

Annual Report **2011**
JPMorgan Smaller Companies
Investment Trust plc

Annual Report & Accounts for the year ended 31st July 2011

Features

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Objective

Capital growth from UK listed smaller companies.

Investment Policies

- To provide capital appreciation for shareholders from a diversified portfolio of UK listed small companies, emphasising capital rather than income growth.
- To invest no more than 15% of its gross assets in other listed investment companies (including investment trusts).
- Liquidity and borrowings are managed with the aim of increasing returns to shareholders.
- Further details on investment policy and risk management are contained in the Directors' Report on page 18.

Benchmark

The FTSE Small Cap Index (excluding investment trusts).

Capital Structure

At 31st July 2011, the Company's issued share capital comprised 18,638,052 ordinary shares of 25p each.

Management Company

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

Financial Results

Total returns (includes dividends reinvested)

+49.0%

Return to shareholders¹
(2010: +30.2%)

+39.3%

Return on net assets²
(2010: +29.5%)

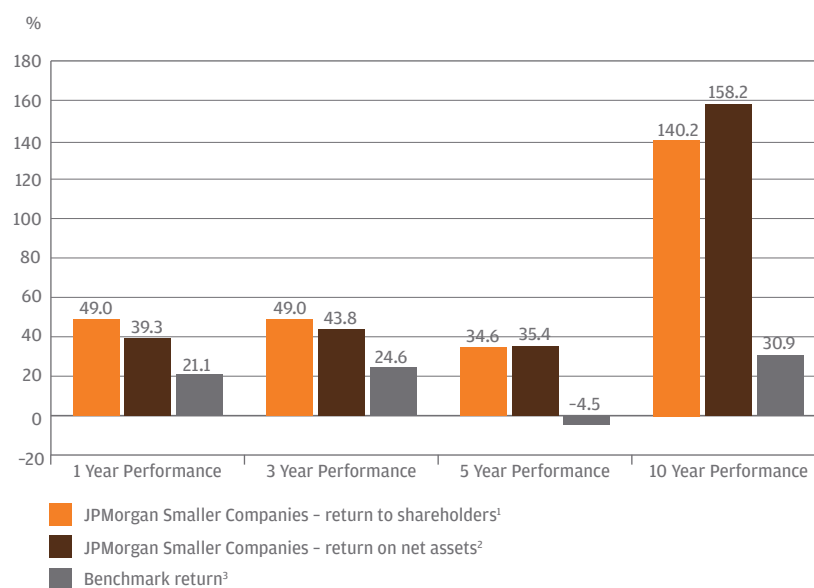
+21.1%

Benchmark return³
(2010: +15.6%)

8.5p ordinary dividend
(2010: 8.5p)

Long Term Performance

for periods ended 31st July 2011



A glossary of terms and definitions is provided on page 56.

¹Source: Morningstar.

²Source: J.P. Morgan.

³Source: Datastream. The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts).

Chairman's Statement



Investment Performance

Global equity markets continued to rise during the year ended 31st July 2011, although they remained volatile and we have since witnessed a severe market setback. Following the pattern of 2010, your Company delivered another year of strong performance. I am pleased to report that the Company recorded a total return on net assets of +39.3%, a very strong outperformance of the total return of the benchmark, the FTSE Small Cap index (excluding investment trusts) of +21.1%. As shown in the table on page 6, the most significant contributor to this performance was the Investment Manager's stock selection and asset allocation, helped by gearing to a smaller extent. The Investment Manager's report analyses the performance further and gives a detailed commentary on the investment strategy and portfolio construction. Since the year end, stockmarket volatility has increased substantially and the performance of your Company in August and September, the first two months of this financial year, has been seriously and adversely affected by the worldwide reduction in investors' appetite for equity risk. As a consequence of these market conditions, as at 19th October 2011 the net asset value per share was 527.5p, the share price 425.0p and the discount 19.4%.

The period under review saw continued economic recovery in the UK, albeit at a slow rate. The macro-economic and political concerns remained unchanged during the period with tensions rising considerably in Europe and the US as governments appear unable to provide credible solutions to the escalating sovereign debt crisis. Despite this difficult environment, the Company's share price increased from 368p at 31st July 2010 to 538p at 31st July 2011, amounting to a rise of 46% during the year. The total return to shareholders was +49.0% after a narrowing of the share price discount to net asset value from 22.1% at 31st July 2010 to 16.5% at 31st July 2011.

