

Annual Report 09

JPMorgan European  
Investment Trust plc

Annual Report & Accounts Year Ended 31st March 2009

# Financial Results

## Growth Share Class

**-43.1%**

Return to shareholders<sup>1</sup>  
(2008: -3.3%)

**-37.5%**

Return on net assets<sup>2</sup>  
(2008: -1.5%)

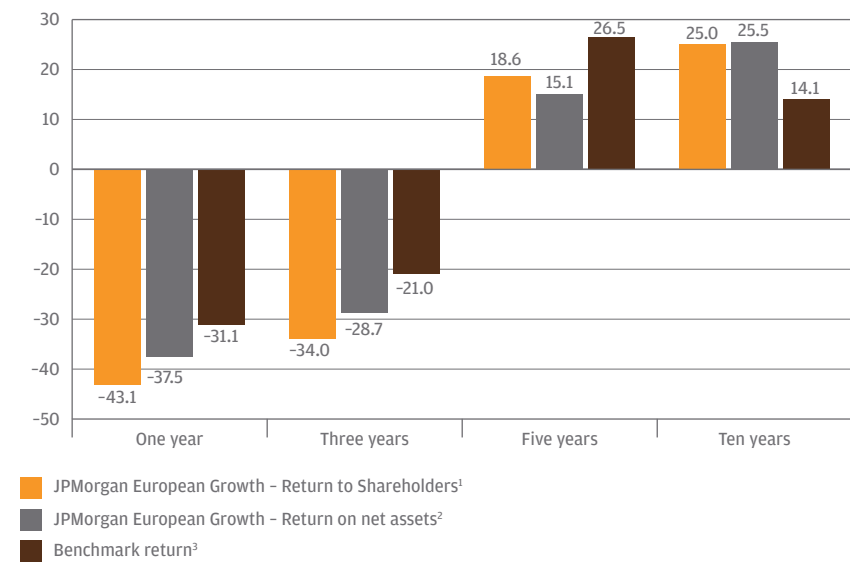
**-31.1%**

Benchmark return<sup>3</sup>  
(2008: +2.5%)

**7.00p** ordinary  
**2.50p** special  
Dividend  
(2008: 6.33p Ordinary)

### Long Term Performance

for periods ended 31st March 2009



A glossary of terms and definitions is provided on page 92.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: JPMorgan.

<sup>3</sup>Source: FTSE. The Growth portfolio's benchmark is the FTSE World Europe (ex UK) Index in sterling terms (total return).

# Financial Results

## Income Share Class

**-33.9%**

Return to shareholders<sup>1</sup>  
(2008: -7.6%)

**-30.5%**

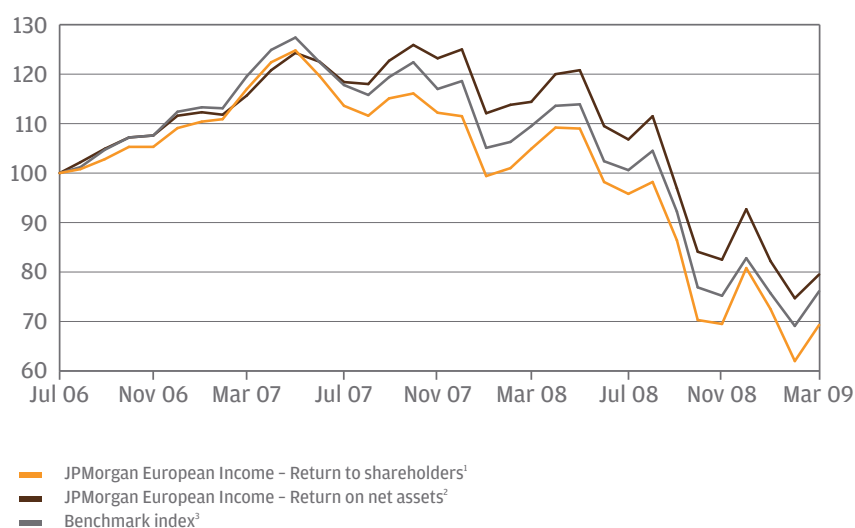
Return on net assets<sup>2</sup>  
(2008: -7.3%)

**-30.5%**

Benchmark return<sup>3</sup>  
(2008: -1.1%)

**4.00p** Ordinary  
**1.15p** Special  
Dividend  
(2008: 3.90p Ordinary)

### Performance since inception



A glossary of terms and definitions is provided on page 92.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: JPMorgan.

<sup>3</sup>Source: FTSE. The Income portfolio's benchmark is the MSCI Europe Index in sterling terms (total return).

# Features

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### Income Shares

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## Objectives

### Growth

Capital growth from Continental European investments, by consistent outperformance of the benchmark and a rising share price over the longer term by taking carefully controlled risks through an investment method that is clearly communicated to shareholders.

### Income

To provide a growing income together with the potential for long-term capital growth from a diversified portfolio of investments in pan-European stockmarkets.

## Investment Policies

### Growth

- To invest in a diversified portfolio of investments in the stockmarkets of Continental Europe.
- To emphasise capital growth rather than income, with the likely result that the dividend will fluctuate.
- To use borrowings to increase potential returns to shareholders.
- To invest no more than 15% of the assets attributable to the Growth shares in other UK listed investment companies (including investment trusts).

### Income

- To invest in a diversified portfolio of investments in pan-European stockmarkets.
- To provide a growing income together with the potential for long-term capital growth.
- To manage liquidity and borrowings to increase returns to shareholders.
- To invest no more than 15% of the assets attributable to the Income shares in other UK listed investment companies (including investment trusts).

## Benchmarks

### Growth

The FTSE World Europe (ex UK) Index in sterling terms (total return).

### Income

The MSCI Europe Index in sterling terms (total return).

## Capital Structure

The Company has an authorised share capital of 354,328,617 Growth shares of 5p each and 114,142,765 Income shares of 2.5p each.

As at the year end 126,799,002 Growth shares and 58,502,745 Income shares were in issue.

## Management Company

The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM' or the 'Manager') to manage its assets.

# Chairman's Statement



This introductory statement is part of the Director's report which continues on page 41.

## Performance

I am sorry to report that, as a result of substantial underperformance this year, your Board has failed to achieve one of its foremost duties: to ensure that the net asset value of the Company's Growth portfolio out-performs its benchmark index over the long term; that is, over periods of 3 years and longer.

The net asset value of the Growth shares fell by 37.5% over the year under review (after management expenses), compared with a fall of 'only' 31.1% in its benchmark (the FTSE World Europe Index (ex UK), in sterling terms, with no management expenses). This under-performance of 6.4%, following the under-performance of 4.0% last year, has dragged the relative performance of your Company over three and five years into negative territory; a very unhappy result.

I excused the underperformance of the Growth portfolio last year on the basis that one year's results need not be of particular significance, since the goal is for out-performance over the long term and that there was then a healthy average *annual* out-performance over the previous three, five and ten years of 0.3%, 0.8% and 1.5%, respectively. This is no longer the case. While the out-performance of the Growth shares over ten years is still intact at an annual average of 0.9%, the recent five and three year periods now show under-performance of 1.6% and 3.4% *per annum*, respectively.

The performance of the Income portfolio has also been disappointing, although it is not yet old enough to have compiled a three year performance record. Launched in August 2006, over its first eight months to the year ended 31st March 2007 its net asset value rose by 16.5% compared with the 15.7% rise in its benchmark, the MSCI Europe Index, in sterling terms; a positive relative performance of 0.8%. But then relative performance plunged, its NAV under-performing the benchmark by 6.2% in 2008. I wrote last year that "*it must now begin to move ahead smartly if it is to achieve a positive capital return after three years.*" But it has fallen by a further 30.5% in 2009, exactly in line with the index. Overall, the Income portfolio has underperformed its benchmark at the rate of 1.1% *per annum* over its first 32 months.

The fact that the credit crunch induced the worst economic scenario since the Great Depression, and torrid stock markets in which few, if any, long-only funds could make absolute returns, is an irrelevance. The material fact is the disappointing performance of your Company relative to the market. Your Company has no mandate to dodge the direction of equities by investing widely in other assets, although it can lessen or increase the impact by holding cash or introducing gearing - an important factor which I turn to below. Whatever the circumstances, your Company invests in European markets in the confident expectation that the long-run trend in their equity prices is upward and that the Manager's skills will tilt the portfolio towards the out-performing stocks within those markets. Your Board does not necessarily expect the Manager to produce positive relative results for shareholders each and every year. But it does expect it to produce positive returns over rolling three year periods and longer. If the Manager fails to meet that expectation your Board has the obligation to consider seriously whether their re-appointment is in the best interests of shareholders.

# Chairman's Statement continued

## The Investment Process

In my statement last year I reported that the stock-picking system used by the Managers to identify best-of-value and best-of-growth shares had resulted in sudden and significant under-performance when the credit crunch hit, causing as it did sudden and extreme loss of confidence in all financial markets. I noted that "*since the process has shown divergence at previous climacterics* ('periods pertaining to or constituting a critical period in human life') *your Board has instituted a review of the investment process to see if lessons can be learned.*" The continuing impact of the credit crunch through 2008 and in particular in the weeks following the collapse of Lehman Brothers, over the week-end of September 13th/14th, made the year an ideal laboratory for conducting this review.

The factors that undermined performance in 2007/8 were exactly the factors that undermined performance in 2008/9. These factors were that the proxies used by the process to identify 'growth' and 'value' shares have not shown themselves to be indicators of positive share price performance when market confidence is at a low ebb and near panic ensues. The review examined the performance over the last twenty years of the top quintile of 'growth' and 'value' shares that are specifically sought out by the process. The 'growth' proxy (positive individual share price momentum in relation to the market, catalysing purchase when confirmed by upward earnings estimates from investment analysts) indeed identified companies which proceeded to out-perform. The 'value' proxy (a low multiple of price to earnings) indeed identified companies which provided stability to the portfolio when markets were choppy, while not stifling performance when growth shares were exuberant. But in abnormally severe downturns these proxies no longer applied. At major downward-turning points – as in 1998, at several points during the 2000-2003 bear market, and in 2008 – the 'value' shares abandoned their role as portfolio stabilisers and fell further than the market, as did their 'growth' associates.

The Investment Managers' Report on page 12 fully explains all the factors that undermined performance this year. The matter for your Board has been to re-justify its confidence in the stock selection process so that it can confidently, and in your best interests, re-appoint the Manager. In more detail, our review has revealed that, over the last twenty years at least, the process of selecting shares from the top quintile of 'growth' and 'value' shares has out-performed by an average of +2.0% in two thirds of the 229 months since the end of 1989; and that, in fewer than one third of those months, over the same time frame, has under-performed by the average lesser amount of -1.7%. This is positive evidence that the process should produce out-performance in the long run. But the review also showed that the results are volatile over short periods. While the number of outperforming months was two thirds of the total over the whole twenty year period, there was significant inconsistency over rolling twelve month periods. In one year the out-performance was in every month of the year but in four of the years out-performance was only achieved one third of the time. The consistency of the process thus varied widely between 100% and 33%. And 2008 was one of the four years when success was at the very bottom of the range. Perhaps we can be encouraged by the fact that there were strong recoveries in relative performance following the previous years when the process failed two-thirds of the time (and that there has indeed been a strong recovery in relative performance in recent months).

Your Board has concluded that this evidence is sufficiently robust to justify confidence in the long run success of the process. Importantly, your Board was also encouraged to note that the Manager is constantly testing the continuing validity of the proxies for 'value' and 'growth' and is constantly looking for, and back-testing, potential alternatives. It is a frequently-observed phenomenon that static systems lose their validity almost from the moment that they become accepted. So your Board was relieved to note that the process is dynamic; it will keep itself updated in this regard.

The specific purpose of the review was to extract useful lessons and to implement them for the future benefit of our shareholders. The Board is exploring two main lessons. The first is that the main proxy used for 'growth' - positive share price momentum relative to the market - may correlate more closely with short-term movements in stock prices rather than with the fundamental economics of a business that should drive long-term outperformance. The process selects upward earnings revisions by analysts as the catalyst for buying shares with positive price momentum rather than 'earnings growth' itself. Perhaps expectation is more influential than reality in the short-term, but in the long-run actual earnings growth must be the decisive factor. This suggests that the time-measure for success is essentially short-term and that success in the long term depends upon consistently stitching together the series of short term successes. Price momentum and (false) expectations can lead to excessive valuations, so the value proxy is crucial. To the extent that the process is a following strategy, using the rear-view mirror, it must inevitably be 'behind the curve' at major and sudden turning points, lagging the market especially in periods of panic. Only human analysis and judgement can exercise foresight and there is a danger that the existence of a strong process may inhibit this. Following the review, your Board urged the Manager to encourage individual insights, particularly at times of potential exuberance or despair.

Secondly, over-confidence that the process assures long term out-performance might encourage the Investment Managers to remain fully invested and geared at all times. In a previous statement I have myself noted that "*investors only had to be out of equities for the 50 most critical months* (out of the then-720 months since the end of the second world war) *for the annualised rate of return to fall below 5%, compared with the return of 14% for those who remained fully invested at all times*". But the regular appearance of bear markets suggests that a process, to be rigorous and consistently useful, should be for all seasons and especially for ones of such severity that they threaten to undo years of out-performance. Although many politicians, bankers and commentators have noted how unforeseeable was the credit crunch (they would, wouldn't they?), some might say it was flagged for more than a year before the full consequences hit. It is not only with the benefit of hindsight, therefore, to regret that the Investment Managers' discretion to move into cash was not exploited. The dark clouds were scrutinised at Board meetings and I apologise to shareholders for not steering those conversations more forcefully. In previous years the Investment Managers' tactical deployment of gearing has been highly effective. This year, as a consequence of positive price momentum in the first half of the year, historically-low valuations and encouraging sentiment indicators, gearing was increased to 110% over the summer months, just before the market crash, exacerbating the under-performance of top-quintile growth and value shares when

# Chairman's Statement continued

the crash came. The difference between being 10% in cash or 10% geared is 2 percentage points in relative performance for every 10 percentage points of market movement; more than enough to have turned this year's under-performance into out-performance.

## **Re-appointment of the Manager**

Every year the Board reviews the performance of the Manager in each category of its activities. In the Board's view there has been notable continuing progress in marketing and shareholder communications (although some statistics still need sharpening up on the greatly-improved web-site). The administration and staff work has been to the usual very high standard. Unlike many of its competitors, JPMorgan has emerged from a very difficult year with its brand enhanced. But, of course, the most critical factor in the Board's decision to re-appoint the Manager is continuing evidence that it will deliver out-performance of the benchmark over the long term. Your Company must return to delivering 'what it says on the tin' or there must be changes. On the basis of the supportive outcome of its review, your Board is content to reappoint the Manager for 2009/10. It will, however, continue to monitor closely the portfolio's performance, and the continuing evolution of the investment process, and is prepared to take all necessary steps to ensure that the Company delivers the level of long-term out-performance which shareholders can justifiably expect.

## **Gearing**

The ability to gear returns by borrowing is a key advantage that investment trusts have over other investment fund structures. As noted above it adds to risk but, so long as equities increase in value, gearing should work to the long-term benefit of shareholders if the timing of its deployment is well-judged. The rate of interest on the borrowing also has bearing. In 1999 the Company borrowed €35 million by way of bank loan and in 2001 a further €100 million by way of Floating Rate Note. The interest rate on both loans was fixed by swap contracts. Given that interest rates have fallen significantly, your Board unwound the swap arrangements last August, thankfully before the counterparties, Lehman Brothers and Royal Bank of Scotland, those two pillars of the financial establishment, succumbed to the Samsonian embrace of the credit crunch. The effect has been to reduce the average interest rate payable by the Company from over 6% to the current 2.3%. The €35 million loan is due for repayment in December 2009 and the FRN in June 2011, at which dates decisions will be taken on whether, and on what terms, to renew.

## **Discount Management**

As is usually the case in troubled markets, a widening discount of share price to net asset value per share has made the fall in the total return to shareholders worse than the fall in net asset value alone. Total return to shareholders was -43.1% and -33.9% on the Growth and Income shares respectively, compared with the -37.5% and -30.5% falls in net asset value. The range of discounts varied widely over the year on both classes of share; between 3.8% and 18.1% on the Growth shares and between 2.2% and 17.7% on the Income shares.

The Company reorganised in August 2006, creating the Income shares. At the time, the Company announced a revised discount control policy under which it would

repurchase shares with the aim of establishing long-term levels of discount for both the Growth shares and Income shares at or below 5% (with debt valued at par). This policy was introduced at that time in light of then benign market conditions and the discount at which the ordinary shares were trading.

Since then, the Company has bought back 28m Income shares and 57m Growth shares. Notwithstanding the level of buybacks, the 12 month average discount for the Income Shares has widened to 8% and, for the Growth Shares, to 10%. Market conditions have remained volatile and the average discount of the funds in the Company's peer group have widened from 5.4% as at 31st July 2006 to 10.7% as at 22nd May 2009.

Accordingly, and in consultation with a number of the Company's largest shareholders, the Board has revisited the discount control policy. It remains of the view that it is important to seek to address imbalances in the supply of and demand for the Company's shares and to minimise thereby the volatility and absolute level of the discount to net asset value at which the Company's shares trade. Whilst it remains the long term aim of the Company to maintain the discount on both share classes at or below 5% (with debt at fair value), in current market conditions it has been deemed prudent, for the time being, to allow for slightly greater discounts, should they develop. Nonetheless, your Board would not wish to see the discounts widen beyond 10%. The precise level and timing of any repurchases carried out pursuant to the policy will depend upon prevailing market conditions at the relevant time. The Board will continue to monitor this policy in light of market conditions.

### Dividends

It has been a good year for dividends. Although that happy outcome is not a primary objective of the Growth portfolio, it has paid 9.5p per share on the Growth shares, giving them a yield of 8.2% on the year-end share price of 116.5p per share. Payments have amounted to 5.15p on the Income shares, giving them a yield of 8.5% on the year-end share price of 60.3p. These payments were enhanced by the sum of £6.2 million recovered from previous payments of VAT on management fees, plus interest, which, as I reported last year, the European Court of Justice had ruled were unlawfully levied by HM Revenue and Customs. This special element of the dividends amounted to 2.5p for the Growth shares and 1.15p for the Income shares. Without these special elements the above yields would have been 6.0% and 6.6% respectively. Looking ahead, the current economic climate suggests that it may be difficult to maintain the cash level of dividends next year, though we are confident that yields will remain significantly higher than those available from holding cash. The Board continues to have under review ways in which the difference in dividend payments between the Growth and Income shares might be increased, it being felt preferable by the Board that Income shares should, if possible, offer a more significant premium on yield over the Growth shares.

### Board of Directors

As previously announced, there have been two changes to the Board over the year. In anticipation of Alex Zagoreos's retirement last December, Stephen Goldman was appointed in September. He has a wide experience of investing in European equities.

# Chairman's Statement continued

Following 12 years at NM Rothschild Asset Management, in the pension department, where he was promoted to lead the UK Equity Research team, he joined JPMorgan in 1990 as Head of the UK Portfolio Management and the European Client Portfolio Management teams. In 2000 he moved to Credit Suisse Asset Management as Managing Director and Head of Equities for the European Region. He was responsible for the equity teams throughout Europe which managed both specialist and balanced mandates for both institutional and retail clients.

Your Board is fortunate in attracting a candidate of his experience and I will be delighted to introduce Stephen to shareholders who can attend the AGM in July, when he will stand for formal election to the Board.

The Directors retiring and standing for re-election will be Ferdinand Verdonck and Robin Faber.

## Annual General Meeting

Please note that the venue for the AGM has changed from that of recent years, being held this year at the Armourer's Hall, 81 Coleman Street, London EC2R 5BJ on Thursday, 16th July at 12 noon. A presentation by the Investment Managers will be followed by the formal proceedings and a buffet lunch, when shareholders can meet the Directors and Managers for informal conversation.

It would be helpful if shareholders seeking answers to detailed questions put them in writing beforehand, addressed to the Company Secretary, JPMorgan European Investment Trust plc, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ. Alternatively, questions may be submitted to the Company's website. Shareholders who are unable to attend the meeting are encouraged to use their proxy votes. Shareholders who hold their shares through CREST are able to lodge their proxy votes electronically.

