments	40,865	164,724
	11,198	104,756
Loss/(profit) on investments held at fair value	15,848	(45,127)
(Increase)/decrease in receivables	(150)	19
(Decrease)/increase in payables	(1,695)	1,476
Net cash flow from operating activities after taxation	11,815	106,002
Cash flow from financing activities		
Finance costs paid	(27)	(12)
Tender offer:		
Cost of shares bought back	—	(99,150)
Add: cost of stamp duty thereon	—	(496)
Add: other costs of tender offer	—	(492)
Net equity dividends paid – note 8	(6,889)	(7,760)
Net cash outflow from financing activities	(6,916)	(107,910)
Net increase/(decrease) in cash and cash equivalents	4,899	(1,908)
Cash and cash equivalents at the beginning of the year	5,500	7,408
Cash and cash equivalents at the end of the year	10,399	5,500
Reconciliation of cash and cash equivalents to the Balance Sheet as follows:		
Cash held at custodian	169	230
Short-Term Investment Company (Global Series) plc, money market fund	10,230	5,270
Cash and cash equivalents	10,399	5,500
Cash flow from operating activities includes:		
Dividends received	3,927	4,121
Interest received	1	8

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

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

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

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

(a) Basis of Preparation

(i) Accounting Standards Applied

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

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', updated by the Association of Investment Companies in February 2018, is consistent with the requirements of IFRS, the Directors have prepared the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with the SORP.

(ii) Adoption of New and Revised Standards

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

The following standards became effective during the year:

- IFRS 9: Financial Instruments (effective 1 January 2018). This replaces IAS 39 with principle-based classification and measurement of financial instruments depending on the business model and nature of cash flows which can be measured at amortised cost or fair value. Equity investments will be held at fair value under this standard. Also, included within IFRS 9 is a forward-looking expected loss impairment model and a revised framework for hedge accounting.
- IFRS 15: Revenue from contracts with customers' (effective 1 January 2018). This standard identifies revenue recognition conditions of an entity along with enhancing the nature of revenue disclosures.

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

(iii) Critical Accounting Estimates and Judgements

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

(b) Foreign Currency and Segmental Reporting

(i) Functional and presentation currency

The financial statements are presented in sterling, which is the Company's functional and presentation currency and the currency in which the Company's share capital and expenses are denominated, as well as a majority of its assets and liabilities.

(ii) Transactions and balances

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

(iii) Segmental reporting

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

(c) Financial Instruments

(i) Recognition of financial assets and financial liabilities

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

(ii) Derecognition of financial assets

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

(iii) Derecognition of financial liabilities

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

(iv) Trade date accounting

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

(v) Classification of financial assets and financial liabilities

Financial assets

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

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

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted bid prices at the balance sheet date.

Financial liabilities

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

(d) Cash and Cash Equivalents

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

(e) Income

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

(f) Expenses and Finance Costs

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

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

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

(g) Taxation

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

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

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

(h) Dividends

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

(i) Consolidation

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

2. Income

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

	2019 £'000	2018 £'000
Income from listed investments		
UK dividends	3,197	3,593
UK unfranked investment income	157	163
Overseas dividends	192	224
Special dividends	533	128
	4,079	4,108
Other income		
Deposit interest	1	8
Total income	4,080	4,116

No special dividends have been recognised in capital (2018: £nil).

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

3. Investment Management and Performance Fees

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

	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000	2018 REVENUE £'000	2018 CAPITAL £'000	2018 TOTAL £'000
Base management fee	166	943	1,109	215	1,217	1,432
Performance fee charged to capital	—	116	116	—	2,596	2,596
	166	1,059	1,225	215	3,813	4,028

Details of the Investment Management Agreement can be found in the Directors' Report.

At 31 January 2019, £86,000 (2018: £98,000) was accrued in respect of the base management fee and £901,000 (2018: £2,596,000) was accrued for the performance fee.

The performance fee payable in any year is capped at 1% of average funds under management, with any excess (subject to a total performance fee cap of 2%) carried forward as performance fee deferred (see note 12). Further details are given in the annual financial report.