Revenue and Dividends

Net revenue after taxation for the year was £1,600,000 (2010: £1,723,000) and revenue return per share, calculated on the average number of shares in issue, was 8.5p (2010: 8.9p). The Directors are recommending a final dividend of 8.5p per share (2010: 8.5p), costing £1,584,000 (2010: £1,610,000). If approved, the dividend will be paid on 9th December 2011 to shareholders on the register on 18th November 2011.

Each year the level of income received varies according to the Company's gearing, its investment stance and market conditions and, whilst it is the Company's policy to distribute substantially all the available income each year, shareholders should note that the Company's dividends will vary accordingly.

Continuation Vote

The Company's Articles of Association require that shareholders vote on the continuation of the Company at every third Annual General Meeting ('AGM'). The fifth of these votes falls this year. The Board has evaluated the performance and progress of the Company over the last year and, in particular, the three years since the last continuation vote was passed.

The table below shows that the Company has outperformed the Company's benchmark, the FTSE Small Cap Index over this period and over the longer term.

Total Return	1 August 2010 to 31 July 2011 (1 year)	1 August 2008 to 31 July 2011 (3 years)	1 August 2001 to 31 July 2011 (10 years)
Share price	+49.0%	+49.0%	+140.4%
Net asset value	+39.3%	+43.8%	+158.1%
Benchmark	+21.1%	+24.5%	+30.9%

In the period since the last continuation vote the net asset value outperformance against the benchmark has been +19.3%.

The Directors are delighted to report that the net asset value total return is 894.3% since the inception of the Company in July 1990, a compound growth rate of 11.0% per annum - comfortably outstripping the Company's benchmark (ahead by 245.6%, a compound growth rate of 6.1%). The Company's share price total return is 753.2% since its inception, a compound growth rate of 10.1%.

The Directors have confidence in the long-term growth prospects for UK smaller companies and in the ability of the Manager to continue to select a portfolio of attractive investments in this segment. The investment competence of the Manager is borne out by the Company's consistent out-performance of the benchmark over the last ten years with a return on net assets shown above. They therefore recommend that shareholders vote in favour of the resolution at the AGM on 28th November 2011, as they intend to do so in respect of their own holdings.

Investment Manager

The Company's objective is to provide shareholders with capital growth from a portfolio of investments in UK smaller companies. The Board carried out a formal review of the capabilities and services of the Manager during the year. This covered the investment management, company secretarial, administrative and marketing services provided to the Company by JPMorgan Asset Management (UK) Limited ('JPMAM') and further included their investment performance record, management processes, investment style and resources. We have concluded that JPMAM remains the most appropriate Manager of the Company's assets and that the ongoing appointment of the existing Investment Manager is in the best interests of shareholders.

The Board has been advised that Kent Kwan has relocated to Australia and is no longer on the team managing the Company's portfolio. We are sorry to lose Kent and wish him all the best. Peter Dalton has now joined the investment management team to work alongside Georgina Brittain. He brings with him extensive experience and knowledge of UK Small Cap equities and fund management.

Share Buy backs

At last year's AGM, shareholders granted the Directors authority to repurchase the Company's shares for cancellation, such authority to expire at the earlier of 24th May 2012 or the conclusion of the AGM in 2011. During the financial year the Company

Chairman's Statement continued

repurchased a total of 301,971 ordinary shares for cancellation for a total consideration of £1,499,000, representing 1.6% of the issued share capital at the beginning of the year. This has added approximately 1.7p per ordinary share to the net asset value for continuing shareholders. Since the year end the Company has repurchased an additional 39,844 ordinary shares for cancellation.

The Board's objective remains to use the share repurchase authority to manage imbalances between the supply and demand of the Company's shares, thereby reducing the volatility of the discount. To date the Board believes this mechanism has been helpful and therefore proposes and recommends that powers to repurchase up to 14.99% of the Company's shares for cancellation be renewed for a further period.