## Outlook

Arguably, the credit crunch has been the greatest specifically-financial shock to the global economic system in the history of the world. The unprecedented evaporation of credit has removed a substantial quantity of the fuel that powered economic growth over the last decade (some estimates put it at \$120 trillion of lost credit, given that \$4 trillion of assets will be written off at leverage of 30:1). Not surprisingly, therefore, the global economy could be settling into the deepest and most uniform recession world-wide since the early nineteen thirties. I wrote in my statement last year that "*the likelihood of a slowdown in consumer spending generally seems inevitable*" and that "*the outlook for share prices in the short-term looks decidedly uncertain.*" Since then markets have fallen by some 40% with those highly-g geared sectors most affected by the credit crunch falling by 80% and more - to depths more profound than they plumbed at the bottom of the last bear market in 2003. While corporate profits will be squeezed for as long as consumer spending is depressed, the massive injections of central funding around the world suggest that economic activity will be buoyed and hence consumer spending will return. The comprehensive erosion of government finances around the world creates new space for the private

sector. Markets anticipate. Thus the long term outlook for shares is rosy. The financial sector is unlikely to suffer again for many years the agonies of the last twelve months. It must, as usual, lead the way out of recession and is therefore particularly attractive for investors who can stand the volatility. The extent and timing of the upside is, of course, uncertain. The economic system has been badly hurt and is fragile, not least in the Euro area. Naturally, there will be set-backs and bear market rallies along the way. But bull markets climb a wall of worry and usually begin when the outlook is gloomiest. As long as markets settle into their normal pattern of rewarding companies with expanding prospects, and the access to capital to finance them, the long term direction of share prices from here is much more likely to be up than down. Given a return to normal evaluation by the market of individual equities' relative merits, and with the lessons learnt from last year's experience, your Board looks forward to the Manager's investment process returning to deliver long term out-performance again, by continuing to select a portfolio from the best of value and growth.

**Andrew Murison**  
Chairman

8th June 2009

# Investment Managers' Report



Stephen Macklow-Smith



Alexander Fitzalan Howard

## Performance

Last year we said that the year under review was a difficult one for equity investment. Little did we suspect that the next year would be the most difficult in 70 years, and we propose in this report to examine in considerable detail the background to what happened. For the Growth portfolio the NAV fell by 37.5% and the share price by 43.1% (both on a total return basis) against a benchmark that fell by 31.1%. One year, however, is a very short period over which to judge what are by definition long-term investment assets and over three years the share price and NAV have fallen at a compound annual rate of 12.9% and 10.7% respectively against a benchmark which has fallen at a compound annual rate of 7.6%. Over five years the share price and NAV have shown a compound annual growth rate of 3.5% and 2.9% respectively against a benchmark which has shown a compound annual growth rate of 4.8%. Over ten years the share price and NAV have both shown a compound annual growth rate of 2.3% against a benchmark which has compounded at 1.3%. The Income portfolio saw its share price fall by 33.9% but the NAV matched the benchmark performance, both falling by 30.5%. Since launch, the share price and NAV for the Income portfolio have fallen at a compound annual rate of 10.6% and 8.4% respectively against a benchmark which has fallen at a compound annual rate of 7.3%. It goes without saying that our performance is shown net of all costs involved in running the Company, including investment management charges, whereas the performance of the benchmark is not hampered by those charges.

When we launched the Income portfolio we stated in the prospectus that we felt it would deliver a yield of between 3.25% and 3.5%. Last year the Income portfolio paid an ordinary dividend of 4.0p net (a yield of 4% on the initial issue price of £1.00) and a special dividend of 1.15p net. One of the aims of the Income portfolio is to deliver a steadily growing stream of income over time and although we think it is unlikely that the level of dividend paid by the broader market is going to increase in the next year or so, nevertheless the current yield on the Income shares of 6.9% makes the shares attractive compared to the yields available from cash.

Up until the end of the second quarter of 2008 our process was out-performing; in the second half of the calendar year the underlying process under-performed and the under-performance was exacerbated by the fact that we were geared in September when Lehman Brothers was allowed to fail and the equity market fell dramatically.

## Market Background

It is only now that the full impact of the Lehman failure is becoming apparent. This was not confined to the financial markets but has had a profound impact on the wider economy, as shown by the Gross Domestic Product figures for the fourth quarter, especially those from Asia which saw a steep decline in exports. This seems to have been a function not only of dramatic de-stocking, as companies hoarded cash, but also of the failure of the financial market related to letters of credit and trade finance. Coming into the Lehman debacle, dry-bulk shipping rates had halved in the previous four months. In the space of ten weeks after the Lehman failure they collapsed by 86%.

In a recent speech, Mervyn King alluded to the Lehman failure as a critical catalyst in the banking and solvency crisis which engulfed the global economy, but went on to say that, in his view, even if Lehman had been saved there would have been another catalyst. His view has now been backed up by Janet Yellen, the president of the San

Francisco Federal Reserve, who said in a recent speech in New York that she disagreed with Federal Reserve officials who argued in September that a government bailout of Lehman would encourage excessive risk-taking among investors. She added that the impact of Lehman's failure "was devastating . . . That's when this crisis took a quantum leap up in terms of seriousness". Whether this is correct or not, the fact is that before the Lehman debacle, the situation for many banks was that while they had toxic assets which they needed to write down, they also had profitable lending businesses in other areas and also in the case of the European banks they had fee-earning businesses in the area of personal savings. Once the sub-prime crisis had broken in May 2007 banks were playing for time, but the strategy was modestly successful: they could generate a stream of quarterly profits from their ordinary businesses against which they could take write-offs on the exotica. It was even possible for some banks to raise new capital. After Lehman however, two things happened: the first was that the stream of profitable business dried up completely as everyone in the market hoarded cash, meaning that there were no further quarterly profits against which to take write-offs. The second was that the Lehman failure wiped out not only the equity holders but the bond-holders as well and this completely torpedoed the confidence of investors, who suddenly preferred to take an annualised yield of 0.01% on treasury bills than incur any risk at all.

In this environment the collapse in demand further undermined the domestic and commercial real estate markets, as well as pushing many small and medium-sized companies close to insolvency putting yet further pressure on the banking system, as banks were now faced not only with write-offs on asset-backed securities, but with a sudden escalation of loan-loss provisioning on their domestic and commercial loan book, as well as on corporate lending and credit cards.

Since the collapse of Lehman we have had a series of initiatives from policy-makers and central banks around the world to try to restore confidence to financial markets, and we are waiting to see what the effect of quantitative easing will be in the US and the UK. At the moment the impact is unclear, although it is not impossible that there will be a modest short-term recovery in growth. The key problems remain, however, the continued deleveraging, the crisis of confidence which has brought the velocity of money close to zero and the collapse in world trade. Against this background it is not helpful to have politicians indulging in the kind of protectionist rhetoric which may in their eyes play well with the voters but which reminds those with a sense of history of the mistakes made in the 1930s.

#### **Performance attribution**

The attribution analysis shown elsewhere in this report reveals a sharp dichotomy between the performance of the Growth and Income portfolios. Both took the same tactical gearing decisions at the same time. Having not been geared into the initial fall in equity markets in the second calendar quarter of 2008, the indicators that we use to assist in timing gearing decisions showed that markets were oversold, that valuations were attractive, and that sentiment had become very negative. We therefore geared both portfolios by 10% in late July and in the early stages this decision was vindicated by a rise in the level of the market. When the Lehman failure was announced, however, the market went into very sharp reverse and the ranges that had served historically to delimit market moves in valuation, sentiment and momentum broke emphatically to the downside. To take one example, the Composite

# Investment Managers' Report continued

Valuation Indicator which we use as a proxy for market valuation moved from being 2 standard deviations cheap (a level which had served as a floor to the market in the emerging markets crisis of 1998 and again in 2003) to nearly 4 standard deviations cheap, a level it had never reached before.

## Gearing

Our gearing therefore cost us performance, although we were able to use the increase in interest rates on credit in the summer of 2008 to break the swap and enable the company to benefit from subsequent easing of monetary policy. At a stock selection level, however, the experience of the two portfolios was very different, with the Income portfolio adding value through stock selection, while the Growth portfolio's stock selection detracted from returns. The underlying philosophy in both portfolios is the same, however the Income portfolio differs in implementation in a couple of important respects. First, the Income portfolio defines value using dividend yield, whereas the Growth portfolio defines value using the ratio between price and earnings. In our previous financial year, yield investing had been out of favour with investors and as a result the Income portfolio had under-performed. This year however, investors became hungry for yield, especially as interest rates on cash and fixed income fell and therefore higher-yielding stocks did well against the broader market. All other metrics for measuring value under-performed however, and therefore in the Growth portfolio our exposure to cheap stocks did not help us to out-perform the market. Not only that, but in the section of the portfolio which seeks to benefit from holding stocks exhibiting good price momentum relative to the market, the stocks which had performed well in the first half of the calendar year - mainly in the commodities, energy, and cyclical areas, suddenly started to under-perform in the second half, even though the news on profits which they announced in the third quarter was good and ahead of market estimates. At the time of the Lehman's failure, there was a headlong rush into supposedly defensive sectors such as Healthcare and Food Manufacturing, an area of the market where we were underweight. Because we are fairly sector-neutral, we had an exposure to financials throughout this period: in this area we were actually successful in picking good stocks and avoiding the disasters (especially those stocks which flirted with or fell into public ownership) however, this was not enough to offset stock selection elsewhere.

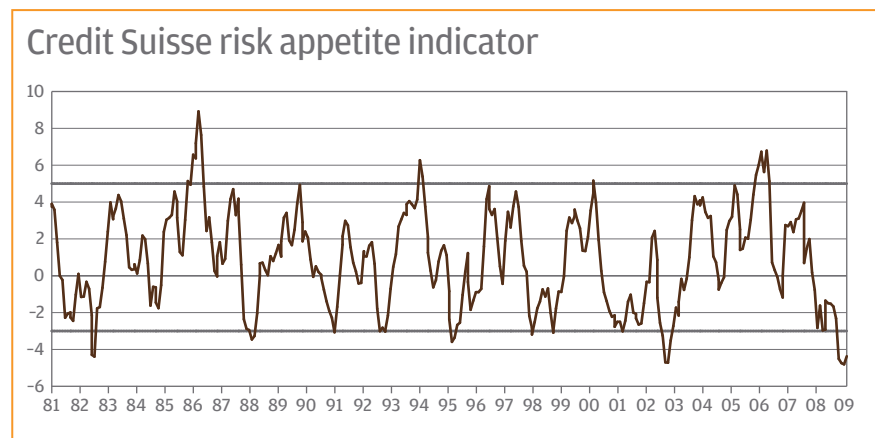
## Stock Selection

This is the second successive year in which stock selection has detracted from performance in the Growth portfolio and this is unsatisfactory. We did do however, an enormous amount of research over the course of the year in order to refine the measures that we use and to verify that there was no underlying problem with the system that we use for gauging attractiveness for individual stocks and we presented the results of this to the board. The conclusion was that the set-backs in 2007 and 2008 did not invalidate the long-term case for buying cheap stocks with a catalyst to crystallise out-performance and stocks exhibiting good price momentum supported by strong positive profits progression. From a longer-term perspective, stock selection has added 1.1% of value annually to our performance in the Growth portfolio for the last 10 years. In the last five years, it has detracted 0.5% from annual performance with a strong positive contribution in the years to March 2006 and March 2007 offset by weakness in the last two years. These figures tend to support our contention that for all the problems of the last eighteen months, the longer-term

track record of our investment process withstands scrutiny. It is also worth remembering that the threat of a systemic crisis in global banking is (thankfully) extremely rare and the way in which volatility spiked to unprecedented levels in 2008 suggests that a recurrence of these events is extremely unlikely in any realistic time horizon.

### Market outlook

Sentiment indicators however, became very negative towards the end of the reporting period, with risk aversion at extreme levels. This is shown in the Credit Suisse investor risk appetite indicator ('RAI') below, which tracks the risk/return relationship across over 60 equity and bond markets. The RAI measures the amount of risk (or market volatility) that investors in aggregate are prepared to take on per unit of return. Over its 27-year history, the indicator shows periods of "euphoria" (where the index had a value greater than 5) and periods of panic (where the index fell below -3). Recently, the indicator was stuck deep in "panic" territory, for just the third time in the history of this monthly series. This suggests that investors are already anticipating problems and this has been reflected in prices, perhaps creating a longer term opportunity.



Valuations are also at supportive levels. There is a real problem in making comments about valuations at a time like this, because anything based on earnings meets the rejoinder 'Well earnings are about to halve, so earnings-based valuations are completely misleading'. This however, is a circular argument, since the price action of markets in the last nine months has anticipated this earnings decline. There are, though, other ways of looking at valuation which avoid the tortuous earnings debate. The heart of the matter is that companies are a collection of physical and intellectual assets with the potential to make returns. At a time when demand is under pressure the earnings power of these assets is severely compromised, but this does not mean that the assets themselves no longer have any value. One of the complications in current asset pricing is that in normal markets there are buyers of last resort for assets, whether that is other companies in the form of merger and acquisition, or private equity and venture capital funds, or even company managements with an appetite to buy out the assets and run them themselves. The missing lubricant for this corporate activity is credit: even for an all-paper deal you need to be able to access short-term financing and with credit markets effectively closed it means that all deals are off (literally).

# Investment Managers' Report continued

## Growth performance attribution for the year to 31st March 2009

	%	%
<b>Contributions to Total Returns</b>		
<b>Benchmark total return</b>		-31.1
Asset allocation	1.3	
Stock selection	-9.9	
Gearing/cash	-2.9	
Currency	2.5	
<b>Investment Manager contribution</b>		-9.0
<b>Portfolio total return</b>		-40.1
Management fees/other expenses	-0.7	
Performance fee	0.5	
Share repurchases	0.7	
Residual*	2.1	
<b>Other effects</b>		2.6
<b>Net asset value total return</b>		-37.5
<b>Impact of increase in discount</b>		-5.6
<b>Share price total return</b>		-43.1

Source: Xamin/JPMAM/AIC/Fundamental Data.

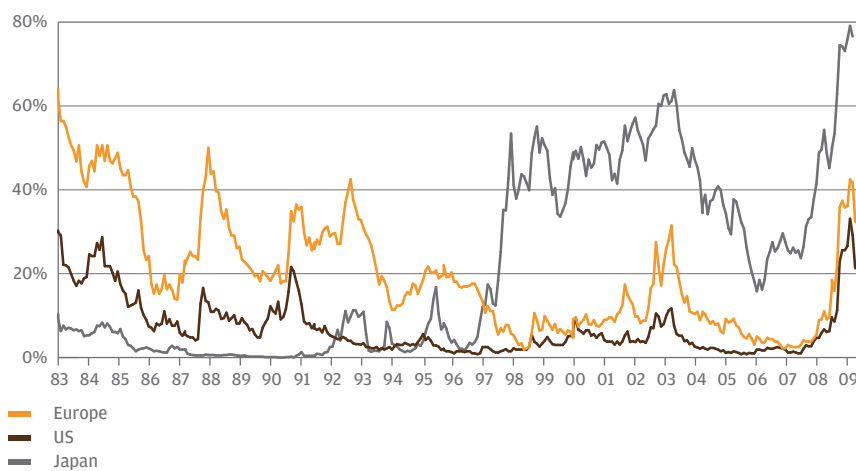
All figures are on a total return basis. Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark.

\*The residual arises principally from timing differences in the treatment of income flows. The xamin attribution system accounts for income on a received (on the ex-dividend date) basis whereas Fundamental Data calculate the Companies NAV Total Return using the actual dividends paid by the Company (on the ex-dividend date).

A glossary of terms and definitions is provided on page 92.

If credit markets normalise, then we should expect to see a pick-up in corporate activity which will help to stabilise equity markets. Why? Because the asset valuations on most measures are now very attractive. If we look at price to book value, by the end of December 2008 a third of Continental European companies traded on a discount to book value, a quarter of UK and US companies, and a startling three quarters of Japanese companies.

## Valuations at extremes - Price/Book



Sources: Thomson Datastream, JPMAM Global Multi Asset Group

\*Note: Indices used: S&P 500, MSCI Europe ex UK, FTSE 100 and Topix. Data up to December 2008

However there is another more compelling reason for not writing equities off at the moment and it's based on the fact that equities are a financial investment that compete for cash with other financial assets. This is especially pertinent at the moment, because the past six months have seen a huge flight into cash and fixed income. Indeed in Europe, holdings in cash funds exceed holdings in equity funds for the third time in 16 years - the previous occasions being the start of the bull market in 1992/93 and the start of the bull market in 2003.

This on its own does not mean anything, but when we look at the rate of return on cash and fixed income it is difficult to forecast anything other than meagre pickings, whereas at least in equities you are compensated for your capital risk with a decent yield. In all of the major markets dividend yields exceed the yield on local bonds, and yes, while it is true that many sectors will be under pressure to reduce dividends, a lot of that expectation is embedded in the price. Were equity markets to end this year at the same level they started it, they would still have out-performed cash and bonds by virtue of the income they pay out.

Lombard Street Research published a note in February drawing on data that they have compiled going back to 1871. They use the data to construct a trend over time which shows that the real rate of growth since then in the US equity market has been 6.7% and that this trend has been remarkably consistent considering the number of dislocations which the US economy has suffered. Relative to this long-term real trend the US equity market in February had only been cheaper in 26 out of 1,680 months, 17 in 1920-1921, 3 in 1932, 2 in 1942, and 3 in 1982. They also point out that only in 1932 and 1982 were these periods of cheapness not a consequence of World Wars.

### Income performance attribution for the year to 31st March 2009

	%	%
<b>Contributions to Total Returns</b>		
<b>Benchmark total return</b>		-30.5
Asset allocation	-1.9	
Stock selection	4.6	
Gearing/cash	-3.5	
Currency	-1.6	
<b>Investment Manager contribution</b>		-2.4
<b>Portfolio total return</b>		-32.9
Management fees/ other expenses	-1.1	
Share buy-back/ Issuance	0.6	
VAT recovery	0.6	
Residual*	2.3	
<b>Other effects</b>		2.4
<b>Net asset value total return</b>		-30.5
<b>Impact of increase in discount</b>		-3.4
<b>Share price total return</b>		-33.9

Source: Xamin/JPMAM/AIC/Fundamental Data.

All figures are on a total return basis. Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark.

\*The residual arises principally from timing differences in the treatment of income flows. The xamin attribution system accounts for income on a received (on the ex-dividend date) basis whereas Fundamental Data calculate the Companies NAV Total Return using the actual dividends paid by the Company (on the ex-dividend date).

A glossary of terms and definitions is provided on page 92.

It is also worth bearing in mind that the composition of equity markets has changed: Healthcare, Consumer Staples, Utilities, and Telcos (which are loosely viewed as more defensive sectors) account for 42% of the Bloomberg European 500 Index, 37% of the All Share and 36% of the S&P500, as of the time of writing. The weight of the more vulnerable sectors such as Financials has fallen correspondingly, as has their contribution to the earnings that form the basis of valuations such as price/earnings and dividend yield.

Taking a longer-term perspective, we feel that there is still an excellent case for buying European equities. As shown above, the valuation is supportive. Not only that, but the financial health of European industrial companies is also better going into this downturn than on any previous occasion: debt levels are lower, interest cover is very high, and the level of working capital has fallen relative to sales fairly consistently for the last decade. European companies have also been very disciplined about investment (which is one reason why their debt levels are not high), and a great deal of this investment has been in the countries of Eastern Europe. Not only do these countries have a comparative cost advantage, but the decline in their currencies in the last year has made them extremely competitive versus the US Dollar bloc.

We believe that steady adherence to the principle of finding companies whose profitability is improving on a solid and sustainable basis will allow us to return to out-performing the stock market as a whole and we will continue to apply ourselves diligently on behalf of our shareholders.

**Stephen Macklow-Smith**  
**Alexander Fitzalan Howard**  
Investment Managers

8th June 2009

# Summary of Results

	2009	2008	
<b>Total Returns (capital plus income)</b> for the year ended 31st March			
Return to shareholders <sup>1</sup>	-43.1%	-3.3%	
Return on net assets <sup>2,3</sup>	-37.5%	-1.5%	
Benchmark return <sup>4</sup>	-31.1%	+2.5%	
<b>Net Asset Value, Share Price and Discount</b> at 31st March			
			% change
Total net assets (£'000)	180,176	330,961	-45.6
Net asset value per share	142.1p	238.8p	-40.5
Net asset value per share assuming reissue of Treasury shares <sup>3</sup>	142.1p	236.9p	-40.0
Share price	116.5p	219.0p	-46.8
Discount of share price to net asset value	18.0%	8.3%	
Discount of share price to net asset value assuming reissue of Treasury shares <sup>3</sup>	18.0%	7.6%	
Shares in issue	126,799,002	153,252,241	
<b>Revenue</b> for the year ended 31st March			
Gross revenue return (£'000)	17,858	13,799	+29.4
Net revenue attributable to shareholders (£'000)	12,734	7,346	+73.3
Return per share	9.54p	5.07p	+88.2
Dividend per share:			
Ordinary dividends	7.00p	6.33p	+10.6
Special dividend	2.50p	–	
<b>Total dividends per share</b>	<b>9.50p</b>	6.33p	
<b>Actual Gearing Factor</b> at 31st March <sup>5</sup>	<b>105.7%</b>	117.0%	
<b>Total Expense Ratio ('TER')<sup>6</sup></b>	<b>0.81%</b>	1.05%	

A glossary of terms and definitions is provided on page 92.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: JPMorgan.