4. Other Expenses

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

	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000	2018 REVENUE £'000	2018 CAPITAL £'000	2018 TOTAL £'000
Directors' remuneration (i)	140	—	140	114	—	114
Auditor's remuneration (ii):						
– for audit of the annual financial statements	28	—	28	27	—	27
Other expenses (iii)	223	2	225	185	2	187
	391	2	393	326	2	328

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

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

(iii) Other expenses include:

- £12,000 (2018: £10,000) of employer's National Insurance payable on Directors' remuneration. As at 31 January 2019, the amounts outstanding of employer's National Insurance payable on Directors' remuneration was £1,000 (2018: £1,000); and
- custodian transaction charges of £1,500 (2018: £2,000). These are charged to capital.

5. Finance Costs

Finance costs arise on any borrowing facilities the Company has.

	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000	2018 REVENUE £'000	2018 CAPITAL £'000	2018 TOTAL £'000
Bank overdraft facility costs	2	9	11	2	10	12

The overdraft facility was renewed on 19 September 2018. From this date the facility fee was reduced from 0.08% to 0.05% and the interest rate was reduced from 0.85% to 0.75% over the Bank of England base rate.

6. Taxation

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

(a) Current tax charge

	2019 £'000	2018 £'000
Overseas taxation	—	—

(b) Reconciliation of current tax charge

	2019 £'000	2018 £'000
(Loss)/profit before taxation	(13,397)	44,866
Theoretical tax at UK Corporation Tax rate of 19.00% (2018: 19.17%)	(2,545)	8,601
Effects of :		
– UK dividends which are not taxable	(608)	(689)
– Non-taxable UK special dividends	(101)	(24)
– Non-taxable overseas dividends	(30)	(37)
– Non-taxable loss/(gains) on investments	3,011	(8,651)
– Loss on exchange differences	—	2
– Expenses in excess of taxable income	273	798
Actual current tax amount	—	—

(c) Factors that may affect future tax changes

The Company has excess management expenses of £37,685,000 (2018: £36,250,000) that are available to offset future taxable revenue. A deferred tax asset of £6,407,000 (2018: £6,163,000) at 17% (2018: 17%) has not been recognised in respect of these expenses, since they are recoverable only to the extent that the Company has sufficient future taxable revenue. The Company has no deferred tax liability at the balance sheet date.

7. Returns per Ordinary Share

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

	2019 REVENUE	2019 CAPITAL	2019 TOTAL	2018 REVENUE	2018 CAPITAL	2018 TOTAL
Return per ordinary share	10.72p	(51.50)p	(40.78)p	8.36p	96.65p	105.01p

Basic total returns per ordinary share is based on the net total loss for the financial year of £13,397,000 (2018: profit £44,866,000).

Basic revenue returns per ordinary share is based on the net revenue profit for the financial year of £3,521,000 (2018: profit £3,573,000).

Basic capital returns per ordinary share is based on the net capital loss for the financial year of £16,918,000 (2018: profit £41,293,000).

All three returns are based on the weighted average number of shares in issue during the year of 32,851,929 (2018: 42,723,755).

8. Dividends on Ordinary Shares

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

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

	2019 PENCE	2019 £'000	2018 PENCE	2018 £'000
Dividends paid from revenue in the year:				
Third interim (prior year)	3.55	1,166	0.48	252
Final (prior year)	0.22	75	—	—
First interim	3.65	1,199	3.55	1,166
Second interim	3.65	1,199	3.55	1,166
Return of unclaimed dividends from previous years	—	(10)	—	—
Total dividends paid from revenue	11.07	3,629	7.58	2,584
Dividends paid from capital in the year:				
Third interim (prior year)	—	—	2.97	1,584
Final (prior year)	9.93	3,260	6.75	3,592
Total dividends paid from capital	9.93	3,260	9.72	5,176
Total dividends paid in the year	21.00	6,889	17.30	7,760