Board of Directors

At the Nomination Committee meeting held earlier this year, the Board carried out an evaluation of the Directors, the Chairman, the Board itself and its Committees. The Board takes this review seriously and views it as an effective means of evaluating the continuing efficacy of the Board. Additionally, the Board has decided to engage an independent external party to conduct a formal evaluation of the Board members early next year, subject to the Company's continuation after the forthcoming AGM vote. In accordance with the Company's Articles of Association, Michael Quicke will retire by rotation at this year's AGM and will offer himself for re-election. The Nomination Committee having considered his qualifications, performance and contribution to the Board and its committees, confirm that he continues to be effective and demonstrates commitment to his role and the Board recommends to the shareholders that he be re-elected. In accordance with the Company's Articles of Association, and having served as Directors for more than nine years, both Richard Fitzalan Howard and I offer ourselves for re-election on an annual basis. The Board does not believe that length of service in itself should disqualify a Director from seeking re-election and, in proposing our re-elections, it has taken into account the ongoing requirements of the UK Corporate Governance Code, including the need to refresh the Board and its Committees. The Nomination Committee recommends to shareholders that we should therefore be re-elected.

Corporate Governance

The Board has always focused its governance obligations and has in place procedures to monitor the Company's compliance with the AIC Code on Corporate Governance and the new UK Corporate Governance Code.

Annual General Meeting

The Company's twenty first AGM will be held on Monday, 28th November 2011 at 12.00 noon at The Library, 60 Victoria Embankment, London EC4Y 0JP. In addition to the formal part of the meeting, there will be a presentation from the Investment Manager who will answer questions on the portfolio and performance. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes.

Outlook

After such a strong performance in the last financial year, as indicated earlier, the first two months of the new financial year have proved exceptionally difficult for the Investment Managers, with widespread, significant and often indiscriminate falls in UK Smaller Companies' valuations. This reflects the considerable uncertainty facing the eurozone, and consequently the outlook for the UK economy where concerns about a double dip recession have been increasing.

Growth rates in many parts of the world have been slowing. In addition to this, the process of consumer and government deleveraging is likely to prove longer and more painful than investors anticipated.

Despite these concerns, there are opportunities to be found in individual UK based smaller company stocks that are well-positioned to benefit from their exposure to niche growth areas both within the UK and further afield in regions such as China, Australia and the Middle East. The Board believes that the Investment Manager will continue to find sufficient high quality small UK listed and AIM companies with good financial strength and prospects and that these will continue to deliver good returns for the Company in the longer term. Whilst the timing and strength of any sustainable economic recovery is difficult to assess, the Board, and the Investment Manager, are optimistic that the portfolio will be well positioned when industrial and commercial activity levels improve.

Strone Macpherson
Chairman

21st October 2011

Investment Manager's Report



Market Background

The market background to the last year of your Company's performance was generally one of continued economic recovery. Concerns over a slowdown in China were misplaced; the Eurozone area and the USA appeared to be evidencing a slow recovery, and in the UK while the consumer was suffering, a recovery in growth prospects seemed on the cards.

Portfolio

As the signs of on-going recovery remained in place last year, your portfolio was well-positioned to benefit, as can be seen from the figures. While the index put in a strong performance of +21.1% to 31st July 2011, your portfolio produced a return on net assets of 39.3%. A narrowing of the discount led to shareholder returns of 49%.

Key contributors to this strong performance were the overweight positions in the Oil & Gas Producers and Oil Services sectors (Nautical Petroleum, Cape and Kentz in particular), and in the Chemicals sector (Elementis, Yule Catto). On the negative side there was only one significant underperformer held within the portfolio, Healthcare Locums. Other negatives were strong performers within the index which we did not own.

Throughout the year, the exposures within the portfolio were gradually changed. The very large position in the Oil & Gas Producers was significantly reduced (although we remain overweight in this sector), while the exposure to Oil Services was increased. The large overweight in the Industrials sector increased further, in part through strong performance, and in part through additional investment in the Electronic and Electricals sector, most notably Oxford Instruments.

As our concerns regarding the domestic consumer grew, we went further underweight in the Consumer Services sector and moved from a small overweight to an underweight position in the Consumer Goods sector. This led to disposals of positions such as Domino's Pizza and Restaurant Group and a reduction in the position in JD Sports. The other notable change, as can be seen in the sector analysis on page 12, was a large reduction in our technology position.