<sup>3</sup>There were no shares held in Treasury at 31st March 2009. The comparative net asset value assumes that the 14,673,813 Growth shares held in Treasury at 31st March 2008 were reissued at the closing mid market price at that date.

<sup>4</sup>Source: FTSE.

<sup>5</sup>Actual gearing represents investments excluding liquidity fund holdings, expressed as a percentage of total net assets.

<sup>6</sup>Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets.

# Ten Year Financial Record<sup>1</sup>

As at 31st March	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total assets less current liabilities (£m)	470.0	614.0	542.9	522.5	375.4	453.1	508.0	633.3	454.1	420.0	<b>272.3</b>
Net asset value per share (p) <sup>2</sup>	129.3	179.2	157.6	145.9	98.3	137.3	161.5	219.7	248.8	238.8	<b>142.1</b>
Share price (p) <sup>2</sup>	111.2	153.0	142.4	128.7	77.1	113.7	140.0	203.2	233.8	219.0	<b>116.5</b>
Discount (%)	14.0	14.6	9.6	12.4	21.6	17.2	13.3	7.5	6.0	8.3	<b>18.0</b>
Actual gearing factor (%) <sup>3</sup>	107.2	106.5	109.5	108.9	101.4	117.4	111.1	100.5	105.1	117.0	<b>105.7</b>
<b>Year ended 31st March</b>											
Gross revenue return (£'000)	7,760	8,751	11,171	13,326	12,898	11,315	12,148	15,004	15,111	13,799	<b>17,858</b>
Revenue per share (p) <sup>2</sup>	0.71	0.41	0.89	0.64	0.99	0.14	0.53	3.98	5.71	5.07	<b>9.54</b>
Dividend per share (p) <sup>2</sup>	0.68	0.40	0.88	0.64	0.98	0.14	0.52	3.50	5.80	6.33	<b>9.50<sup>4</sup></b>
Total expense ratio (TER) (%) <sup>5</sup>	0.69	0.74	0.70	0.75	1.03	1.14	0.78	0.92	0.69	1.05	<b>0.81</b>
<b>Rebased to 100 at 31st March 1999</b>											
Share price	100.0	137.6	128.1	115.7	69.3	102.2	125.9	182.7	210.3	196.9	<b>104.8</b>
Share price total return <sup>6</sup>	100.0	138.5	129.2	116.6	70.8	105.4	130.0	189.3	227.7	219.8	<b>125.0</b>
Net asset value per share	100.0	138.6	121.9	112.8	76.0	106.2	124.9	169.9	192.4	184.4	<b>109.8</b>
Net asset value total return <sup>6</sup>	100.0	139.2	122.7	114.3	77.4	109.0	128.8	175.9	206.1	200.8	<b>125.5</b>
Benchmark <sup>7</sup>	100.0	122.8	108.7	100.6	66.1	90.2	106.5	144.4	161.7	165.7	<b>114.1</b>

A glossary of terms and definitions is provided on page 92.

<sup>1</sup>The Growth shares were created following a capital reorganisation on 2nd August 2006 when ordinary shareholders elected to reclassify their shares into either Growth shares or Income shares. The financial record above for periods prior to that date is that of the ordinary shares because the Growth pool has maintained materially the same economic exposure as if the reorganisation had not been implemented. The investment objective, investment policy, benchmark and management fee arrangements have remained the same as for the ordinary shares prior to the reorganisation.

<sup>2</sup>Adjusted for the one for five share subdivision on 2nd August 2006.

<sup>3</sup>Investments excluding liquidity fund holdings expressed as a percentage of total net assets.

<sup>4</sup>Includes a special dividend of 2.5p.

<sup>5</sup>Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets.

<sup>6</sup>Source: Morningstar.

<sup>7</sup>Source: FTSE. The Growth portfolio's benchmark is the FTSE World Europe (ex UK) in sterling terms (total return).

# Ten Largest Investments<sup>1</sup>

at 31st March

Company	Country	Description	2009 Valuation		2008 Valuation	
			£'000	% <sup>1</sup>	£'000	%
Total	France	Oil & Gas Producers	<b>8,944</b>	<b>4.7</b>	11,406	2.9
Nestlé	Switzerland	Consumer Goods	<b>7,707</b>	<b>4.1</b>	8,229	2.1
Roche <sup>2</sup>	Switzerland	Healthcare	<b>6,150</b>	<b>3.2</b>	2,622	0.7
Novartis <sup>2</sup>	Switzerland	Healthcare	<b>5,708</b>	<b>3.0</b>	1,823	0.5
Telefonica	Spain	Telecommunications Services	<b>5,381</b>	<b>2.8</b>	12,867	3.3
Sanofi-Aventis <sup>2</sup>	France	Healthcare	<b>5,291</b>	<b>2.8</b>	1,651	0.4
Gaz De France <sup>2</sup>	France	Utilities	<b>4,417</b>	<b>2.3</b>	3,350	0.9
Banco Santander	Spain	Financials	<b>3,926</b>	<b>2.1</b>	12,420	3.2
ENI	Italy	Oil & Gas Producers	<b>3,876</b>	<b>2.0</b>	10,221	2.6
E.ON <sup>2</sup>	Germany	Utilities	<b>3,596</b>	<b>1.9</b>	7,863	2.0
<b>Total<sup>3</sup></b>			<b>54,996</b>	<b>28.9</b>		

<sup>1</sup>Based on total investments of £190.5m (2008: £387.0m), which includes investment of any borrowings to gear the portfolio and excludes liquidity fund holdings and net current assets.

<sup>2</sup>Not included in the ten largest investments at 31st March 2008.

<sup>3</sup>As at 31st March 2008, the value of the ten largest investments amounted to £98,767,000 representing 25.5% of total investments of £387.0m.

# Portfolio Analyses

## Geographic

	31st March 2009		31st March 2008	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
France	22.5	24.3	19.7	24.1
Germany	15.5	17.3	17.6	18.4
Switzerland	15.0	17.0	10.6	14.2
Spain	11.0	10.4	10.9	9.8
Italy	7.3	7.9	10.6	8.4
Netherlands	6.3	5.7	6.0	5.6
Sweden	5.0	4.9	2.8	5.0
European Funds	4.2	–	5.3	–
Belgium	2.9	2.0	3.5	2.6
Denmark	2.9	2.0	3.1	2.0
Finland	2.6	2.5	4.4	3.2
Greece	1.5	1.1	1.0	1.4
Portugal	1.2	0.9	1.1	0.9
Norway	1.0	1.7	0.7	2.0
Austria	0.9	0.7	1.5	1.1
Luxembourg	0.2	–	0.7	–
Ireland	–	0.8	0.5	1.3
Hungary	–	0.3	–	–
Poland	–	0.5	–	–
Total Portfolio <sup>1</sup>	100.0	100.0	100.0	100.0

<sup>1</sup>Based on total investments of £190.5m (2008: £387.0m), which includes investment of any borrowings to gear the portfolio and excludes liquidity fund holdings and net current assets.

# Portfolio Analyses continued

## Sector

Sector	31st March 2009		31st March 2008	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials	24.1	21.3	34.9	28.4
Industrials	14.8	12.3	12.7	12.9
Healthcare	11.0	10.3	5.5	6.9
Oil & Gas Producers	8.9	8.0	7.8	6.4
Utilities	8.8	8.7	6.9	8.4
Consumer Goods	8.7	14.6	9.0	14.4
Telecommunications Services	7.6	8.7	7.4	6.3
Consumer Services	7.0	5.8	4.4	5.1
Basic Materials	5.7	6.4	8.6	7.4
Technology	3.4	3.9	2.8	3.8
Total Portfolio <sup>1</sup>	100.0	100.0	100.0	100.0

<sup>1</sup>Based on total investments of £190.5m (2008 £387.0m), which includes investment of any borrowings to gear the portfolio and excludes liquidity fund holdings and net current assets.

# List of Investments

at 31st March 2009

Company	Valuation £'000	Company	Valuation £'000
<b>France</b>		Nexans	74
Total	8,944	Casino Guichard-Perrachon	71
Sanofi-Aventis	5,291	Carbonne Lorraine	68
Gaz De France	4,417	Eiffage	59
Vivendi	3,468	Neopost	58
BNP Paribas	3,049	Ipsen	54
France Telecom	2,461	Derichebourg	46
Alstom	1,658		
Société Générale	1,257	<b>Total France</b>	<b>42,741</b>
Groupe Danone	1,025		
Vallourec	965	<b>Germany</b>	
Carrefour	759	E.ON	3,596
Technip	678	Allianz	2,603
CNP	675	Siemens	2,393
Compagnie de Saint-Gobain	626	Munchener Ruckversicherungs	2,330
Bouygues	556	SAP	1,989
AXA	513	Deutsche Telekom	1,548
Hermes International	484	BASF	1,522
SCOR	479	RWE	1,418
L'Oreal	457	Volkswagen	1,372
Arkema	410	Thyssenkrupp	1,108
SEB	402	Deutsche Bank	844
Zodiac	398	Daimler	749
Bureau Veritas	365	Bilfinger Berger	600
BIC	347	Salzgitter	567
Renault	309	Deutsche Lufthansa	566
Faiveley	282	Bayer	541
PPR	234	K&S	404
Thales	216	Porsche	400
Suez Environnement	201	MTU Aero Engines	363
Publicis Groupe	200	Phoenix Solar	351
Alten	185	Lanxess	350
Pernod-Ricard	177	Deutsche Post	321
Michelin	146	Deutsche Boerse	303
Ipsos	142	Aurubis	258
Sodexo	129	Bechtle	240
Teleperformance	123	Wacker Chemie	214
Eramet	102	BMW	204
Financiere Marc de Lacharriere	99	Kloekner & Co	188
Credit Agricole	82	Sixt	184
		Demag Cranes	181

# List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
SMA Solar Technology	174	Sonova	72
Manz	173	OC Oerlikon	68
Gildemeister	171		
Hannover Rueckversicherungs	168	<b>Total Switzerland</b>	<b>28,610</b>
Generali Deutschland	163		
Fuchs Petrolub	151	<b>Spain</b>	
Gesco	118	Telefonica	5,381
Freenet	112	Banco Santander	3,926
Dragerwerk Non-Voting Preference	102	Union Fenosa	3,184
Roth & Rau	102	Banco Bilbao Vizcaya Argentaria	1,879
Deutsche Beteiligungs	101	Corporacion Financiera Alba	1,335
Bauer	83	Repsol	968
INDUS	74	Mapfre	851
Fielmann	72	ACS Actividades de Construccion y Servicios	650
Tognum	70	Prosegur Compania Seguridad	634
Celesio	43	Construcciones Y Auxiliar De Ferr	423
		Viscofan Envoladuras Celulosicas	303
<b>Total Germany</b>	<b>29,584</b>	Iberdrola	233
		Zardoya Otis	206
<b>Switzerland</b>		Industria de Diseno Textil	188
Nestlé	7,707	Red Electrica De Espana	185
Roche	6,150	Tubos Reunidos	130
Novartis	5,708	Grupo PRISA	125
Zurich Financial Services	1,964	Fomento de Construciones y Contratas	111
Credit Suisse	954	Gestevisión Telecinco	93
UBS	912	Criteria Caixa	58
Baloise	771		
Syngenta	721	<b>Total Spain</b>	<b>20,863</b>
ABB	581		
Actelion	537	<b>Italy</b>	
SGS	434	ENI	3,876
Kuoni Reisen	430	ENEL	2,253
Adecco	329	Unicredit	607
Banque Cantonale Vaudoise	250	Fondiaria - Sai	597
Compagnie Financiere Richemont	237	Assicurazioni Generali	596
Helvetia	208	Buzzi Unicem	577
Valora Holding	183	Finmeccanica	575
Galenica	153	Ansaldo STS	538
Acino	147	Trasmissione Elettrocita Rete Nazio	474
Burckhardt	94	Italcementi	411
		Exor	319

Company	Valuation £'000	Company	Valuation £'000
Snam Rete Gas	300	Mediq	81
Prysmian	278	Sligro Food	74
Trevi Finanziaria Industriale	235		
Impregilo	232	<b>Total Netherlands</b>	<b>12,031</b>
Telecom Italia	187		
Seat-Pagine Gialle	186	<b>Sweden</b>	
Danieli & C.	184	Ericsson	1,499
DiaSorin	172	Nordea Bank	1,470
Beni Stabili	167	Svenska Handelsbanken	1,307
Banca Monte dei Paschi di Siena	155	TeliaSonera	775
Recordati	153	Hennes & Mauritz	724
Marr	148	Wihlborg Fastigheter	349
Astaldi	143	Axfood	322
Mediobanca	127	Synthes	312
Arnoldo Mondadori Editore	123	Betsson	317
Intesa Sanpaolo	87	Alfa Laval	268
Azimut	85	Peab	266
Brembo	84	NCC	252
Carraro	72	Modern Times	241
		Electrolux	205
<b>Total Italy</b>	<b>13,941</b>	Securitas	147
		Loomis	140
<b>Netherlands</b>		Skandinaviska Enskilda Banken	127
KPN	1,891	JM	122
Arcelormittal	1,690	Lundbergforetagen	117
Aegon	1,622	Holmen	112
Ahold	1,587	Trelleborg	94
ING	1,208	Lindab International	90
Royal Dutch Shell 'A'	851	BE Group	86
DSM	836	Kungsleden	73
BAM	585	Angpanne Foreningen	71
Royal Boskalis Westminster	303	Saab	59
Ten Cate	294		
Imtech	195	<b>Total Sweden</b>	<b>9,545</b>
SNS	169		
Randstad	152	<b>European Funds</b>	
Draka	143	JPM European Fledgeling Investment Trust	3,309
Smit Internationale	142	JPM Europe Micro Cap	3,152
USG People	107	JPM Eastern Europe Fund	1,489
Corio	101		
		<b>Total European Funds</b>	<b>7,950</b>

# List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
<b>Belgium</b>		Metso	240
Delhaize	1,041	Orion	158
Anheuser-Busch InBev	985	Rautaruukki	146
Solvay	642	Outotec	92
KBC	559	Nokian Renkaa	63
Belgacom	463	Stora Enso	58
Tessenderlo Chemie	406	<b>Total Finland</b>	<b>4,942</b>
Bekaert	281	<b>Greece</b>	
Colruyt	216	OPAP	1,514
D'Ieteren	203	National Bank Of Greece	502
Euronav	173	Alpha Bank	213
GIMV	162	Bank Of Piraeus	184
EVS	144	Titan Cement	169
Mobistar	100	Michaniki	127
Agfa Gevaert	86	Folli Follie	126
CFE	77	Mytilineos	55
Omega Pharma	70	<b>Total Greece</b>	<b>2,890</b>
<b>Total Belgium</b>	<b>5,608</b>	<b>Portugal</b>	
<b>Denmark</b>		Portugal Telecom	1,374
Novo-Nordisk	2,030	Energias De Portugal	469
A.P. Moller-Maersk	1,132	Semapa-Sociedade de Investimento e Gestao	231
Vestas Wind Systems	501	EDP Renovaveis	77
Jyske Bank	432	Portucel-Empresa Produtora de Pasta	74
Ostasiatiska Kompagni	342	Banco Espirito Santo	35
Danske Bank	264	<b>Total Portugal</b>	<b>2,260</b>
DSV	264	<b>Norway</b>	
FLSmidth & Co	217	Statoil	455
Sydbank	209	Yara	393
D/S Norden	165	Telenor	298
<b>Total Denmark</b>	<b>5,556</b>	Veidekke	194
<b>Finland</b>		Tandberg	166
Nokia	2,268	Petroleum Geo-Services	121
Kone	607	DnB	109
Wartsila	598	Ementor	107
Konecranes	412	Aker Solutions	87
YIT	300	<b>Total Norway</b>	<b>1,930</b>

Company	Valuation £'000
<b>Austria</b>	
OMV	795
RHI	250
Voest-Alpine	202
Oesterreichische Electrizaetswirtschafts	187
Andritz	135
Oesterreichische Post	58
<b>Total Austria</b>	<b>1,627</b>
<b>Luxembourg</b>	
SES FDR 'A'	229
Oriflame	104
<b>Total Luxembourg</b>	<b>333</b>
<b>Ireland</b>	
Glanbia	116
<b>Total Ireland</b>	<b>116</b>
<b>Liquidity Fund</b>	
JPM Euro Liquidity Fund	13,710
<b>Total Liquidity Funds</b>	<b>13,710</b>
<b>Total Portfolio</b>	<b>204,237</b>

# Income Statement

(unaudited)

for the year ended 31st March 2009

	2009			2008		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Losses from investments held at fair value through profit or loss	–	(130,622)	(130,622)	–	(7,270)	(7,270)
Net foreign currency losses	–	(5,357)	(5,357)	–	(6,964)	(6,964)
Income from investments	14,954	–	14,954	12,319	–	12,319
Other interest receivable and similar income	2,904	–	2,904	1,480	–	1,480
<b>Gross return/(loss)</b>	<b>17,858</b>	<b>(135,979)</b>	<b>(118,121)</b>	13,799	(14,234)	(435)
Management fee	(449)	(1,048)	(1,497)	(883)	(2,060)	(2,943)
Performance fee writeback	–	–	–	–	3,739	3,739
VAT recovered	2,227	2,003	4,230	–	–	–
Other administrative expenses	(563)	–	(563)	(762)	–	(762)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>	<b>19,073</b>	<b>(135,024)</b>	<b>(115,951)</b>	12,154	(12,555)	(401)
Finance costs	(1,522)	(3,552)	(5,074)	(1,523)	(3,553)	(5,076)
<b>Net return/(loss) on ordinary activities before taxation</b>	<b>17,551</b>	<b>(138,576)</b>	<b>(121,025)</b>	10,631	(16,108)	(5,477)
Taxation	(4,817)	3,021	(1,796)	(3,285)	1,910	(1,375)
<b>Net return/(loss) on ordinary activities after taxation</b>	<b>12,734</b>	<b>(135,555)</b>	<b>(122,821)</b>	7,346	(14,198)	(6,852)
<b>Return/(loss) per Growth share</b>	<b>9.54p</b>	<b>(101.52)p</b>	<b>(91.98)p</b>	5.07p	(9.80)p	(4.73)p

All revenue and capital items in the above statement derive from continuing operations.

# Balance Sheet

(unaudited)

as at 31st March 2009

	2009 £'000	2008 £'000
<b>Fixed assets</b>		
Investments held at fair value through profit or loss	190,527	386,979
Investments in liquidity funds held at fair value through profit or loss	13,710	25,114
<b>Total fixed asset investments</b>	<b>204,237</b>	412,093
<b>Current assets</b>		
Debtors	603	17,973
Cash and short term deposits	79,219	22,114
	<b>79,822</b>	40,087
<b>Creditors:</b> amounts falling due within one year	<b>(11,753)</b>	(29,529)
Derivative financial instruments	–	(2,698)
<b>Net current assets</b>	<b>68,069</b>	7,860
<b>Total assets less current liabilities</b>	<b>272,306</b>	419,953
<b>Creditors:</b> amounts falling due after more than one year		
Bank loans	<b>(92,130)</b>	(88,992)
<b>Total net assets</b>	<b>180,176</b>	330,961
<b>Net asset value per Growth share</b>	<b>142.1p</b>	238.8p

# Summary of Results

	2009	2008	
<b>Total Returns (capital plus income)</b> for the year ended 31st March			
Return to shareholders <sup>1</sup>	-33.9%	-7.6%	
Return on net assets <sup>2,3</sup>	-30.5%	-7.3%	
Benchmark return <sup>4</sup>	-30.5%	+1.1%	
<b>Net Asset Value, Share Price and Discount</b> at 31st March			
			% change
Total net assets (£'000)	41,045	69,250	-40.7
Net asset value per share	70.2p	108.4p	-35.2
Net asset value per share assuming reissue of Treasury shares <sup>3</sup>	70.2p	107.4p	-34.6
Share price	60.3p	98.0p	-38.5
Discount of share price to net asset value	14.1%	9.6%	
Discount of share price to net asset value assuming reissue of Treasury shares <sup>3</sup>	14.1%	8.8%	
Shares in issue	58,502,745	70,417,327	
<b>Revenue</b> for the year ended 31st March			
Gross revenue return (£'000)	4,382	3,552	+23.4
Net revenue attributable to shareholders (£'000)	3,285	2,343	+40.2
Return per share	5.48p	3.67p	+49.3
Dividend per share:			
Ordinary dividends	4.0p	3.90p	+2.6
Special dividend	1.15p	–	
<b>Total dividends per share</b>	<b>5.15p</b>	3.90p	
<b>Actual Gearing Factor</b> at 31st March <sup>5</sup>	<b>104.3%</b>	106.1%	
<b>Total Expense Ratio ('TER')<sup>6</sup></b>	<b>1.19%</b>	1.23%	

A glossary of terms and definitions is provided on page 92.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: JPMorgan.