	2019 PENCE	2019 £'000	2018 PENCE	2018 £'000
Dividends payable in respect of the year:				
First interim	3.65	1,199	3.55	1,166
Second interim	3.65	1,199	3.55	1,166
Third interim	3.65	1,199	3.55	1,166
Final	7.65	2,513	10.15	3,335
	18.60	6,110	20.80	6,833

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

	2019 £'000	2018 £'000
Dividend payable in respect of the year:		
– from revenue reserves	3,521	3,573
– from capital reserves	2,589	3,260
	6,110	6,833

Dividend payable from capital reserves of £2,589,000 (2018: £3,260,000) as a percentage of year end net assets of £158,285,000 (2018: £178,571,000) is 1.6% (2018: 1.8%).

9. Investments

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

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

	2019 £'000	2018 £'000
Investments listed on a regulated stock exchange	118,198	125,218
AIM quoted investments	31,013	50,856
	149,211	176,074
Opening valuation	176,074	235,316
Movements in year:		
Purchases at cost	29,870	60,389
Sales – proceeds†	(40,885)	(164,758)
Sales – profit on disposal of investments	16,212	55,901
Movement in investment holding gains	(32,060)	(10,774)
Closing valuation	149,211	176,074
Closing book cost	126,598	121,401
Closing investment holding gains	22,613	54,673
Closing valuation	149,211	176,074
Profit on disposals of investments in year	16,212	55,901
Movement in investment holding gains in year	(32,060)	(10,774)
Total (loss)/profit for year	(15,848)	45,127

The transaction costs included in gains on investments amount to £86,000 (2018: £252,000) on purchases and £44,000 (2018: £96,000 excluding tender pool) for sales.

† Sale proceeds for 2018 includes £96,365,000, net of transaction costs of £110,000, arising on securities realised in the tender pool.

10. Other Receivables

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

	2019 £'000	2018 £'000
Amounts due from brokers	54	34
Prepayments and accrued income	384	234
	438	268

11. Other Payables

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

		2019 £'000	2018 £'000
Amounts due to brokers		695	492
Performance fee	– earned and payable for the year	116	1,811
	– prior period provision now payable	785	—
Other accruals and deferred income		167	183
		1,763	2,486

12. Non-current Liabilities

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

	2019 £'000	2018 £'000
Performance fee deferred		
– brought forward	785	—
– payable in year	(785)	—
– provided in year	—	785
	785	785

The basis of the performance fee deferred is given in note 3. As noted in the Chairman's Statement on page 6, the Board has agreed to pay the Manager all of the accrued but unpaid performance fees from previous periods, amounting to £785,000.

13. Share Capital

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

	2019 NUMBER	2019 £'000	2018 NUMBER	2018 £'000
Allotted, called-up and fully paid				
Ordinary shares of 20p each	32,851,929	6,570	32,851,929	6,570
Ordinary shares of 20p each held in Treasury	20,357,155	4,072	20,357,155	4,072
	53,209,084	10,642	53,209,084	10,642

No shares were repurchased for the year ended 31 January 2019. For the year ended 31 January 2018, as a result of the tender offer, a total of 20,357,155 shares were repurchased and held in treasury by the Company on 27 July 2017 at a tender offer price of 487.05p. In addition, fixed costs and stamp duty of £988,000 were also incurred on completion of the tender offer.

14. Reserves

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

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

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

15. Net Asset Value per Ordinary Share

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

The net asset value per share and the net asset values attributable at the year end were as follows:

	NET ASSET VALUE PER SHARE		NET ASSETS ATTRIBUTABLE	
	2019 PENCE	2018 PENCE	2019 £'000	2018 £'000
Ordinary shares	481.8	543.6	158,285	178,571

Net asset value per ordinary share is based on net assets at the year end and on 32,851,929 (2018: 32,851,929) ordinary shares, being the number of ordinary shares in issue (excluding treasury) at the year end.