<sup>3</sup>There were no shares held in Treasury at 31st March 2009. The comparative net asset value assumes that the 6,508,190 Income shares held in Treasury at 31st March 2008 were reissued at the closing mid market price at that date.

<sup>4</sup>Source: FTSE.

<sup>5</sup>Actual gearing represents investments excluding liquidity fund holdings, expressed as a percentage of total net assets.

<sup>6</sup>Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets.

# Ten Largest Investments<sup>1</sup>

at 31st March

Company	Country	Description	2009 Valuation		2008 Valuation	
			£'000	% <sup>1</sup>	£'000	%
Royal Dutch Shell	UK	Energy	1,639	3.8	2,369	3.2
BP	UK	Energy	1,576	3.7	2,015	2.7
Vodafone	UK	Telecommunications Services	1,193	2.8	1,675	2.3
Telefonica	Spain	Telecommunications Services	1,113	2.6	1,413	1.9
GlaxoSmithKline <sup>2</sup>	UK	Healthcare	1,063	2.5	–	–
HSBC	UK	Financials	979	2.3	1,918	2.6
AstraZeneca <sup>3</sup>	UK	Healthcare	727	1.7	627	0.9
Banco Santander	Spain	Financials	722	1.7	1,397	1.9
ENI	Italy	Energy	710	1.7	1,059	1.4
France Telecom <sup>3</sup>	France	Telecommunications Services	619	1.4	779	1.1
<b>Total<sup>4</sup></b>			<b>10,341</b>	<b>24.2</b>		

<sup>1</sup>Based on total investments of £42.8m (2008: £73.5m), which includes investment of any borrowings to gear the portfolio and excludes liquidity fund holdings and net current liabilities.

<sup>2</sup>Not held in the portfolio as at 31st March 2008.

<sup>3</sup>Not included in the ten largest investments at 31st March 2008.

<sup>4</sup>As at 31st March 2008, the value of the ten largest investments amounted to £16.0m representing 21.8% of total investments of £73.5m.

# Portfolio Analyses

## Geographic

	31st March 2009		31st March 2008	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
UK	45.6	31.7	33.2	30.8
Germany	8.8	12.3	12.5	13.1
Spain	6.9	6.6	8.9	6.3
Netherlands	5.8	4.1	5.1	4.2
France	5.3	16.0	11.3	15.5
Finland	5.3	1.9	3.4	2.6
Italy	4.9	5.1	8.0	5.5
Sweden	3.9	3.5	6.1	3.5
Norway	3.7	1.1	2.3	1.5
Greece	3.5	0.8	2.2	1.0
Belgium	2.4	1.4	2.2	1.9
Austria	1.8	0.5	0.9	0.8
Portugal	0.9	0.6	0.7	0.5
Switzerland	0.7	12.6	2.1	10.3
Ireland	0.4	0.5	0.2	1.0
Denmark	0.1	1.3	0.9	1.5
Total Portfolio <sup>1</sup>	100.0	100.0	100.0	100.0

<sup>1</sup>Based on total investments of £42.8m (2008 £73.5m), which includes investment of any borrowings to gear the portfolio and excludes liquidity fund holdings and net current liabilities.

# Portfolio Analyses continued

## Sector

Sector	31st March 2009		31st March 2008	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials	23.2	19.3	32.2	26.3
Industrials	15.9	9.4	10.4	10.3
Energy	13.8	12.8	12.7	10.1
Telecommunications Services	13.1	8.3	9.8	6.9
Consumer Discretionary	9.6	7.8	9.7	8.8
Utilities	7.9	7.2	11.5	6.8
Materials	6.1	7.4	5.1	10.0
Healthcare	4.6	11.9	1.2	7.4
Consumer Staples	3.2	12.7	5.8	10.2
Information Technology	2.6	3.2	1.6	3.2
Total Portfolio <sup>1</sup>	100.0	100.0	100.0	100.0

<sup>1</sup>Based on total investments of £42.8m (2008: £73.5m), which includes investment of any borrowings to gear the portfolio and excludes liquidity fund holdings and net current liabilities.

# List of Investments

at 31st March 2009

Company	Valuation £'000	Company	Valuation £'000
<b>United Kingdom</b>		Carillion	136
BP	1,576	Man	136
Vodafone	1,193	Henderson	135
GlaxoSmithKline	1,063	Ladbrokes	134
HSBC	979	Clarkson	133
Royal Dutch Shell 'B'	821	HMV	130
Royal Dutch Shell 'A'	818	Greene King	124
AstraZeneca	727	Spectris	123
Rio Tinto	616	United Business Media	122
British American Tobacco	534	Interserve	121
Imperial Tobacco	396	Provident Financial	119
National Grid	349	Fiberweb	117
Centrica	346	ITE	117
Scottish & Southern Energy	294	Kazakhmys	117
Prudential	260	Chaucer	116
Pearson	241	Brown (N)	114
Royal & Sun Alliance	204	Rexam	114
Cable & Wireless	183	Davis Service	112
888	172	Computacenter	111
Tullett Prebon	169	LogicaCMG	111
Thomas Cook	167	Premier Farnell	109
Sthree	163	Meggitt	109
Catlin	162	Delta	107
Standard Life	155	Close Brothers	104
Weir	155	Legal & General	104
Admiral	148	Devro	101
Drax	148	Filtrona	100
Home Retail	148	IMI	100
Restaurant	146	Senior	100
Morgan Sindall	145	BPP	99
TUI	145	Ashmore	98
Go-Ahead	144	Domino Printing	98
Kier	143	BBA Aviation	91
Tomkins	143	Melrose	91
Investec	142	Beazley	90
Severn Trent	142	IG	90
Aviva	141	Tate & Lyle	89
Halfords	141	Northumbrian Water	88
Brit Insurance	140	Smith (DS)	86
Ashtead	139	Lancashire	86

Company	Valuation £'000	Company	Valuation £'000
Elementis	83	Norddeutsche Affinerie	107
Telecom Plus	81	Deutsche Beteiligungs	102
Collins Stewart	80	Deutsche Lufthansa	102
Euromoney	75	Demag Cranes	100
WSP	74	Sixt	94
Shanks	72	INDUS	70
Diploma	68	Kloekner & Co	70
Morgan Crucible	67	TAKKT	61
Smiths News	66	Homag	36
Paragon	61		
SIG	61	<b>Total Germany</b>	<b>3,779</b>
Chesnara	58	<b>Spain</b>	
The Vitec	58	Telefonica	1,113
Intermediate Capital	52	Banco Santander	722
Brewin Dolphin	48	Iberdrola	312
Anglo Pacific	47	Repsol	275
Bodycote	45	Duro Felguera	126
Lavendon	33	Tubos Reunidos	112
National Express	32	Enagas	100
Psion	27	Dinamia Capital Privado	76
Hill & Smith	21	Tubacex	74
Braemar	17	Uralita	65
UTV Media	14	<b>Total Spain</b>	<b>2,975</b>
Low & Bonar	9	<b>Netherlands</b>	
<b>Total United Kingdom</b>	<b>19,529</b>	KPN	432
<b>Germany</b>		ING	176
Allianz	550	Smit Internationale	162
Deutsche Telekom	539	Binckbank	146
RWE	500	Corio	141
Munchener Ruckversicherungs	305	Royal Boskalis Westminster	138
Gagfah	178	Nieuwe Steen Investments	137
Thyssenkrupp	174	TKH	135
Hannover Rueckversicherungs	163	Vastned Retail	135
Gildemeister	140	Accell	127
Bilfinger Berger	139	Grontmij	127
Gesco	118	BAM	124
Pfeiffer	118	Brunel	120
Wincor Nixdorf	113	Eriks	100

# List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
Wereldhave	99	Alma Media	77
Eurocommercial Property	93	PKC	66
Plaza Centers	64	Atria	15
KAS Bank	34		
<b>Total Netherlands</b>	<b>2,490</b>	<b>Total Finland</b>	<b>2,268</b>
<b>France</b>		<b>Italy</b>	
France Telecom	619	ENI	710
Vivendi	489	Enel	350
AXA	296	Trasmissione Elettrocita Rete Nazio	182
Credit Agricole	169	Ascopiave	120
ABC Arbitrage	136	Alleanza Assicurazioni	119
Rubis	119	Acea	118
Lagardere	115	Credito Artigiano	111
Fonciere des Regions	113	Saras Raffinerie Sarde	103
Rallye	108	Fondiarìa	95
IMS	85	Benetton	87
Affine (Ex-Immobilier)	14	Immobiliare Grande Distribuzione	86
International Plantations	2	<b>Total Italy</b>	<b>2,081</b>
<b>Total France</b>	<b>2,265</b>	<b>Sweden</b>	
<b>Finland</b>		TeliaSonera	246
Fortum	194	Betsson	170
Sampo	192	Fabege	131
Orion	182	Wihlborg Fastigheter	130
Outotec	156	Svenska Handelsbanken	128
Poeyry	143	JM	121
Elisa	137	Klovern	118
Neste Oil	137	Axfood	112
Konecranes	127	Kappahl	111
Cramo	122	Know It	102
Tietoenator	116	Cardo	96
Wartsila	114	Kungsleden	87
Huhtamaki	113	B&B Tools	46
Kemira	104	Mekonomen	36
Lemminkainen	104	Addtech	14
UPM-Kymmene	91	<b>Total Sweden</b>	<b>1,648</b>
Pohjola Bank	78		

Company	Valuation £'000	Company	Valuation £'000
<b>Norway</b>		<b>Austria</b>	
Statoilhydro	381	OMV	247
Veidekke	173	Telekom Austria	190
Telenor	132	Oesterreichische	142
Fred Olsen Energy	119	Voest-Alpine	99
Deep Sea Supply	113	Semperit	62
Stolt-Nielsen	104	Polytec	30
Aker	103	<b>Total Austria</b>	<b>770</b>
Sparebank	95	<b>Portugal</b>	
Norwegian Property	86	Portugal Telecom	217
Frontline	78	CIMPOR	136
Wilh Wilhelmsen	72	Banco Espirito Santo	45
Bonheur ASA	69	<b>Total Portugal</b>	<b>398</b>
Sparebanken Nord Norge	58	<b>Switzerland</b>	
<b>Total Norway</b>	<b>1,583</b>	Zurich Financial Services	281
<b>Greece</b>		<b>Total Switzerland</b>	<b>281</b>
OPAP	202	<b>Ireland</b>	
Hellenic Petroleum	179	DCC	140
Hellenic Telecom.Organisation	161	Total Produce	34
National Bank of Greece	156	<b>Total Ireland</b>	<b>174</b>
JUMBO	143	<b>Denmark</b>	
Metka	135	Sjaelso	32
Sidenor Steel Production & Manufacturing	133	<b>Total Denmark</b>	<b>32</b>
Michaniki	126	<b>Liquidity Fund</b>	
Motor Oil (Hellas) Corinth Refineries	106	JPM Euro Liquidity Fund	3,146
Mytilineos	86	<b>Total Liquidity Funds</b>	<b>3,146</b>
Spider Stores	79	<b>Total Portfolio</b>	
<b>Total Greece</b>	<b>1,506</b>	<b>45,950</b>	
<b>Belgium</b>			
Belgacom	202		
Mobistar	154		
Solvay	129		
Warehousing & Distribution De Pauw	116		
Bekaert	110		
GIMV	102		
Cofinimmo	95		
Euronav	85		
Atenor	32		
<b>Total Belgium</b>	<b>1,025</b>		

# Income Statement

(unaudited)

for the year ended 31st March 2009

	2009			2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses from investments held at fair value through profit or loss	–	(21,988)	(21,988)	–	(6,393)	(6,393)
Net foreign currency losses	–	(1,219)	(1,219)	–	(761)	(761)
Income from investments	3,832	–	3,832	3,166	–	3,166
Other interest receivable and similar income	550	–	550	386	–	386
<b>Gross return/(loss)</b>	<b>4,382</b>	<b>(23,207)</b>	<b>(18,825)</b>	3,552	(7,154)	(3,602)
Management fee	(220)	(329)	(549)	(297)	(445)	(742)
Performance fee writeback	–	–	–	–	35	35
VAT recovered	472	332	804	–	–	–
Other administrative expenses	(109)	–	(109)	(151)	–	(151)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>	<b>4,525</b>	<b>(23,204)</b>	<b>(18,679)</b>	3,104	(7,564)	(4,460)
Finance costs	(387)	(581)	(968)	(416)	(624)	(1,040)
<b>Net return/(loss) on ordinary activities before taxation</b>	<b>4,138</b>	<b>(23,785)</b>	<b>(19,647)</b>	2,688	(8,188)	(5,500)
Taxation	(853)	553	(300)	(345)	100	(245)
<b>Net return/(loss) on ordinary activities after taxation</b>	<b>3,285</b>	<b>(23,232)</b>	<b>(19,947)</b>	2,343	(8,088)	(5,745)
<b>Return/(loss) per Income share</b>	<b>5.48p</b>	<b>(38.78)p</b>	<b>(33.30)p</b>	3.67p	(12.67)p	(9.00)p

All revenue and capital items in the above statement derive from continuing operations.

# Balance Sheet

(unaudited)

as at 31st March 2009

	2009 £'000	2008 £'000
<b>Fixed assets</b>		
Investments held at fair value through profit or loss	42,804	73,477
Investments in liquidity funds held at fair value through profit or loss	3,146	5,262
<b>Total fixed asset investments</b>	<b>45,950</b>	78,739
<b>Current assets</b>		
Debtors	321	741
Derivative financial instruments	–	24
Cash and short term deposits	16,089	8,547
	<b>16,410</b>	9,312
<b>Creditors:</b> amounts falling due within one year	<b>(21,315)</b>	(439)
Derivative financial instruments	–	(344)
<b>Net current (liabilities)/assets</b>	<b>(4,905)</b>	8,529
<b>Total assets less current liabilities</b>	<b>41,045</b>	87,268
<b>Creditors:</b> amounts falling due after more than one year		
Bank loans	–	(18,018)
<b>Total net assets</b>	<b>41,045</b>	69,250
<b>Net asset value per Income share</b>	<b>70.2p</b>	108.4p

# Board of Directors



**Andrew Murison**  
**(Chairman of the Board and Nomination Committee)**

A Director since 2002, Chairman since 2003

Previously Senior Bursar of Peterhouse, University of Cambridge and currently a director of Aberdeen Growth Opportunities Trust plc and Hg Capital Trust plc. His qualifications for Board membership are long experience of financial, investment and strategic management.



**Robin Faber**  
**(Chairman of the Audit Committee)**

A Director since 2000

Finance director of The Ashfield Land Property Group and a director of a number of other companies. His qualifications for Board membership are as a qualified accountant with long experience of investment.



**Stephen Goldman**

A Director since September 2008

He has a wide experience of investing in European equities. Spent 12 years at NM Rothschild Asset Management, in the pension department, where he was promoted to lead the UK Equity Research team. Joined JPMorgan in 1990 as Head of the UK Portfolio Management and the European Client Portfolio Management teams. In 2000 he moved to Credit Suisse Asset Management as Managing Director and Head of Equities for the European Region. He was responsible for the equity teams throughout Europe which managed both specialist and balanced mandates for both institutional and retail clients. Stephen is a director of Cavendish Asset Management Limited.



**Stephen Russell**

A Director since 2005

Spent eleven years at SLC Asset Management (now CSAM), most notably as Fund Manager of £5bn of equities, before joining HSBC Investment Bank as Head of Europe & UK Equity Strategy. He is currently Investment Director at Ruffer LLP. His qualifications for Board membership are practical experience of investment in Europe and knowledge of both the institutional and private client markets.



**Ferdinand Verdonck (Belgian)**

A Director since 1998

Director of a number of Continental European companies and Phoenix investment funds in the USA. Formerly Managing Director of the Almanij Group. His qualification for Board membership are many years' experience of European finance and industry.

All Directors are members of the Audit and Nomination Committees and are considered independent of the Manager.

# Directors' Report

The Directors present their report for the year ended 31st March 2009.

## Business Review

### Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st March 2008. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 31st March 2008 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 5 to 11 and in the Investment Managers' Report on pages 12 to 17.

### Investment Objectives, Policies and Risk Management

JPMAM is responsible for management of the Company's assets. On a day-to-day basis the assets are managed by three investment managers based in London, supported by a 40 strong European equity team. The Board seeks to manage the Company's risk by imposing various investment restrictions and guidelines.

### Growth Portfolio

#### Investment Objective

The investment objective of the Growth portfolio is to provide capital growth from Continental European investments by consistent out-performance of the benchmark and a rising share price over the longer term by taking carefully controlled risks through an investment method that is clearly communicated to shareholders.

#### Investment Policies

- To invest in a diversified portfolio of investments in the stockmarkets of Continental Europe.
- To emphasise capital growth rather than income, with the likely result that the level of dividends will fluctuate.

- To manage liquidity and borrowings to increase returns to shareholders.

### Investment Restrictions and Guidelines

- The portfolio will not invest more than 15% of the assets in any one individual stock at the time of acquisition.
- The portfolio will be no more than 120% invested in normal market conditions.
- The portfolio does not normally invest in unquoted investments and to do so requires prior Board approval.
- The portfolio does not normally enter into derivative transactions and to do so requires prior Board approval. However, the Investment Manager has authority to carry out currency hedging transactions in order to mitigate currency risk relative to the benchmark index.
- In accordance with the Listing Rules of the UK Listing Authority, the portfolio will not invest more than 15% of its gross assets in other UK listed investment companies and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.

### Income Portfolio

#### Investment Objective

The investment objective of the Income portfolio is to provide a growing income together with the potential for long-term capital growth from a diversified portfolio of investments in pan-European stockmarkets.

#### Investment Policies

- To invest in a diversified portfolio of investments in pan European stockmarkets.
- To provide a growing income together with the potential for long-term capital growth.
- To manage liquidity and borrowings to increase returns to shareholders.

### Investment Restrictions and Guidelines

- The portfolio will not invest more than 6% of the assets in any one individual stock at the time of acquisition.
- The portfolio will be no more than 120% invested in normal market conditions.
- The portfolio does not normally invest in unquoted investments and to do so requires prior Board approval.
- The portfolio does not normally enter into derivative transactions and to do so requires prior Board approval.

# Directors' Report continued

However, the Investment Manager has authority to carry out currency hedging transactions in order to mitigate currency risk relative to the benchmark index.

- In accordance with the Listing Rules of the UK Listing Authority, the portfolio will not invest more than 15% of its gross assets in other UK listed investment companies and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.

The Board has set no minimum or maximum limits on the number of investments in the Company's portfolios. To gain the appropriate exposure, the Investment Managers are permitted to invest in pooled funds.

Compliance with the Board's investment restrictions and guidelines is monitored continuously by the Manager and is reported to the Board on a monthly basis.

## Performance

### Growth:

In the year to 31st March 2009, the Growth portfolio produced a total return to shareholders of -43.1% and a total return on net assets of -37.5%. This compares with the return on the benchmark index of -31.1%. As at 31st March 2009, the value of the Company's Growth portfolio was £204.2 million.

### Income:

In the year to 31st March 2009, the Income portfolio produced a total return to shareholders of -33.9% and a total return on net assets of -30.5%. This compares with the return on the benchmark index of -30.5%. As at 31st March 2009, the value of the Company's Income portfolio was £46.0 million.

The Investment Managers' Report on pages 12 to 17 includes a review of developments during the year as well as information on investment activity within the Company's portfolios.

## Total Return, Revenue and Dividends

### Company:

Gross total loss for the year amounted to £136.9 million (2008: £4.0 million loss) and net total loss after deducting interest, management expenses, performance fee, other administrative expenses and taxation amounted to £142.8 million (2008: £12.6 million loss). Distributable income for the year amounted to £16.0 million (2008: £9.7 million).

### Growth:

Gross loss for the year amounted to £118.1 million (2008: £0.4 million loss) and net total loss after deducting interest, management expenses, performance fee, other

administrative expenses and taxation amounted to £122.8 million (2008: £6.9 million loss). Distributable income for the year totalled £12.7 million (2008: £7.3 million).

Dividends totalling 9.50 pence per Growth share were paid in respect of the year under review (2008: 6.33 pence), including a special dividend of 2.50 pence per share paid in April 2009. These distributions cost £12.5 million and the revenue reserve after allowing for these dividends amounts to £0.4 million.

### Income:

Gross loss for the year amounted to £18.8 million (2008: £3.6 million loss) and net total loss after deducting interest, management expenses, performance fee, other administrative expenses and taxation amounted to £19.9 million (2008: £5.7 million loss). Distributable income for the year totalled £3.3 million (2008: £2.3 million). Dividends totalling 5.15 pence per Income share were paid in respect of the year under review (2008: 3.90 pence) including a special dividend of 1.15 pence per share paid in April 2009. These distributions cost £3.0 million and the revenue reserve after allowing for these dividends amounts to £0.3 million.

## Key Performance Indicators ('KPIs')

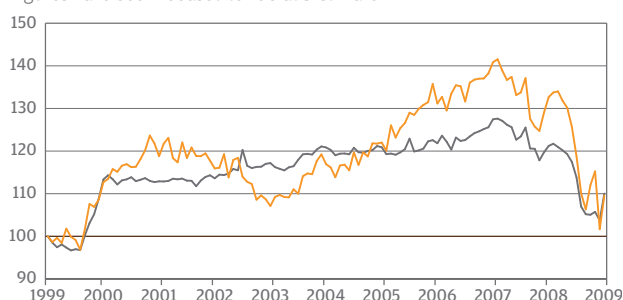
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Performance against the benchmark index:**  
This is the most important KPI by which performance is judged.

### Growth:

## Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st March 1999

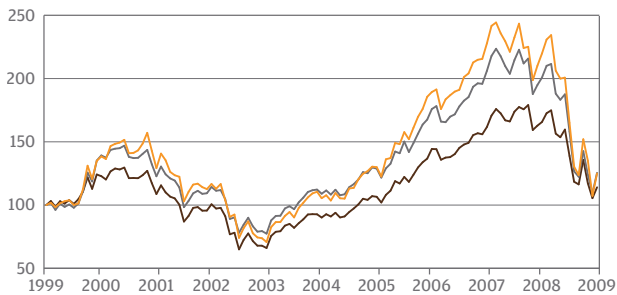


Source: Morningstar/FTSE

- JPMorgan European Growth - Share price
- JPMorgan European Growth - Net asset value per share
- Benchmark Return

## Ten Year Performance

Figures have been rebased to 100 at 31st March 1999

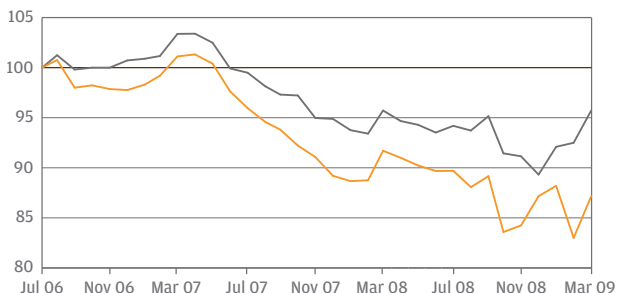


Source: Morningstar/FTSE

- JPMorgan European Growth - Share price
- JPMorgan European Growth - Net asset value per share
- Benchmark Return

Income:

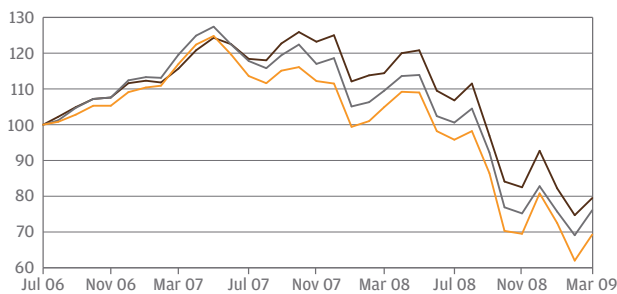
## Performance Relative to Benchmark Index Since Inception



Source: Morningstar/FTSE

- JPMorgan European Income - Share price
- JPMorgan European Income - Net asset value per share
- The benchmark index is represented by the grey horizontal line

## Performance Since Inception



Source: Morningstar/FTSE

- JPMorgan European Income - Share price
- JPMorgan European Income - Net asset value per share
- Benchmark Return

- **Performance against the Company's peers**

The principal objective of the Growth portfolio is to achieve capital growth by consistent outperformance of the benchmark. The principal objective of the Income portfolio is to provide a growing income together with the potential for long-term capital growth. However, the Board also monitors the performance of both portfolios relative to a broad range of competitor funds.

- **Performance attribution**

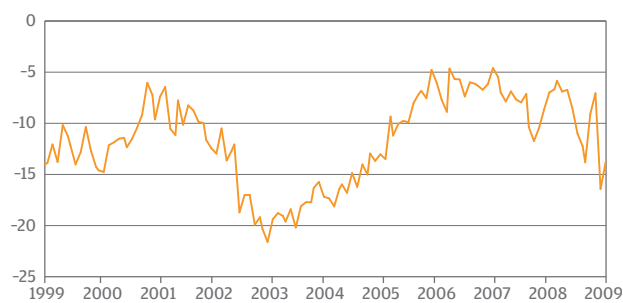
The purpose of performance attribution analysis is to assess how each portfolio achieved its performance relative to its benchmark index, i.e. to understand the impact on each portfolio's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analyses for the year ended 31st March 2009 are given in the Investment Managers' Report on pages 16 and 17.

- **Discount to net asset value ('NAV')**

The Board has for several years operated a share repurchase programme that seeks to address imbalances in supply and demand for the Company's shares within the market and thereby minimise the volatility and absolute level of the discount to NAV at which the Company's shares trade. In the year to 31st March 2009, the discount on the Growth shares (with debt valued at par) ranged between 3.8% and 18.1% and the discount on the Income shares (with debt valued at par) ranged between 2.2% and 17.7%.

Growth:

## Discount History



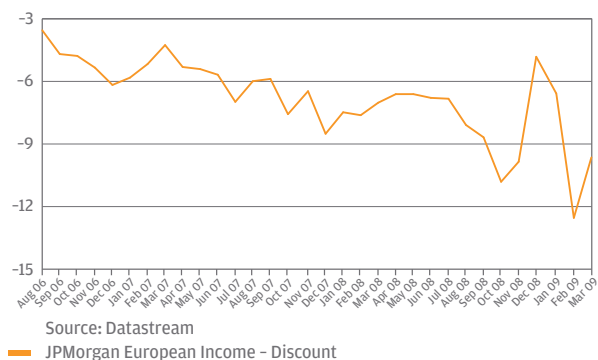
Source: Datastream

- JPMorgan European Growth - Discount

# Directors' Report continued

Income:

## Discount History



Source: Datastream

— JPMorgan European Income - Discount

- **Total expense ratio ('TER')**

The TER represents management fees and all other operating expenses, excluding interest payments, expressed as a percentage of the average of the opening and closing net assets. The Growth TER for the year ended 31st March 2009 was 0.81% (2008: 1.05%). The Income TER for the year ended 31st March 2009 was 1.19% (2008: 1.23%). The Board reviews each year an analysis which shows a comparison of the Company's TER and its main expenses with those of its peers.

### Share Capital

The Company has authority to issue new shares and to repurchase shares for cancellation.

During the year, the Company repurchased a total of 10,573,500 Growth shares in the market for cancellation at a total consideration of £17,132,000 and a total of 7,790,000 Income shares in the market for cancellation at a total consideration of £6,305,000.

During the year no shares were repurchased into or sold from Treasury. A total of 14,673,813 Growth shares and 6,508,190 Income shares were cancelled from Treasury during the year.

Since the year end, a further 1,035,250 Growth shares and 520,250 Income shares have been repurchased for cancellation.

A resolution to renew the authority to repurchase shares for cancellation will be put to shareholders at the forthcoming AGM. The full text of the resolution is set out in the Notice of Meeting on page 90.

### Conversions

The Company's capital structure allows shareholders the opportunity, twice each year, to convert part or all of their shareholdings into shares of the Company's other share class without such conversions being treated, under current law, as a disposal for UK capital gains tax purposes. More details are given on page 87.

During the year, conversions took place on 17th September 2008 and on 18th March 2009. The net result of those conversions was a reduction in the Growth issued share capital of 1,205,926 shares, and an increase in the Income issued share capital of 2,383,608 shares.

### Principal Risks

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment and Strategy:** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by an investment process designed to identify stocks with best prospects and by diversification of investments through its investment restrictions and guidelines which are monitored and reported by the Manager. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Manager employs the Company's gearing within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by JPMAM. The Board monitors

the implementation and results of the investment process with the Manager.

- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under 'Business of the Company' above. Were the Company to breach Section 842, it might lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 842 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules could result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with The Companies Acts 1985 and 2006 and The UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 49 to 52.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on page 51.
- **Financial:** The financial risks faced by the Company include market risk (which comprises currency risk, interest rate risk and other price risk), liquidity risk and credit risk. Further details are disclosed in note 24 on pages 78 to 84.

#### Future Developments

Clearly the future development of the Company is much dependent upon the success of the Company's investment

strategy for the two portfolios in the light of economic and equity market developments. The Investment Managers discuss the outlook in their report on pages 15 to 17.

#### Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract terminable on one year's notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

JPMAM is a wholly owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

The Board has evaluated the performance of the Manager and confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. In arriving at this view, the Board considered the investment strategy and process of the Manager and the support that the Company receives from JPMAM.

#### Management and Performance Fee

##### Growth Share Class

The management fee is charged at the rate of 0.45% per annum on assets less current liabilities and is calculated and paid monthly in arrears. If the Company invests in funds managed or advised by JPMAM or any of its associated companies, those investments are excluded from the calculation and therefore attract no fee.

If NAV return exceeds benchmark return plus 0.5%, the base fee in any one year rises to 0.6% for that year. In the event of this, a performance fee is also payable and is calculated at 20% of the excess of the NAV total return over the benchmark total return plus a hurdle of 0.5%. Any performance fee earned is spread evenly over three years, with a cap of 1% of total gross assets in any one year. Any unpaid performance fee is carried forward until paid in full (or offset against subsequent under-performance). Any under-performance is offset at the first opportunity and must be fully offset before any performance fee can be paid. In the year to 31st March 2009, the Growth portfolio's NAV total return underperformed the benchmark total return by 5.7%. This gave rise to a negative performance fee of £2,054,000. A negative performance fee of £392,000 was brought forward at the beginning of the Company's financial year. An underperformance amount of £2,446,000 is

# Directors' Report continued

carried forward and must be fully offset before any performance fee can be paid.

## Income Share Class

The management fee is charged at the rate of 0.75% per annum on assets less current liabilities and is calculated and paid monthly in arrears. If the Company invests in funds managed or advised by JPMAM or any of its associated companies, those investments are excluded from the calculation and therefore attract no fee.

If NAV performance exceeds benchmark performance plus 0.5%, a performance fee is also payable and is calculated at 15% of the excess of the NAV total return over the benchmark total return plus the 0.5% hurdle. Any performance fee earned is spread evenly over three years, with a cap of 0.75% of total gross assets in any one year. Any unpaid performance fee is carried forward until paid in full (or offset against subsequent under-performance). Any under-performance is offset at the first opportunity and must be fully offset before any performance fee can be paid.

In the year to 31st March 2009, the Income portfolio's NAV total return underperformed the benchmark by 0.4%. This gave rise to a negative performance fee of £25,000. A negative performance fee of £669,000 was brought forward at the beginning of the Company's financial year. An underperformance amount of £694,000 is carried forward and must be fully offset before any performance fee can be paid.

## Going Concern

The Directors believe that having considered the Company's investment objectives (see page 41), risk management policies (see page 78), capital management policies and procedures (see page 84), nature of the portfolios and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

## Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by those terms. As at 31st March 2009, the Company had no outstanding trade creditors (2008: nil).

## Directors

The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's Growth shares, are given below:

Directors	31st March 2009	1st April 2008 <sup>1</sup>
Robin Faber	10,000	10,000
Andrew Murison	5,050	5,050
Stephen Russell	2,050	1,902
Ferdinand Verdonck	2,867	2,659
Stephen Goldman	5,000	–

<sup>1</sup>Or at date of appointment.

Stephen Goldman was appointed a Director on 1st September 2008. Alexander Zagoreos retired from the Board on 31st December 2008. None of the Directors held beneficial interests in the Company's Income shares at the end of the year.

Since the year end, Stephen Russell and Ferdinand Verdonck have acquired a further 76 Growth shares and 106 Growth shares respectively.

In accordance with the Company's Articles of Association the Directors retiring by rotation at the Annual General Meeting will be Robin Faber and Ferdinand Verdonck. Mr Verdonck, having served as a Director for more than nine years, stands for annual re-election. Having been appointed since the last AGM, Stephen Goldman must stand for election. All three Directors, being eligible, offer themselves for re-election/election. The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be re-elected/elected.

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

## Disclosure of information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's auditors are unaware, and

(b) each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of Section 234 ZA of the Companies Act 1985.

### Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006.

#### Capital Structure

The Company's capital structure is summarised on page 4 of this report.

#### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 11 to the Notice of AGM on page 91.

#### Notifiable Interests in the Company's Voting Rights

At the date of this report, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	% of Total Voting Rights
1607 Capital Partners LLC	13.1
Chase Nominees <sup>1,2</sup>	11.3
JPMorgan Asset Management (UK) Limited	7.8
Rensburg Sheppards Investment Management Limited	4.8
Tattersall Advisory Group Inc	3.9
Legal & General Investment Management	3.8

The percentage of total voting rights is calculated by reference to the share voting numbers which as at 31st March 2009 were as follows:

Growth shares:	1.42
Income shares:	0.70

<sup>1</sup>Held on behalf of JPMAM ISA and Share Plan participants.

<sup>2</sup>Non-beneficial.

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are

contained in the Articles of Association of the Company and the Companies Acts 1985 and 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affects its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

#### Independent Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them and authorise the Directors to determine their remuneration for the ensuing year will be put to shareholders at the AGM.

#### Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting:

#### (i) Authority to repurchase the Company's Shares (resolution 7)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2008 AGM, will expire on 16th January 2010 unless renewed at the forthcoming AGM. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole as the repurchase of shares at a discount to NAV enhances the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority, which will last until 15th January 2011 or until the whole of the 14.99% has been acquired, whichever is the earlier. The full text of the resolution is set out in the Notice of Meeting on page 90. Repurchases will be made at the discretion of the Board, and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares, as and when market conditions are appropriate.

#### (ii) Authority to make off-market purchases (resolution 8)

This resolution gives the Company authority to buy its deferred shares arising on conversion of any of the Growth or Income

# Directors' Report continued

shares into the other class of shares. This resolution follows the requirements of Section 164 and 165 of the UK Companies Act 1985. The Deferred shares are repurchased for nominal consideration (as they have no economic value) in order to keep the balance sheet manageable. By law the Company can only purchase these shares off-market if such purchase is pursuant to a contract in the form approved at a general meeting of the Company.

## **Recommendation**

The Board considers that resolutions 7 and 8 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 24,967 shares representing approximately 0.01% of the voting rights of the Company.

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
8th June 2009

# Corporate Governance

## Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 55, indicates how the Company has applied the principles of good governance of the Financial Reporting Council Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the Combined Code, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

## Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administrative, and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMAM, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

## Board Composition

The Board, chaired by Andrew Murison, consists of five non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. The Directors have a breadth of investment

knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 40.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board comprises entirely of non-executive directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

## Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, a Director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. The Company's Articles of Association require that Directors stand for re-election at least every three years. Any Director who has served for a period of more than nine years will stand for annual re-election thereafter.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the AGM.

The Board recommends the election of Stephen Goldman and the re-election of Ferdinand Verdonck and Robin Faber, who retire by rotation at this year's AGM.

## Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on page 40.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were five full Board meetings, including a private meeting of the Directors to evaluate the Manager and a separate meeting devoted to strategy. There were also two Audit Committee

# Corporate Governance continued

meetings and one meeting of the Nomination Committee during the year.

Directors	Board meetings attended	Audit Committee meetings attended	Nomination Committee meetings attended
Andrew Murison	5	2	1
Robin Faber	5	2	1
Stephen Goldman <sup>1</sup>	3	1	1
Stephen Russell	5	2	1
Ferdinand Verdonck	5	2	1
Alexander E Zagoreos <sup>2</sup>	4	2	–

<sup>1</sup>Appointed a Director on 1st September 2008.

<sup>2</sup>Retired from the Board on 31st December 2008.

## Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts.

The Board conducts a formal evaluation of the Manager, its own performance and of that of its committees and individual Directors. Questionnaires, drawn up by the Board, are completed by each Director. The responses are collated and then discussed at a private meeting. The evaluation of individual Directors is led by the Chairman, and the Chairman of the Audit Committee leads the evaluation of the Chairman's performance. The Board as a whole evaluates the Manager, its own performance and that of its committees.

## Board Committees

### Nomination Committee

The Nomination Committee, chaired by Andrew Murison, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. A variety of sources, including the use of external search consultants, may be used to ensure that a wide range of candidates is considered.

The Committee undertakes an annual performance evaluation to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the

Board. The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate.

### Audit Committee

The Audit Committee, chaired by Robin Faber, meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Committee reviews the actions and judgements of the Manager in relation to the interim and annual accounts and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Managers' Compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors; in the Directors' opinion, the auditors are considered independent. Representatives of the Company's auditors attend the Audit Committee meeting at which the draft annual report and accounts are considered.

The Directors' statement on the Company's system of internal control is set out below.

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection at the Company's website, on request at the Company's registered office and at the Company's Annual General Meeting.

### Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the annual report and accounts and the half year Report. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders are encouraged to attend the Company's Annual General Meeting at which the Directors and representatives of the Managers are available in person to meet with shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM hold regular discussions with larger shareholders. The Directors are

made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 86.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 86. Details of the Proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

#### Internal Control

The Combined Code requires the Directors, at least annually, to review the effectiveness of the Company's system of internal control and to report to shareholders that they have done so. This encompasses a review of all controls; business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM. The key elements designed to provide effective internal control are as follows:

**Financial Reporting** - Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons.

**Management Agreement** - Appointment of a manager and custodian regulated by the Financial Services Authority ('FSA'),

whose responsibilities are clearly defined in a written agreement.

**Management Systems** - The Manager's system of internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by JPMAM's Compliance department which regularly monitors compliance with FSA rules.

**Investment Strategy** - Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Managers and its associates as follows:

- the Board, through the Audit Committee, reviews the terms of the management agreement and receives regular reports from JPMAM's Compliance department;
- the Board reviews the report on the internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed; and
- the Directors review every six months an independent report on the internal controls and the operations of JPMAM.

By the means of the procedures set out above, the Board confirms that in accordance with the Turnball guidance, it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st March 2009, and to the date of approval of this Annual Report and Accounts.

#### Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from JPMAM on request, or can be downloaded from the internet as follows: go to [www.jpmorganassetmanagement.co.uk/institutional](http://www.jpmorganassetmanagement.co.uk/institutional) and within the "Commentary & Analysis" tab you will find a section on Corporate Governance.

# Corporate Governance continued

“JPMAM is committed to delivering superior investment performance to its clients worldwide. We believe that one of the drivers of investment performance is an assessment of the corporate governance principles and practices of the companies in which we invest our clients’ assets and we expect those companies to demonstrate high standards of governance in the management of their business.

Proxy voting is an important part of the corporate governance process, and we view seriously our obligation to manage the voting rights of the shares entrusted to us as we would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients. So far as is practicable we will vote at all of the meetings called by companies in which we are invested.

In order to do this we have formulated detailed guidelines for each region, which set out our stance on a variety of key corporate governance issues, including disclosure and transparency, board composition and independence, control structures, remuneration, as well as social and environmental issues (see below). These guidelines form the basis of our proxy voting decisions, although it should be noted that JPMAM makes all of its voting decisions on a case by case basis, taking into account the individual circumstances of each vote.”

## **Corporate Social Responsibility**

The following is a summary of JPMAM’s policy statement on corporate social responsibility which has been noted by the Board:

“We believe it is our primary duty to act in the best financial interests of our clients and to achieve good financial returns consistent with an acceptable level of risk. We recognise that non-financial issues, such as social and environmental issues, can have an economic impact and that any company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard to the environment and society as a whole. Our investment managers take these factors into account as part of any investment decision.”

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on pages 56 to 57.

## Directors' Remuneration<sup>1</sup>

Director's Name	2009 £	2008 £
Robin Faber	20,000	19,000
Stephen Goldman <sup>2</sup>	10,500	–
Andrew Murison	27,000	26,500
Stephen Russell	18,000	17,000
Ferdinand Verdonck	18,000	17,000
Alexander E Zagoreos <sup>3</sup>	13,500	17,000
<b>Total</b>	<b>107,000</b>	<b>96,500</b>

<sup>1</sup>Audited information

<sup>2</sup>Appointed a Director on 1st September 2008.

<sup>3</sup>Retired from the Board on 31st December 2008.

With effect from 1st July 2007, the Chairman has been paid at the rate of £27,000 per annum, the Audit Committee Chairman at the rate of £20,000 per annum and the other Directors at the rate of £18,000 per annum.

The total Directors' fees of £107,000 (2008: £96,500) comprise £60,000 (2008: £51,000) in respect of aggregate emoluments paid to Directors and £47,000 (2008: £45,500) paid to third parties for making available the services of Directors.