16. Subsidiary Undertaking

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

	NET ASSET VALUE AT 31 JANUARY 2019	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION AND OPERATION	DESCRIPTION OF SHARES HELD	PERCENTAGE HELD

Berry Starquest Limited	£100	Investment dealing	England and Wales	Ordinary shares	100%

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

17. Risk Management, Financial Assets and Liabilities

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

Financial Instruments

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

Risk Management Policies and Procedures

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

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

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

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

Market Risk

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

1. **Currency Risk**

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

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

2. **Interest Rate Risk**

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

   The Company has an uncommitted bank overdraft facility up to a maximum of 30% of the net asset value of the Company or £15 million (2018: same), whichever is the lower; the interest rate is charged at 0.75% (2018: 0.85%) over Bank of England base rate. The Company uses the facility when required, at levels approved and monitored by the Board.

   At the year end, there was no overdraft drawn down (2018: none). Based on the maximum amount that can be drawn down at the year end under the overdraft facility of £15 million (2018: £15 million), the effect of a +/– 1% in the interest rate would result in an increase or decrease to the Company's statement of comprehensive income of £150,000 (2018: £150,000).

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

3. **Other Price Risk**

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

   Management of Other Price Risk

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

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

   If the value of the portfolio fell by 10% at the balance sheet date, the loss after tax for the year would increase by £14.9 million (2018: profit after tax for the year would have decreased by £17.6 million). Conversely, if the value of the portfolio rose by 10%, the loss after tax would decrease by the same amount.

Fair Values of Financial Assets and Financial Liabilities

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

Fair Value Hierarchy Disclosures

Except for the two Level 3 investment described below, all of the Company's investments are in the Level 1 category as set out in IFRS 7, the three levels of which follow:

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

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

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

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

Patisserie Holdings and Berry Starquest Limited were the only Level 3 investments in the portfolio at the year end (2018: Berry Starquest Limited only). Level 3 investments are investments for which inputs are unobservable (i.e. for which market data is unavailable). Patisserie Holdings was a Level 1 security but was transferred to Level 3 following its suspension from trading on AIM. Since it went into administration on 22 January 2019 the fair value was written down to nil (2018: Level 1 and valued at £1,884,000). Berry Starquest Limited is a dormant subsidiary and is valued at £100 (2018: £100).

18. Maturity Analysis of Contractual Liability Cash Flows

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

19. Capital Management

The Company's capital, or equity, is represented by its net assets which are managed to achieve the Company's investment objective set out in the annual financial report.

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

The Board can also manage the capital structure directly since it determines dividend payments and has taken the powers, which it is seeking to renew, to buy-back shares, either for cancellation or to be held in treasury, and to issue new shares or sell shares held in treasury.

The Company is subject to externally imposed capital requirements with respect to the obligation and ability to pay dividends by s1159 Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the overdraft facility and by the terms imposed by the lender. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Total equity at 31 January 2019, the composition of which is shown on the balance sheet above, was £158,285,000 (2018: £178,571,000).

20. Contingent Liabilities

There were no material outstanding contingent liabilities as at 31 January 2019 (2018: nil).

21. Related Party Transactions and Transactions with Manager

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

Under International Financial Reporting Standards, the Company has identified the Directors as related parties. The Directors' remuneration and interests have been disclosed in the annual financial report with additional disclosure in note 4. No other related parties have been identified.

Details of the Manager's services and fees are disclosed in the Directors' Report in the annual financial report and in note 3.

22. Post Balance Sheet Events

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

The Audited Annual Financial Report will be posted to shareholders shortly. Copies may be obtained during normal business hours from the offices of Invesco, 43-45 Portman Square, London, W1H 6LY.

A copy of the Annual Financial Report will be available from Invesco on the following website:

www.invesco.co.uk/ipukscit

The Annual General Meeting (AGM) of the Company will be held at 12.00 noon on 6 June 2019 at 43-45 Portman Square, London, W1H 6LY.

The information contained within this announcement is deemed by the Company to constitute inside information under the Market Abuse Regulation (EU) No. 596/2014.

By order of the Board

Invesco Asset Management Limited

Company Secretary

4 April 2019