The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the

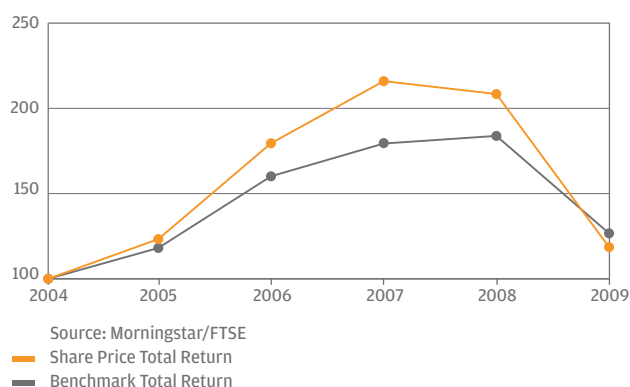
Nomination Committee reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMorgan Asset Management (UK) Limited and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. In aggregate, fees must not exceed £150,000 per annum. Any increase in the maximum aggregate amount requires both Board and shareholder approval. The terms and conditions of Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on page 49.

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not paid compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

Graphs showing each portfolio's share price total return compared with the the relevant benchmark are shown below.

## Growth:

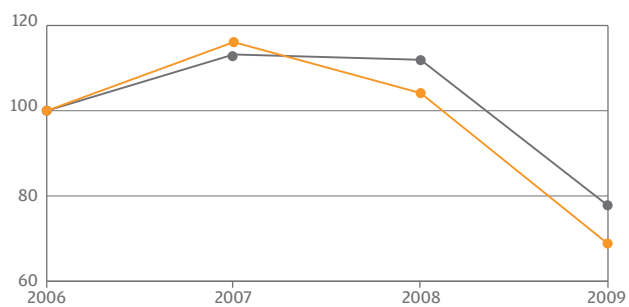
### Five Year Share Price and Benchmark Total Return to 31st March 2009



# Directors' Remuneration Report continued

*Income:*

## Share Price and Benchmark Total Return from Inception to 31st March 2009



Source: Morningstar/FTSE

— Share Price Total Return  
— Benchmark Total Return

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
8th June 2009

# Directors' Responsibilities in Respect of the Accounts

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

Company law requires the Directors to prepare accounts for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice which give a true and fair view of the state of affairs of the Company as at the end of the year and of the total return for the year. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors confirm that they comply with these requirements.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. 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.

The accounts are published on the [www.jpmeuropean.co.uk](http://www.jpmeuropean.co.uk) website, which is maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM is, so far as it relates to the Company, the responsibility of JPMAM. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

## Statement under the Disclosure & Transparency Rules 4.1.12

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

- (a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- (b) this Annual 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 they face.

For and on behalf of the Board  
Andrew Murison  
Chairman  
8th June 2009

# Independent Auditors' Report

## **Independent Auditors' Report to the members of JPMorgan European Investment Trust plc**

We have audited the accounts of JPMorgan European Investment Trust plc for the year ended 31st March 2009 which comprise the Income Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, and the Cash Flow Statement and the related notes 1 to 25. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of Directors and Auditors**

The Directors responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view, the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and the information given in the Directors' Report is consistent with the accounts.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of

the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Financial Results, Chairman's Statement, Investment Managers' Report, Summaries of Results, Ten Year Financial Record, Ten Largest Investments, Portfolio Analyses, Lists of Investments, Portfolio Income Statements, Portfolio Balance Sheets, Board of Directors, Directors' Report, Corporate Governance, the unaudited part of the Directors' Remuneration Report, Directors' Responsibilities in Respect of the Accounts, Information about the Company, Capital Structure and Conversion between Share Classes, Shareholder Analyses, Notice of Annual General Meeting and Glossary of Terms. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report to be audited.

**Opinion**

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st March 2009 and of its loss for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

**ERNST & YOUNG LLP**  
Registered Auditor

London, 8th June 2009

# Income Statement

for the year ended 31st March 2009

	Notes	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
Losses from investments held at fair value through profit or loss	2	–	(152,610)	(152,610)	–	(13,663)	(13,663)
Net foreign currency losses		–	(6,576)	(6,576)	–	(7,725)	(7,725)
Income from investments	3	18,786	–	18,786	15,485	–	15,485
Other interest receivable and similar income	3	3,454	–	3,454	1,866	–	1,866
<b>Gross return/(loss)</b>		<b>22,240</b>	<b>(159,186)</b>	<b>(136,946)</b>	17,351	(21,388)	(4,037)
Management fee	4	(669)	(1,377)	(2,046)	(1,180)	(2,505)	(3,685)
Performance fee write back	4	–	–	–	–	3,774	3,774
VAT recovered	5	2,699	2,335	5,034	–	–	–
Other administrative expenses	6	(672)	–	(672)	(913)	–	(913)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>		<b>23,598</b>	<b>(158,228)</b>	<b>(134,630)</b>	15,258	(20,119)	(4,861)
Finance costs	7	(1,909)	(4,133)	(6,042)	(1,939)	(4,177)	(6,116)
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>21,689</b>	<b>(162,361)</b>	<b>(140,672)</b>	13,319	(24,296)	(10,977)
Taxation	8	(5,670)	3,574	(2,096)	(3,630)	2,010	(1,620)
<b>Net return/(loss) on ordinary activities after taxation</b>		<b>16,019</b>	<b>(158,787)</b>	<b>(142,768)</b>	9,689	(22,286)	(12,597)
<b>Return/(loss) per share:</b>							
<b>Growth share</b>	10	<b>9.54p</b>	<b>(101.52)p</b>	<b>(91.98)p</b>	5.07p	(9.80)p	(4.73)p
<b>Income share</b>	10	<b>5.48p</b>	<b>(38.78)p</b>	<b>(33.30)p</b>	3.67p	(12.67)p	(9.00)p

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies.

The notes on pages 63 to 85 form an integral part of these accounts.

# Statement of Total Recognised Gains and Losses

for the year ended 31st March 2009

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
Movement in value of cash flow hedge during the year	–	2,044	2,044	–	1,443	1,443
Net return/(loss) on ordinary activities after taxation	16,019	(158,787)	(142,768)	9,689	(22,286)	(12,597)
<b>Total recognised gains/(losses) for the year</b>	<b>16,019</b>	<b>(156,743)</b>	<b>(140,724)</b>	9,689	(20,843)	(11,154)

The notes on pages 63 to 85 form an integral part of these accounts.

# Reconciliation of Movements in Shareholders' Funds

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Other reserve £'000	Revenue reserve £'000	Total £'000
<b>At 31st March 2007</b>	10,097	10,349	8,378	415,575	(4,841)	10,634	<b>450,192</b>
Repurchase and cancellation of shares	(576)	–	576	(26,296)	–	–	<b>(26,296)</b>
Cancellation of shares held in Treasury	(100)	–	100	–	–	–	–
Share conversions during the year	–	6,505	139	(6,644)	–	–	–
Net (loss)/return from ordinary activities	–	–	–	(22,286)	–	9,689	<b>(12,597)</b>
Interest rate swap breakage costs	–	–	–	(356)	356	–	–
Revaluation of cash flow hedge	–	–	–	–	1,443	–	<b>1,443</b>
Transfer of prior year tax relief on expenses charged to capital	–	–	–	990	–	(990)	–
Dividends appropriated in the year	–	–	–	–	–	(12,531)	<b>(12,531)</b>
<b>At 31st March 2008</b>	9,421	16,854	9,193	360,983	(3,042)	6,802	<b>400,211</b>
Repurchase and cancellation of shares	(724)	–	724	(23,437)	–	–	<b>(23,437)</b>
Cancellation of shares held in Treasury	(897)	–	897	–	–	–	–
Share conversions during the year	(4)	4,225	128	(4,349)	–	–	–
Net (loss)/return from ordinary activities	–	–	–	(158,787)	–	16,019	<b>(142,768)</b>
Cash flow hedge allocated to finance costs during the year	–	–	–	–	274	–	<b>274</b>
Revaluation of cash flow hedge	–	–	–	–	2,044	–	<b>2,044</b>
Dividends appropriated in the year	–	–	–	–	–	(15,103)	<b>(15,103)</b>
<b>At 31st March 2009</b>	7,796	21,079	10,942	174,410	(724)	7,718	<b>221,221</b>

The notes on pages 63 to 85 form an integral part of these accounts.

# Balance Sheet

as at 31st March 2009

	Notes	Growth £'000	2009 Income £'000	Total £'000	2008 Total £'000
<b>Fixed assets</b>					
Investments held at fair value through profit or loss		190,527	42,804	233,331	460,456
Investments in liquidity funds held at fair value through profit or loss		13,710	3,146	16,856	30,376
<b>Total fixed asset investments</b>	11	<b>204,237</b>	<b>45,950</b>	<b>250,187</b>	490,832
<b>Current assets</b>					
Debtors	12	603	321	924	18,714
Derivative financial instruments		–	–	–	24
Cash and short term deposits		79,219	16,089	95,308	30,661
<b>Creditors: amounts falling due within one year</b>	13	<b>79,822</b>	<b>16,410</b>	<b>96,232</b>	49,399
Derivative financial instruments	14	(11,753)	(21,315)	(33,068)	(29,968)
		–	–	–	(3,042)
<b>Net current assets/(liabilities)</b>		<b>68,069</b>	<b>(4,905)</b>	<b>63,164</b>	16,389
<b>Total assets less current liabilities</b>		<b>272,306</b>	<b>41,045</b>	<b>313,351</b>	507,221
<b>Creditors: amounts falling due after more than one year</b>					
Bank loans	15	(92,130)	–	(92,130)	(107,010)
<b>Total net assets</b>		<b>180,176</b>	<b>41,045</b>	<b>221,221</b>	400,211
<b>Capital and reserves</b>					
Called up share capital	17	6,343	1,453	7,796	9,421
Share premium	18	6,222	14,857	21,079	16,854
Capital redemption reserve	18	10,115	827	10,942	9,193
Capital reserves	18	151,310	22,376	173,686	360,983
Other reserve	18	–	–	–	(3,042)
Revenue reserve	18	6,186	1,532	7,718	6,802
<b>Shareholders' funds</b>		<b>180,176</b>	<b>41,045</b>	<b>221,221</b>	400,211
<b>Net asset values:</b>					
<b>Net asset value per Growth share</b>	19			142.1p	238.8p
<b>Net asset value per Income share</b>	19			70.2p	108.4p

The accounts on pages 58 to 85 were approved and authorised for issue by the Directors on 8th June 2009 and are signed on their behalf by:

Stephen Russell  
Director

The notes on pages 63 to 85 form an integral part of these accounts.

# Cash Flow Statement

for the year ended 31st March 2009

	Notes	2009 £'000	2008 £'000
<b>Net cash inflow from operating activities</b>	20	22,084	8,531
<b>Returns on investments and servicing of finance</b>			
Interest paid		(6,040)	(5,869)
Interest rate swap breakage costs paid		(724)	(356)
<b>Taxation recovered</b>		359	520
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(285,055)	(442,722)
Sales of investments		362,446	501,286
Settlement of futures contracts		38	(630)
Other capital charges		(118)	(105)
<b>Net cash inflow from capital expenditure and financial investment</b>		77,311	57,829
<b>Dividends paid</b>		(15,103)	(12,531)
<b>Net cash inflow before financing</b>		77,887	48,124
<b>Financing</b>			
Repurchase of shares		(23,992)	(26,188)
<b>Net cash outflow from financing</b>		(23,992)	(26,188)
<b>Increase in cash in the year</b>	21	53,895	21,936

The notes on pages 63 to 85 form an integral part of these accounts.

# Notes to the Accounts

for the year ended 31st March 2009

## 1. Accounting policies

### (a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 1985, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the 'SORP') issued by the Association of Investment Companies ('AIC') in January 2009. The accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 31st March 2008.

The accounts have been prepared on a going concern basis.

All of the Company's operations are of a continuing nature.

### (b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from the total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with the documented investment strategy and information about the investment portfolio is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition, the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to the purchase which are written off in the capital column of the income statement at the time of acquisition. Subsequently the investments are valued at fair value, which is bid market prices for listed investments.

Investments are recognised or derecognised on the trade date.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the income statement within 'Losses from investments held at fair value through profit or loss'. Gains and losses on sales of investments and exchange differences of a capital nature are accounted for in capital reserves within 'Gains on sales of investments'. Increases and decreases in the valuation of investments held at the year end are accounted for in capital reserves within 'Investment holding gains/(losses)'. Unrealised foreign currency losses on loans are accounted for in an unrealised reserve.

### (c) Income

Dividends receivable from equity shares are included in the revenue column of the income statement on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is taken to capital.

UK dividends are included net of any tax credits. Overseas dividends are included gross of withholding tax.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital return.

Stock lending income and interest receivable are included in the revenue column on an accruals basis.

### (d) Expenses

All expenses are accounted for on an accruals basis.

Expenses charged to the Company common to both pools are allocated to the pools in the same proportion as their net assets at the month end immediately preceding the date on which the cost is to be accounted for.

Expenses charged to the Company in relation to a specific pool are charged directly to that pool, with the other pool remaining unaffected. Losses of one pool are not borne by the other.

Shareholders converting some or all of their shares into shares of the other class will bear the costs of the conversion up to a maximum of 2% of the value of the shares being converted. Any costs in excess of this cap will be borne by all the shareholders of the Company.

# Notes to the Accounts continued

## 1. Accounting policies continued

### (d) Expenses continued

Expenses are allocated wholly to the revenue column of the income statement with the following exceptions:

- performance fees payable to the Manager are allocated 100% to capital in both pools.
- the management fees of the Income pool of assets are allocated 40% to the revenue column and 60% to the capital column in line with the Board's expected split of revenue and capital return from the Income investment portfolio.
- the management fees of the Growth pool of assets are allocated 30% to the revenue column and 70% to the capital column in line with the Board's expected split of revenue and capital return from the Growth investment portfolio.
- expenses incidental to the purchase of an investment are charged to the capital column. These expenses are commonly referred to as transaction costs and comprise mainly brokerage commission. In accordance with the SORP, disclosure of transaction costs is required and can be found in note 11.

### (e) Finance costs

Finance costs, including any premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method and in accordance with the provisions of FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

- Finance costs on the Income pool of assets are allocated 40% to the revenue column and 60% to the capital column in line with the Board's expected split of revenue and capital return from the Income investment portfolio.
- Finance costs on the Growth pool of assets are allocated 30% to the revenue column and 70% to the capital column in line with the Board's expected split of revenue and capital return from the Growth investment portfolio.

### (f) Financial instruments

Cash and short term deposits comprises cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. Other receivables and payables do not carry any interest, are short term in nature and are accordingly stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing bank loans and overdrafts are initially recorded at the proceeds received net of direct issue costs.

The Company uses interest rate swaps to hedge the cash flow risk arising from interest rate fluctuations. All interest rate swaps were designated as 'held at fair value through profit or loss' and have been designated as effective cash flow hedges in accordance with the provision of FRS 26. Gains or losses arising on the fair value of cash flow hedges during the year are shown in the Reconciliation of Movements in Shareholders' Funds and are accounted for in the 'Other reserve', which was created specifically for that purpose.

Derivative instruments are included in current assets or current liabilities in the balance sheet.

### (g) Taxation

Deferred tax is accounted for in accordance with FRS 19: 'Deferred Tax'.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which those timing differences can be utilised.

Tax is computed for each pool separately. A pool which generates taxable revenues in excess of tax deductible expenses may benefit from the excess of tax deductible expenses in the other pool. In this instance compensation amounting to half the tax savings in the taxable pool will be transferred to the non taxable pool.

Tax relief is allocated to expenses charged to capital on the 'marginal basis'. On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to capital.

**(h) Foreign currency**

In accordance with FRS23: 'The effects of changes in Foreign Currency Exchange Rates', the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the revenue column or the capital column of the income statement, depending on whether the gain or loss is of a revenue or capital nature.

**(i) Dividends payable**

In accordance with FRS 21: 'Events after the Balance Sheet Date', final dividends are included in the accounts in the year in which they are approved by shareholders.

**(j) VAT**

Irrecoverable VAT is included in the expense on which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. Further information regarding VAT on management fees is given in note 5 on page 67.

	2009 £'000	2008 £'000
<b>2. Losses from investments held at fair value through profit or loss</b>		
(Losses)/gains on sales of investments held at fair value through profit or loss based on historical cost	(44,914)	30,855
Amounts recognised in investment holding gains in the previous year in respect of investments sold during the year	(32,601)	(46,078)
Losses on sales of investments based on fair value at previous balance sheet date	(77,515)	(15,223)
Realised gains/(losses) on close out of futures	13	(630)
Unrealised gain on futures	–	24
Net movement in investment holding (losses)/gains	(74,997)	2,300
Other capital charges	(111)	(134)
<b>Total capital losses from investments held at fair value through profit or loss</b>	<b>(152,610)</b>	<b>(13,663)</b>

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>3. Income</b>		
<b>Income from investments</b>		
Dividends from investments listed in the UK	1,060	874
Scrip dividends from investments listed in the UK	21	17
Dividends from investments listed overseas	16,708	13,272
Scrip dividends from investments listed overseas	37	–
Property income distribution	–	2
Dividends from liquidity funds	960	1,320
	<b>18,786</b>	15,485
<b>Other interest receivable and similar income</b>		
Deposit interest	1,624	1,428
Interest on VAT recovered <sup>1</sup>	1,170	–
Stock lending fees	660	422
Option income	–	16
	<b>3,454</b>	1,866
<b>Total income</b>	<b>22,240</b>	17,351

<sup>1</sup>This represents interest on VAT recovered during the year. Further details are given in note 5 on page 67.

	2009			2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>4. Management fee</b>						
Management fee	669	1,377	2,046	1,077	2,283	3,360
VAT thereon	–	–	–	103	222	325
<b>Total</b>	<b>669</b>	<b>1,377</b>	<b>2,046</b>	<b>1,180</b>	<b>2,505</b>	<b>3,685</b>
Performance fee						
Performance fee writeback	–	–	–	–	(3,307)	(3,307)
VAT thereon	–	–	–	–	(467)	(467)
	–	–	–	–	(3,774)	(3,774)

Details of the management and performance fees are given in the Directors' Report on pages 45 and 46.

## 5. VAT recovered

No VAT has been charged on management fees since November 2007 when HM Revenue & Customs announced acceptance that VAT was not chargeable on investment trust company management fees. The Company has since recovered VAT amounting to £5,034,000 and interest of £1,170,000 in respect of VAT paid in the past. The VAT recovered has been allocated between revenue and capital on the same basis as it was originally expensed. The interest recovered has been allocated wholly to revenue and is included as 'other interest receivable and similar income' in note 3 above.

	2009 £'000	2008 £'000
<b>6. Other administrative expenses</b>		
Other administrative expenses	400	644
Directors' fees <sup>1</sup>	107	97
Savings products <sup>2</sup>	131	128
Auditors' remuneration for audit services <sup>3</sup>	26	28
Auditors' remuneration for all other services	8	16
	<b>672</b>	<b>913</b>

<sup>1</sup>Full disclosure is given in the Directors' Remuneration Report on pages 53 and 54.

<sup>2</sup>These fees were paid to JPMAM for the administration and marketing of savings products.

<sup>3</sup>Includes £4,000 (2008: £5,000) irrecoverable VAT.

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
<b>7. Finance costs</b>						
Interest on bank loans and overdrafts <sup>1</sup>	1,889	4,091	5,980	1,869	4,030	5,899
Interest on floating rate note	20	42	62	70	147	217
	<b>1,909</b>	<b>4,133</b>	<b>6,042</b>	<b>1,939</b>	<b>4,177</b>	<b>6,116</b>

<sup>1</sup>Includes £274,000 finance costs payable under an interest rate swap agreement.

# Notes to the Accounts continued

## 8. Taxation

### (a) Analysis of tax charge in the year

	2009			2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 28% (2008: 30%)	2,204	–	2,204	1,675	–	1,675
Double taxation relief	(2,204)	–	(2,204)	(1,675)	–	(1,675)
Overseas withholding tax	2,096	–	2,096	1,620	–	1,620
Tax attributable to expenses charged to capital	3,574	(3,574)	–	2,010	(2,010)	–
<b>Current tax charge for the year</b>	<b>5,670</b>	<b>(3,574)</b>	<b>2,096</b>	<b>3,630</b>	<b>(2,010)</b>	<b>1,620</b>

### (b) Factors affecting current tax charge for the year

	2009			2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Net return/(loss) on ordinary activities before taxation</b>	<b>21,689</b>	<b>(162,361)</b>	<b>(140,672)</b>	13,319	(24,296)	(10,977)
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 28% (2008: 30%)	6,073	(45,461)	(39,388)	3,996	(7,289)	(3,293)
Effect of:						
Non taxable UK dividend income	(297)	–	(297)	(263)	–	(263)
Income taxed in different periods	90	–	90	(43)	–	(43)
Excess capital expenses arising in the year	–	889	889	–	872	872
Non taxable scrip dividends	(6)	–	(6)	(5)	–	(5)
Non taxable capital losses	–	44,572	44,572	–	6,417	6,417
Movement in excess expenses	(3,656)	–	(3,656)	(2,010)	–	(2,010)
Tax attributable to expenses charged to capital	3,574	(3,574)	–	2,010	(2,010)	–
Relief for overseas tax	(2,204)	–	(2,204)	(1,675)	–	(1,675)
Overseas withholding tax	2,096	–	2,096	1,620	–	1,620
	<b>5,670</b>	<b>(3,574)</b>	<b>2,096</b>	<b>3,630</b>	<b>(2,010)</b>	<b>1,620</b>

The Company has an unrecognised deferred tax asset of £2,354,000 (2008: £5,031,000). This has arisen from deductible expenses exceeding taxable income in previous years. No asset has been recognised in the accounts as it is uncertain whether the Company will generate taxable revenue in the future.

Given the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

## 9. Dividends

### (a) Dividends paid and declared

	2009 £'000	2008 £'000
<b>Dividends paid</b>		
European Growth 2008 final dividend of 3.33p (2007: 3.8p)	4,677	5,703
European Growth interim dividend of 5.0p (2007: 3.0p)	6,735	4,389
European Income 2008 final dividend of 3.0p (2007: 2.9p)	1,893	1,880
European Income interim dividend of 3.0p (2007: 0.9p)	1,798	559
<b>Total dividends paid in the year</b>	<b>15,103</b>	12,531
<b>Dividends declared</b>		
European Growth final dividend of 2.0p (2008: 3.33p)	2,568	4,677
European Growth special dividend of 2.5p (2008: nil)	3,210	–
European Income final dividend of 1.0p (2008: 3.0p)	572	1,893
European Income special dividend of 1.15p (2008: nil)	657	–
<b>Total dividends payable<sup>1</sup></b>	<b>7,007</b>	6,570

<sup>1</sup>In accordance with the accounting policy of the Company, these dividends will be reflected in the accounts for the following year.

### (b) Dividend for the purposes of Section 842 of the Income and Corporation Taxes Act 1988

The requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered on the basis of dividends declared in respect of the financial year, as follows:

	2009 £'000	2008 £'000
European Growth interim dividend of 5.0p (2008: 3.0p)	6,735	4,389
European Growth final dividend of 2.0p (2008: 3.33p)	2,568	4,677
European Growth special dividend of 2.5p	3,210	–
European Income interim dividend of 3.0p (2008: 0.9p)	1,798	559
European Income final dividend of 1.0p (2008: 3.0p)	572	1,893
European Income special dividend of 1.15p (2008: nil)	657	–
<b>Total<sup>1</sup></b>	<b>15,540</b>	11,518

<sup>1</sup>The revenue available for distribution by way of dividend for the year is £16,019,000 (2008: £9,689,000).

# Notes to the Accounts continued

## 10. Return/(loss) per share

	2009 £'000	2008 £'000
<b>Growth share</b>		
Return/(loss) per share is based on the following:		
Revenue return	12,734	7,346
Capital loss	(135,555)	(14,198)
<b>Total loss</b>	<b>(122,821)</b>	<b>(6,852)</b>
Weighted average number of shares in issue	133,519,490	144,965,243
Revenue return per share	9.54p	5.07p
Capital loss per share	(101.52)p	(9.80)p
<b>Total loss per share</b>	<b>(91.98)p</b>	<b>(4.73)p</b>
<b>Income share</b>		
Return/(loss) per share is based on the following:		
Revenue return	3,285	2,343
Capital loss	(23,232)	(8,088)
<b>Total loss</b>	<b>(19,947)</b>	<b>(5,745)</b>
Weighted average number of shares in issue	59,896,747	63,813,161
Revenue return per share	5.48p	3.67p
Capital loss per share	(38.78)p	(12.67)p
<b>Total loss per share</b>	<b>(33.30)p</b>	<b>(9.00)p</b>

## 11. Investments

	2009 £'000	2008 £'000	
Investments listed on a recognised investment exchange	250,187	490,832	

	Listed in UK £'000	Listed overseas £'000	Total £'000
Opening book cost	26,354	402,211	428,565
Opening investment holding gains	2,965	59,302	62,267
Opening valuation	29,319	461,513	490,832
Movement in the year:			
Purchases at cost	17,526	239,178	256,704
Sales - proceeds	(16,600)	(328,236)	(344,837)
Losses on sales based on fair value at the previous balance sheet date	(1,601)	(75,914)	(77,515)
Net movement in investment holding gains and losses	(5,742)	(69,256)	(74,997)
	22,902	227,285	250,187
Closing book cost	25,056	270,462	295,518
Closing investment holding losses	(2,154)	(43,177)	(45,331)
	22,902	227,285	250,187

During the year, prior year investment holding gains amounting to £32,601,000 were transferred to gains on sales of investments as disclosed in note 18.

Transaction costs on purchases during the year amounted to £574,000 (2008: £1,102,000) and on sales during the year amounted to £382,000 (2008: £820,000). These costs comprise mainly broker commission.

### Stock lending details

The aggregate value of securities on loan at 31st March 2009 amounted to £1,778,000 (2008: £27,437,000) and the maximum value of stock on loan during the year amounted to £97,207,000 (2008: £71,035,000). Collateral with a value equivalent to a minimum of 105% of the outstanding value of stocks on loan is obtained by JPMorgan Chase & Co. as agent for the Company. Collateral is held in the form of certificates of deposit, letters of credit or bonds.

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>12. Current assets</b>		
<b>Debtors</b>		
Securities sold for future settlement	23	17,632
Dividends and interest receivable	400	777
Other debtors	501	305
	<b>924</b>	<b>18,714</b>

The Directors consider that the carrying amount of debtors approximates to their fair value.

	2009 £'000	2008 £'000
<b>Derivative financial instruments</b>		
Futures contracts	–	24

#### Cash and short term deposits

Cash and short term deposits comprises bank balances and cash held by the Company, including short term deposits. The carrying amount of these represents their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

	2009 £'000	2008 £'000
<b>13. Creditors: amounts falling due within one year</b>		
Securities purchased for future settlement	–	28,409
Repurchase of the Company's shares for future settlement	304	859
Foreign currency bank loan	32,421	–
Other creditors and accruals	343	700
	<b>33,068</b>	<b>29,968</b>

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

The foreign currency bank loan comprises Euro 35 million drawn down on a loan agreement with Barclays Bank plc, repayable on 20th December 2009. Further details of the loan are given in note 24(a)(ii) on page 80.

	2009 £'000	2008 £'000
<b>14. Derivative financial instruments</b>		
Interest rate swaps at fair value - opening balance	(3,042)	(4,841)
Repayment on terminating interest rate swap contract	724	356
Movement in fair value during the year	2,318	1,443
<b>Interest rate swaps at fair value - closing balance</b>	<b>–</b>	<b>(3,042)</b>

	2009 £'000	2008 £'000
<b>15. Creditors: amounts falling due after more than one year</b>		
Foreign currency bank loan	–	27,904
Foreign currency floating rate note	92,130	79,106
	<b>92,130</b>	107,010

The foreign currency floating rate note ('FRN') comprises an issue of Euro 100 million, repayable on 6th June 2011. The FRN is secured by a floating charge over the assets of the Company. Further details are given in note 24(a)(ii) on page 80.

	2009 £'000	2008 £'000
<b>16. Provisions for liabilities and charges</b>		
Performance fee payable		
Provision brought forward at the beginning of the year	–	3,242
Provision for performance fee adjustment	–	65
Provision for performance fee written back during the year	–	(3,307)
	–	–

Details of the performance fees are given in the Directors' Report on pages 45 and 46.

	2009 £'000	2008 £'000
<b>17. Share capital</b>		
<b>Authorised</b>		
354,328,617 (2008: 354,328,617) Growth shares with an initial nominal value of 5p each <sup>1</sup>	17,716	17,716
114,142,765 (2008: 114,142,765) Income shares with an initial nominal value of 2.5p each <sup>1</sup>	2,854	2,854
	<b>20,570</b>	20,570

<sup>1</sup>The nominal values of these shares may vary from time to time in accordance with the provisions of the Articles of Association.

	2009 £'000	2008 £'000
<b>Growth shares</b>		
Opening balance at 1st April 2008 of 138,578,428 (1st April 2007: 150,606,035) shares (excluding shares held in Treasury)	6,932	7,530
Repurchase of 10,573,500 (2008: 9,536,500) shares for cancellation	(529)	(476)
Net conversion decrease of 1,205,926 (2008: 2,491,107) shares	(60)	(124)
Adjustment to nominal value on conversion	(301)	2
Subtotal	6,042	6,932
Nil (2008: 14,673,813) shares held in Treasury <sup>1</sup>	–	734
<b>Closing balance<sup>2</sup></b>	<b>6,042</b>	7,666

<sup>1</sup>During the year 14,673,813 (2008: 2,000,000) shares held in Treasury were cancelled.

<sup>2</sup>Represented by 126,799,002 (2008: 153,252,241 shares including 14,673,813 shares held in Treasury).

# Notes to the Accounts continued

## 17. Share capital continued

During the year, the Company made market purchases of 10,573,500 Growth shares, with a nominal value of £529,000, for cancellation, representing 7.6% of the Growth shares outstanding at the beginning of the year. The consideration paid for these shares amounted £17,132,000 and the reason for the purchases was to seek to manage the volatility of the discount of the share price to net asset value.

	2009 £'000	2008 £'000
<b>Income shares</b>		
Opening balance at 1st April 2008 of 63,909,137 (1st April 2007: 62,622,053) shares (excluding shares held in Treasury)	1,494	1,525
Repurchase of 7,790,000 (2008: 3,973,500) shares for cancellation	(195)	(100)
Net conversion increase of 2,383,608 (2008: 5,260,584) shares	56	124
Adjustment to nominal value on conversion	94	(51)
Subtotal	1,449	1,498
Nil (2008: 6,508,190) shares held in Treasury <sup>1</sup>	—	159
<b>Closing balance<sup>2</sup></b>	<b>1,449</b>	<b>1,657</b>

<sup>1</sup>During the year 6,508,190 (2008: nil) shares held in Treasury were cancelled.

<sup>2</sup>Represented by 58,502,745 shares (2008: 70,417,327 shares including 6,508,190 shares held in Treasury).

During the year, the Company made market purchases of 7,790,000 Income shares, with a nominal value of £195,000, for cancellation, representing 12.2% of the Income shares outstanding at the beginning of the year. The consideration paid for these shares amounted £6,305,000 and the reason for the purchases was to seek to manage the volatility of the discount of the share price to net asset value.

	2009 £'000	2008 £'000
<b>Deferred Growth shares</b>		
Opening balance at 1st April 2008 of 125,087 shares of 0.208p each (1st April 2007: 2,926,852 shares of 0.091p each)	—	—
2008 Repurchase of 125,087 shares of 0.208p each for cancellation	—	—
2007 Issue of 2,926,852 shares of 0.091p each	—	3
2007 Repurchase of 2,926,852 shares of 0.091p each for cancellation	—	(3)
2008 Issue of 134,012,874 shares of 0.039p each	52	—
2008 Repurchase of 134,012,874 shares of 0.039p each for cancellation	(52)	—
Issue of 127,179,832 shares of 0.237p each	301	—
<b>Closing balance</b>	<b>301</b>	<b>—</b>
<b>Deferred Income shares</b>		
Opening balance at 1st April 2008 of 62,994,576 shares of 0.155p each (1st April 2007: 61,913,231)	98	46
2008 Repurchase of 62,994,576 shares of 0.155p each for cancellation	(98)	—
2007 Repurchase of 61,913,231 shares of 0.074p each for cancellation	—	(46)
2008 Issue of 61,879,624 shares of 0.109p each	—	67
2008 Repurchase of 61,879,624 shares of 0.109p each for cancellation	—	(67)
2008 Issue of 62,994,576 shares of 0.155p each	—	98
Issue of 1,230,941 shares of 0.349p each	4	—
<b>Closing balance</b>	<b>4</b>	<b>98</b>

	Capital reserves								Total £'000
	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Gains on sales of investments £'000	Investment holding gains/ (losses) £'000	Unrealised reserve £'000	Other reserve £'000	Revenue reserve £'000	
<b>18. Reserves</b>									
Opening balance	9,421	16,854	9,193	321,617	62,267	(22,901)	(3,042)	6,802	<b>400,211</b>
Losses on sales of investments based on fair value at the previous balance sheet date	–	–	–	(77,515)	–	–	–	–	<b>(77,515)</b>
Net movement in investment holding losses	–	–	–	–	(74,997)	–	–	–	<b>(74,997)</b>
Net foreign currency exchange gains on cash and short term deposits held during the year	–	–	–	10,757	–	–	–	–	<b>10,757</b>
Unrealised foreign currency losses on loans	–	–	–	–	–	(17,333)	–	–	<b>(17,333)</b>
Realised gains on futures contracts	–	–	–	13	–	–	–	–	<b>13</b>
Unrealised gains on futures contracts now realised	–	–	–	24	–	(24)	–	–	<b>–</b>
Transfer on unrealised losses on foreign currency contracts now realised	–	–	–	(5)	–	5	–	–	<b>–</b>
Cash flow hedge allocated to finance costs during the year	–	–	–	–	–	–	274	–	<b>274</b>
Movement in value of the cash flow hedge	–	–	–	–	–	–	2,044	–	<b>2,044</b>
Transfer on disposal of investments	–	–	–	32,601	(32,601)	–	–	–	<b>–</b>
Repurchase and cancellation of shares	(724)	–	724	(23,437)	–	–	–	–	<b>(23,437)</b>
Cancellation of Treasury shares	(897)	–	897	–	–	–	–	–	<b>–</b>
Share conversions during the year	(4)	4,225	128	(4,349)	–	–	–	–	<b>–</b>
Management fee and finance costs charged to capital	–	–	–	(5,510)	–	–	–	–	<b>(5,510)</b>
VAT recovered	–	–	–	2,335	–	–	–	–	<b>2,335</b>
Other capital charges	–	–	–	(111)	–	–	–	–	<b>(111)</b>
Dividends appropriated in the year	–	–	–	–	–	–	–	(15,103)	<b>(15,103)</b>
Tax relief on expenses charged to capital	–	–	–	3,574	–	–	–	–	<b>3,574</b>
Retained revenue for the year	–	–	–	–	–	–	–	16,019	<b>16,019</b>
<b>Closing balance</b>	<b>7,796</b>	<b>21,079</b>	<b>10,942</b>	<b>259,994</b>	<b>(45,331)</b>	<b>(40,253)</b>	<b>(724)</b>	<b>7,718</b>	<b>221,221</b>

### 19. Net asset values

Net asset value per Growth share is calculated by dividing Growth shareholders' funds of £180,176,000 (2008: £330,961,000) by the 126,799,002 Growth shares in issue at the year end (2008: 138,578,428 shares, excluding shares in Treasury).

Net asset value per Income share is calculated by dividing Income shareholders' funds of £41,045,000 (2008: £69,250,000) by the 58,502,745 Income shares in issue at the year end (2008: 63,909,137 shares, excluding shares held in Treasury).

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>20. Reconciliation of net loss on ordinary activities before finance costs and taxation to net cash inflow from operating activities</b>		
Total net loss before finance costs and taxation	(134,630)	(4,861)
Add back capital loss before finance costs and taxation	158,228	20,119
Decrease in accrued income	377	14
Decrease in prepayments	3	17
(Decrease)/increase in accrued expenses	(138)	109
Expenses charged to capital	(1,377)	(2,505)
Overseas withholding tax	(2,656)	(1,928)
Scrip dividends included in income	(58)	(17)
VAT recovered included in capital	2,335	–
Performance fee paid	–	(2,074)
VAT on performance fee paid	–	(343)
<b>Net cash inflow from operating activities</b>	<b>22,084</b>	<b>8,531</b>

	At 31st March 2008 £'000	Cash flow £'000	Exchange movement £'000	Other movements £'000	At 31st March 2009 £'000
<b>21. Analysis of changes in net debt</b>					
Cash and short term deposits	30,661	53,895	10,752	–	<b>95,308</b>
Foreign currency bank loan due within one year <sup>1</sup>	(27,904)	–	(4,517)	–	<b>(32,421)</b>
Foreign currency bank loans due after more than one year	(79,106)	–	(12,816)	(208)	<b>(92,130)</b>
<b>Net debt</b>	<b>(76,349)</b>	<b>53,895</b>	<b>(6,581)</b>	<b>(208)</b>	<b>(29,243)</b>

<sup>1</sup>At 31st March 2008 this loan was included in the balance sheet within amounts falling due after more than one year.

## 22. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2008: none).

### 23. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 45. The total management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £2,046,000 (2008: £3,360,000 excluding VAT), of which £nil (2008: £nil) was outstanding at the year end.

Details of the performance fee agreements are set out in the Directors' Report on pages 45 and 46. There is no (2008: £nil) performance fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year and £nil (2008: £nil) was outstanding at the year end.

During the year £114,000 (2008: £111,000) excluding VAT was payable to JPMAM for the administration and marketing of savings products, of which £nil (2008: £10,000) was outstanding at the year end.

Included in other administrative expenses in note 6 on page 67 are safe custody fees amounting to £75,000 (2008: £164,000) payable to third party custodians by JPMorgan Chase & Co on behalf of the Company of which £19,000 (2008: £75,000) was outstanding at the year end.

JPMAM may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable in the year was £27,000 (2008: £40,000) of which £nil (2008: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £115,000 (2008: £133,000) were payable to JPMorgan Chase & Co. during the year of which £21,000 (2008: £nil) was outstanding at the year end.

The Company holds investments in funds managed by JPMAM. At 31st March 2009 these were valued at £24.8 million (2008: £51.1 million) and represented 9.9% (2008: 10.4%) of the Company's investment portfolio. During the year the Company made purchases of such investments with a total value of £29.2 million (2008: £36.2 million) and sales with a total value of £51.2 million (2008: £43.6 million). Income of £1.0 million (2008: £1.3 million) was received from these investments during the year of which £4,000 (2008: £108,000) was outstanding at the year end.

The Company received £660,000 (2008: £422,000) from stock lending transactions during the year. JPMAM received commissions amounting to £140,000 (2008: £106,000) in respect of these transactions of which £1,000 (2008: £7,000) was outstanding at the year end.

At the year end, a bank balance of £95.3 million (2008: £0.7 million) was held with JPMorgan Chase & Co. A net amount of interest of £1,092,000 (2008: £76,000) was received by the Company during the year from JPMorgan Chase & Co.

# Notes to the Accounts continued

## 24. Financial instruments' exposure to risk and risk management policies

As an investment trust the Company invests in equities and other securities for the long term so as to secure its investment objective stated on the Features page for each share class. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends. These risks include market risk (comprising currency risk, interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's financial instruments may comprise the following:

- investments in Continental European equity shares, collective investment funds with Continental European exposure and liquidity funds which are all held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations;
- short term forward currency contracts for the purpose of managing exposure to fluctuations in the value of short term liabilities;
- a bank loan and an issue of floating rate notes, both denominated in Euros, the main purpose of which is to finance the Company's operations; and
- interest rate swaps, the purpose of which is to hedge the variability in cash flows arising from interest rate fluctuations on the bank loan and floating rate notes.

### (a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements - currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market price risk is given in parts (i) to (iii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks, which policies have remained unchanged from those applying in the comparative year except for the cancellation of the interest rate swap contract during the year which was designated as a cash flow hedge. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

#### (i) Currency risk

The majority of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and the currency in which it reports). As a result, movements in exchange rates may affect the sterling value of those items.

##### *Management of currency risk*

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least four occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. Foreign currency borrowing is used to limit the Company's exposure to anticipated changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. This borrowing is limited to currencies and amounts commensurate with the asset exposure to those currencies. Income denominated in foreign currencies is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements.

*Foreign currency exposure*

The fair value or amortised cost of the Company's monetary items that have foreign currency exposure at 31st March are shown below. Where the Company's equity investments (which are not monetary items) are priced in foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2009			2008		
	Euro £'m	Other £'m	Total £'m	Euro £'m	Other £'m	Total £'m
Investments held at fair value through profit or loss that are monetary items	16.9	–	16.9	30.4	–	30.4
Net current assets	95.1	–	95.1	17.3	–	17.3
Bank loans	(124.6)	–	(124.6)	(107.0)	–	(107.0)
Foreign currency exposure on net monetary items	(12.6)	–	(12.6)	(59.3)	–	(59.3)
Investments held at fair value through profit or loss that are equities	205.9	4.6	210.5	415.4	15.8	431.2
<b>Total net foreign currency exposure</b>	<b>193.3</b>	<b>4.6</b>	<b>197.9</b>	356.1	15.8	371.9

In the opinion of the Directors, the above year end amounts are broadly representative of the exposure to foreign currency risk during the year.

*Foreign currency sensitivity*

The following tables illustrate the sensitivity of profit after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates.

The sensitivity analysis is based on the Company's monetary net foreign currency exposure at each balance sheet date and assumes a 10% (2008: 5%) appreciation or depreciation of sterling against the Euro and the other currencies to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had weakened this would have had the following effect:

	2009 £'m	2008 £'m
Income statement profit after taxation:		
Revenue return	1.8	0.7
Capital return	(1.3)	(3.0)
Total profit after taxation for the year	0.5	(2.3)
<b>Net assets</b>	<b>0.5</b>	<b>(2.3)</b>

# Notes to the Accounts continued

## 24. Financial instruments' exposure to risk and risk management policies continued

Conversely, if sterling had strengthened this would have had the following effect:

	2009 £'m	2008 £'m
Income statement profit after taxation:		
Revenue return	(1.8)	(0.7)
Capital return	1.3	3.0
Total profit after taxation for the year	(0.5)	2.3
<b>Net assets</b>	<b>(0.5)</b>	<b>2.3</b>

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the whole year.

### (ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits, the fair value of fixed interest rate securities and the interest payable on variable rate cash borrowings. The Company has no investment in fixed interest rate securities.

#### *Management of interest rate risk*

The Company does not normally hold significant cash balances. Short term borrowings are used when required.

The Company finances part of its activities through borrowings at levels approved and monitored by the Board.

The Company has drawn down Euro 35 million on a loan agreement with Barclays Bank plc, repayable on 20th December 2009. Interest payable on this loan is at the Euro LIBOR rate as quoted in the market for the period of the advance plus a margin of 0.8%. At 31st March 2008 the interest rate on 80% of the loan had been fixed at 5.74% per annum under the terms of a swap agreement which was broken during the year.

The Company has issued Euro 100 million Floating Rate Notes, repayable on 6th June 2011. The interest rate payable on these notes is based on the offered rate for three month Euro deposits plus a margin of 0.53%. At 31st March 2008 the interest rate on 80% of the loan has been fixed at 5.31% per annum under the terms of a swap agreement which was broken during the year.

#### *Interest rate exposure*

The exposure of financial assets and financial liabilities to floating rates, giving cash flow interest rate risk when rates are re-set, is as follows:

	2009 £'000	2008 £'000
Exposure to floating interest rates:		
Cash and short term deposits	95,308	30,661
Investments in Euro liquidity funds	16,856	30,376
Foreign currency bank loan	(32,421)	(5,561)
Foreign currency floating rate note	(92,130)	(15,821)
<b>Total exposure</b>	<b>(12,387)</b>	<b>39,655</b>

Interest receivable on cash balances is at a margin below LIBOR (2008: same).

The target interest earned on the liquidity funds is the 7 day Euro London Interbank Bid Rate.

The above year end exposures are not representative of the exposure to interest rates during the year as the cash balances and investments in liquidity funds have fluctuated. The maximum and minimum exposures during the year, arising from cash balances and liquidity funds, were as follows:

	2009 £'000	2008 £'000
Maximum interest rate exposure to floating rates	112,164	83,774
Minimum interest rate exposure to floating rates	61,037	51,666

#### *Interest rate sensitivity*

The following table illustrates the sensitivity of the profit after taxation for the year and net assets to a 1% (2008: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's total exposure of financial assets and financial liabilities to floating rates at the balance sheet date, with all other variables held constant.

	2009		2008	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement - profit after taxation:				
Revenue return	724	(724)	543	(543)
Capital return	(847)	847	(146)	146
Total profit after taxation for the year	(123)	123	397	(397)
<b>Net assets</b>	<b>(123)</b>	<b>123</b>	397	(397)

In the opinion of the Directors, the above sensitivity analysis is not representative of the whole year as the level of exposure changed frequently as investments in liquidity funds have fluctuated. During the year, the highest amount invested in liquidity funds was £46.5m (2008: £83.6m) and the lowest was £16.7m (2008: £nil).

#### **(iii) Other price risk**

Other price risk includes changes in market prices, other than those arising from interest rate risk or currency risk, which may affect the value of equity investments and other assets or liabilities held by the Company.

#### **Management of other price risk**

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk reward profile.

# Notes to the Accounts continued

## 24. Financial instruments' exposure to risk and risk management policies continued

### *Other price risk exposure*

The Company's total exposure to other changes in market prices at 31st March comprises its holdings in equity investments as follows:

	2009 £'000	2008 £'000
Equity investments at fair value through profit or loss	233,331	460,456

The above data is broadly representative of the exposure to other price risk during the year.

### *Concentration of exposure to other price risk*

A list of the Company's investments is given on pages 23 to 27 and pages 34 to 37. This shows that the majority of the investment portfolio's value is in European equities but there is no concentration of exposure to any one European country. It should also be noted that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

### *Other price risk sensitivity*

The following table illustrates the sensitivity of the profit after tax and net assets to an increase or decrease of 10% (2008: 10%) in the fair value of equity investments. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2009		2008	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement - profit after taxation:				
Revenue return	(23)	23	(46)	46
Capital return	23,174	(23,174)	45,731	(45,731)
<b>Total profit after taxation for the year and net assets</b>	<b>23,151</b>	<b>(23,151)</b>	45,685	(45,685)

### (b) Liquidity risk

This is the risk that the Company will encounter difficulty in settling financial liabilities as they fall due.

#### *Management of the risk*

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, the liquidity of which in normal markets is frequently tested by the Manager and which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements.

*Liquidity risk exposure*

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows:

	2009				2008			
	Three months or less £'000	Not more than one year £'000	More than one year £'000	Total £'000	Three months or less £'000	Not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year								
Repurchase of the Company's shares for future settlement	304	–	–	304	28,409	–	–	28,409
Other creditors and accruals	343	–	–	343	1,559	–	–	1,559
Derivative financial instrument	–	–	–	–	3,042	–	–	3,042
Foreign currency bank loan	–	32,421	–	32,421	–	–	–	–
Creditors: amounts falling due after more than one year								
Foreign currency floating rate note	–	–	92,130	92,130	–	–	107,010	107,010
	<b>647</b>	<b>32,421</b>	<b>92,130</b>	<b>125,198</b>	33,010	–	107,010	140,020

**(c) Credit risk**

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which could result in loss to the Company.

*Management of credit risk**Portfolio dealing*

The Company invests in markets that operate DVP (Delivery Versus Payment) settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

*Cash*

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum credit rating of A1/P1 from Standard & Poor's and Moody's respectively.

*Exposure to JPMorgan Chase*

The Company's assets are clearly ring-fenced in client designated accounts. Therefore, in the event that JPMorgan Chase were to cease trading, these assets would be protected.

# Notes to the Accounts continued

## 24. Financial instruments' exposure to risk and risk management policies continued

Credit risk exposure

The maximum exposure to credit risk at the year end was as follows:

	2009		2008	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets				
- investments held at fair value through profit or loss	233,331	–	460,456	–
- investments in liquidity funds held at fair value through profit or loss	16,856	–	30,376	–
Current assets				
Debtors - securities sold for future settlement, dividends and interest receivable and other debtors	924	924	18,714	18,714
Cash and short term deposits	95,308	95,308	30,661	30,661
	<b>346,419</b>	<b>96,232</b>	540,207	49,375

Cash and short term deposits comprises balances held at bank that have a minimum credit rating of A1/P1 from Standard & Poor's and Moody's respectively (2008: same).

### (d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either included in the balance sheet at fair value or the carrying amount in the balance sheet is a reasonable approximation of fair value.

## 25. Capital management policies and procedures

The Company's capital comprises the following:

	2009 £'000	2008 £'000
<b>Debt</b>		
Foreign currency bank loan	32,421	27,904
Foreign currency floating rate note	92,130	79,106
	<b>124,551</b>	107,010
<b>Equity</b>		
Equity share capital	7,796	9,421
Reserves	213,425	390,790
	<b>221,221</b>	400,211
<b>Total capital</b>	<b>345,772</b>	507,221

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the income and capital return to its Income and Growth share classes through an appropriate level of gearing.

The Board's policy is to limit gearing within the range 90% to 120%. Gearing for this purpose is defined as investments, excluding liquidity fund holdings, expressed as a percentage of net assets.

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Investments held at fair value excluding liquidity fund holdings	<b>233,331</b>	460,456
Net assets	<b>221,221</b>	400,211
Gearing	<b>105.5%</b>	115.1%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium; and
- the need for issues of new shares, including sale of shares from Treasury.

# Information about the Company

## Financial Calendar

Financial year end	31st March
Final results announced	June
Half year end	September
Half year results announced	November
Interim Management Statements announced	July/January
Dividends payable – Growth and Income	April and October
Annual General Meeting	July

## History

JPMorgan European Investment Trust plc was formed in 1929 as The London and Holyrood Trust Limited and was a general investment trust until 1982 when the name was changed to The Fleming Universal Investment Trust. Under this name the portfolio became more internationally invested until November 1988, when the Board decided to concentrate on Continental European investments. In 1992 shareholders approved a formal adoption of this specialisation. The Company adopted its current structure and name in August 2006.

## Company Numbers

Company registration number: 237958  
London Stock Exchange Sedol numbers:  
Growth: B18JK16  
Income: B17XWW4

ISIN numbers:  
Growth: GB00B18JK166  
Income: GB00B17XWW44

Bloomberg Codes:  
Growth: JETG LN  
Income: JETI LN

## Market Information

The Company's net asset value is published daily, via The London Stock Exchange. The Company's shares are listed on the London Stock Exchange. The market prices are shown daily in the Financial Times, The Times, the Daily Telegraph, The Scotsman, The Independent and on the Company website at [www.jpmeuropean.co.uk](http://www.jpmeuropean.co.uk), where the share prices are updated every fifteen minutes during trading hours.

## Website

[www.jpmeuropean.co.uk](http://www.jpmeuropean.co.uk)

## Share Transactions

The Company's shares may be dealt in directly through a stockbroker or through a professional adviser acting on an investor's behalf. They may also be purchased and held through the JPMorgan Investment Trust Share Plan, Individual Savings Account (ISA).

## Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

Finsbury Dials  
20 Finsbury Street  
London EC2Y 9AQ  
Telephone number: 0207 742 6000

Please contact Jonathan Latter for company secretarial and administrative matters.

## Registrars

Equiniti  
Reference 1080  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone number: 0871 384 2319

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrars quoting reference 1080.

Registered shareholders can obtain further details on their holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk).

## Savings Product Administrators

For queries on the JPMorgan ISA, Share Plan or Pension Account, see contact details on the back cover of this report.

## Auditors

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

## Brokers

Winterflood Securities  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London EC4R 2GA  
Telephone 020 7621 0004

**aic**

The Association of  
Investment Companies A member of the AIC

# Capital Structure and Conversion between Share Classes

The Company has two share classes, each with distinct investment policies, objectives and underlying asset pools. Each share class is listed separately and traded on the London Stock Exchange. This capital structure means that shareholders may benefit from greater investment flexibility in a tax-efficient manner.

## Capital Structure

- **Growth Shares**

Capital growth from Continental European investments, by consistent out-performance of the benchmark and a rising share price over the longer term by taking carefully controlled risks through an investment method that is clearly communicated to shareholders.

- **Income Shares**

To provide a growing income together with the potential for long-term capital growth from a diversified portfolio of investments in pan-european stockmarkets.

## Conversion Opportunities

Shareholders in either of the two share classes are able to convert some or all of their shares into shares of the other classes without such conversion being treated, under current law, as a disposal for UK capital gains tax purposes.

The conversion mechanism allows shareholders to alter their investment profile to match their changing investment needs in a tax-efficient manner.

Conversion dates arise every six months on 15th September and 15th March (if such a date is not a business day, then the conversion date will move to the next business day).

The Company, or its Manager, makes no administrative charge for any of the above conversions.

## Conversion between the share classes

Those who hold shares through the JPM Investment Trust Share Plan/PEP/ISA or Pension Account must submit a conversion instruction form which can be found at [www.jpmeuropean.com](http://www.jpmeuropean.com). Instructions for CREST holders can also be found at this address. Those who hold shares in certificated form on the main register must complete the conversion notice printed on the reverse of their certificate.

Instructions must be received in the month of August for September conversions and in the month of February for March conversions.

The number of shares that will arise upon conversion will be determined on the basis of the relative net asset values of each share class.

More details concerning conversion dates and conversion instruction forms can be found on the Company's web site: [www.jpmeuropean.co.uk](http://www.jpmeuropean.co.uk).

# Shareholder Analysis

Growth Share Class  
at 31st March 2009

	Number of shares	% Holding
Unit Trusts	15,322,734	12.0
Pension Funds	14,157,133	11.1
Other Institutions	11,634,236	9.2
Investment Trusts <sup>1</sup>	5,427,231	4.3
Insurance Companies	3,893,462	3.1
Government	1,841,958	1.5
Charities	483,721	0.4
<b>Total Institutions</b>	<b>52,760,475</b>	<b>41.6</b>
Private Client Brokers	36,962,437	29.2
Retail investors holding shares directly or through nominee accounts <sup>2</sup>	17,759,655	14.0
Individuals in the Investment Trust Share Plan <sup>3</sup>	11,375,366	9.0
Individuals in the Investment Trust Individual Savings Account <sup>3</sup>	6,012,851	4.7
Individuals in the Investment Trust Pension Account <sup>3</sup>	1,928,218	1.5
<b>Total Retail Holdings</b>	<b>74,038,527</b>	<b>58.4</b>
<b>Total Shares in issue</b>	<b>126,799,002</b>	<b>100.0</b>

Nominee accounts have been allocated to their appropriate category.

<sup>1</sup>Includes 4,901,448 shares held by JPMorgan Elect plc.

<sup>2</sup>Includes shares below threshold of 10,000 shares.

<sup>3</sup>Savings products managed by JPMorgan.

Source: Thomson Financial.

# Shareholder Analysis

Income Share Class  
at 31st March 2009

	Number of shares	% Holding
Pension Funds	8,742,011	14.9
Unit Trusts	4,999,566	8.6
Other Institutions	3,681,592	6.3
Investment Trusts <sup>1</sup>	2,965,000	5.1
Charities	2,629,546	4.5
Government	361,349	0.6
Insurance Companies	19,961	0.0
<b>Total Institutions</b>	<b>23,399,025</b>	<b>40.0</b>
Private Client Brokers	26,584,776	45.4
Retail investors holding shares directly or through nominee accounts <sup>2</sup>	5,192,458	8.9
Individuals in the Investment Trust Share Plan <sup>3</sup>	2,097,080	3.6
Individuals in the Investment Trust Individual Savings Account <sup>3</sup>	1,075,947	1.8
Individuals in the Investment Trust Pension Account <sup>3</sup>	153,459	0.3
<b>Total Retail Holdings</b>	<b>35,103,720</b>	<b>60.0</b>
<b>Total Shares in issue</b>	<b>58,502,745</b>	<b>100.0</b>

Nominee accounts have been allocated to their appropriate category.

<sup>1</sup>Includes 1,500,000 shares held by JPMorgan Elect plc.

<sup>2</sup>Includes shares below threshold of 10,000 shares.

<sup>3</sup>Savings products managed by JPMorgan.

Source: Thomson Financial.

# Notice of Meeting

Notice is hereby given that the eightieth Annual General Meeting of JPMorgan European Investment Trust plc will be held at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Thursday, 16th July 2009 at 12.00 noon for the following purposes:

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2009.
- 2 To approve the Directors' Remuneration Report for the year ended 31st March 2009.
- 3 To elect Stephen Goldman a Director of the Company.
- 4 To re-elect Ferdinand Verdonck a Director of the Company.
- 5 To re-elect Robin Faber a Director of the Company.
- 6 To re-appoint Ernst & Young LLP as auditors to the Company and to authorise the Directors to determine their remuneration for the ensuing year.

## Special Business

To consider the following resolutions:

### Authority to Repurchase the Company's Shares – Special Resolution

- 7 THAT the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued Growth shares and Income shares (both being classes of ordinary shares in the capital of the Company)

PROVIDED ALWAYS THAT

- (i) the maximum number of Growth and Income shares hereby authorised to be purchased shall be 18,851,986 or 8,691,576 respectively, or, if different, that number of Growth and Income shares which is equal to 14.99% of the issued share capital of the relevant share class as at the date of the passing of this Resolution;
- (ii) the minimum price which may be paid for any Growth or Income share shall be 5p or 2.5p respectively;
- (iii) the maximum price which may be paid for any ordinary share shall be an amount equal to 105% of the average

of the middle market quotations for a Growth or Income share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased or (b) the price of the last independent trade; or (c) the highest current independent bid;

- (iv) any purchase of Growth or Income shares will be made in the market for cash at prices below the prevailing net asset value per Growth or Income share (as determined by the Directors) at the date following not more than seven days before the date of purchase;
- (v) the authority hereby conferred shall expire on 15th January 2011 unless the authority is renewed at the Company's Annual General Meeting in 2010 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase Growth or Income shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

### Authority to make off-market purchases – Special Resolution

- 8 THAT the proposed Contingent Purchase contract between Winterflood Securities Limited and JPMorgan European Investment Trust plc to enable the Company to make off-market purchases of its own securities pursuant to Section 164 and 165 of the Companies Act 1985 in the form produced at the meeting and initialled by the Chairman, be and is hereby approved and the Company be and is hereby authorised to enter into and perform such contract, but so that the approval and authority conferred by this resolution shall expire on the day immediately preceding the date which is 18 months after the passing of this resolution or, if earlier, the next Annual General Meeting of the Company.

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary.  
8th June 2009

## Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form.

- 1 A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
- 2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will automatically be terminated.
- 3 A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
- 4 Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
- 5 You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last sent shall be treated as replacing and revoking the other or others.
- 6 To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.
- 7 Entry to the Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.
- 8 A corporation, which is a shareholder, may appoint individuals to act as its representatives and to vote in person at the Meeting (see instructions given on the proxy form). In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above. Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
- 9 The register of interests of the Directors and connected persons in the share capital of the Company is available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting.
- 10 No Director has any contract of service with the Company.
- 11 As at 5th June 2009 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 125,763,752 Growth shares and 57,982,495 Income shares. Voting rights are calculated by reference to the share voting numbers which, as at 31st March 2009, were 1.42 (Growth) and 0.70 (Income). Therefore the total voting rights in the Company are 219,172,274.

### Electronic appointment – CREST members

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

# Glossary of Terms

## **Return to Shareholders**

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested in the shares of the Company at the time the shares were quoted ex-dividend. Transaction costs of reinvestment are not taken into account.

## **Return on Net Assets**

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested in the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

## **Benchmark Return**

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received (net of tax) were reinvested in the shares of the underlying companies at the time the shares were quoted ex-dividend.

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not follow or "track" this index and consequently, there may be some divergence between the Company's performance and that of the stated index.

## **Actual Gearing Factor**

Investments expressed as a percentage of shareholders' funds. This shows the effect of gearing on the net asset value if the market value of the portfolio was to increase by 100%.

## **Total Expense Ratio (TER)**

Management fees and all other operating expenses, excluding interest expressed as a percentage of the average of the opening and closing net assets.

## **Discount/Premium**

If the share price of an investment company is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV. The opposite of a discount is a premium. It is more common for an investment company to trade at a discount than a premium.

## **Performance Attribution**

Analysis of how the Company achieved its recorded performance relative to its benchmark.

### **Performance Attribution Definitions:**

#### **Asset Allocation Effect**

Measures the impact of allocating assets differently to those in the benchmark, via the portfolio's weighting in different countries, sectors or asset types.

#### **Stock Selection Effect**

Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities outside of the benchmark.

#### **Gearing/Cash Effect**

Measures the impact on returns of borrowings or cash balances on the Company's relative performance.

#### **Management Fees/Other Expenses**

The payment of management fees and other expenses reduces the level of total assets, and therefore has a negative effect on relative performance.

#### **Residual**

Arises when there is a divergence between total return as calculated by Fundamental Data (includes dividends paid out by the Investment Trust) and total return from the attribution systems (includes dividend income received in on the stocks held by the Investment Trust). This is a result of methodologies and timing differences.

#### **Share Buybacks**

Measures the effect on relative performance of decreasing the number of shares in issue.



JPMorgan Helpline

Freephone 0800 40 30 30 or 020 7742 9999

8.30 am to 6.00 pm Monday to Friday

JPMorgan Pension Helpline

Freephone 0800 41 31 76 or 0172 241 4888

9.00 am to 5.00 pm Monday to Friday

Please use this number if you have any queries relating to the Pension Account.

Your telephone call may be recorded for your security

[www.jpmeuropean.co.uk](http://www.jpmeuropean.co.uk)