Performance attribution						
	12 months to 31st July 2011		12 months to 31st July 2010		12 months to 31st July 2009	
Contributions to total return	%	%	%	%	%	%
Benchmark return		21.1		15.6		-11.0
Asset allocation	9.9		2.8		-2.6	
Stock selection	7.9		10.6		-6.4	
Gearing/cash	1.3		0.4		0.1	
Investment Manager's contribution		19.1		13.8		-8.9
Portfolio total return		40.2		29.4		-19.9
Management fee/other expenses	-1.3		-1.1		-1.1	
Repurchase of shares for cancellation	0.4		0.9		0.2	
VAT recovery	—		0.3		0.5	
Other effects		-0.9		0.1		-0.4
Return on net assets		39.3		29.5		-20.3
Impact of decrease/increase in discount		9.7		0.7		-2.9
Return to shareholders		49.0		30.2		-23.2

Source: Xamin/JPMAM/Morningstar. All figures are on a total return basis.
A glossary of terms and definitions is provided on page 56.

Corporate activity (i.e. takeovers) was a feature throughout the year. We benefited from the takeovers of Minerva and Prostrakan; other targets which we did not own included Holidaybreak and Northern Foods. We continue to expect more such takeover activity, as large companies look to acquire growth through acquisitions.

We described the fairly benign economic backdrop in the Market Background above. Since your Company's year end this backdrop has changed. It began to fade in the summer, and disintegrated in August 2011. This has led to significant falls in stockmarkets around the world. In the UK the FTSE 100 index fell some 13%, although it has since partially rebounded and is down around 7% since the end of July. The smaller companies index has fallen more sharply, and is now back to the level of the end of July 2010. Your Company has lagged in this environment, as the outlook for global growth has reduced, although this has been addressed over the past few months.

Market Outlook

Specific triggers for the recent fall in stockmarkets have included renewed focus on the Greek debt situation and the broader implications of European debt issues spreading to major Eurozone countries including Italy and Spain. At the same time in the USA, politicians have failed to address adequately the growing deficit problem, leading to a downgrade of the credit rating of the USA. These factors have combined with more general concerns focusing on a continual weakening of economic data, leading to strong doubts about the sustainability of the recovery, and renewed worries about a recession in the UK, Europe and the USA.

It is clear that growth rates in much of the Western World have stalled. Recent forecasts for 2012 are for 1.5% GDP growth in the UK, and 1% in the Eurozone. So how are we positioned against this gloomy backdrop of low growth and austerity measures?

Our focus remains on individual companies and ensuring that we understand their individual markets. We do not expect, and are not positioned for, a return to 2008 in terms of a collapse in company profits. The corporate world is in a much stronger position now than then, and companies are still growing their profits. Balance sheets have been repaired, companies (in general) have much lower borrowings, they are leaner and more efficient, and they do not have huge amounts of inventory.

Despite the downgrades to global GDP, forecast profit growth for smaller companies over the next twelve months is 10%. Where is the growth coming from, in this low-growth environment? The answer is from the UK, Europe and all over the world, for individual companies that are well-positioned in niche growth areas. In the UK, examples include niche communications providers such as KCOM and Alternative Networks; or growth retail brands such as Mulberry. Outside of the UK examples include those companies still benefiting from China's 10% GDP growth; or those exposed to the billions of dollars of new infrastructure spend in the Middle East; or to the \$50 billion spend on LNG projects in Australia. This list goes on. We seek to identify such growth areas, and to invest in those companies which will benefit from them.

There is no doubt that on every measure, companies are cheap. We are positioning ourselves to ensure that your Company's diversified portfolio has exposure to growth. In a low growth environment, this ability to increase profits and dividends will make these companies more valuable over time.

Georgina Brittain
Investment Manager

21st October 2011

Summary of Results

	2011	2010	
Total returns for the year ended 31st July			
Return to shareholders ¹	+49.0%	+30.2%	
Return on net assets ²	+39.3%	+29.5%	
Benchmark return ³	+21.1%	+15.6%	
			% change
Net asset value, share price and discount at 31st July			
Shareholders' funds (£'000)	120,126	89,460	+34.3
Net asset value per share	644.5p	472.3p	+36.5
Share price	538.0p	368.0p	+46.2
Share price discount to net asset value per share	16.5%	22.1%	
Shares in issue	18,638,052	18,940,023	
Revenue for the year ended 31st July			
Net revenue available for ordinary shareholders (£'000)	1,600	1,723	-7.1
Revenue return per share	8.50p	8.92p	-4.7
Dividend per share	8.5p	8.5p	0.0
Actual Gearing Factor at 31st July ⁴	107%	106%	
Total Expense Ratio ⁵	1.16%	1.26%	

A glossary of terms and definitions is provided on page 56.

¹Source: Morningstar.

²Source: J.P. Morgan.

³Source: Datastream. The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts).

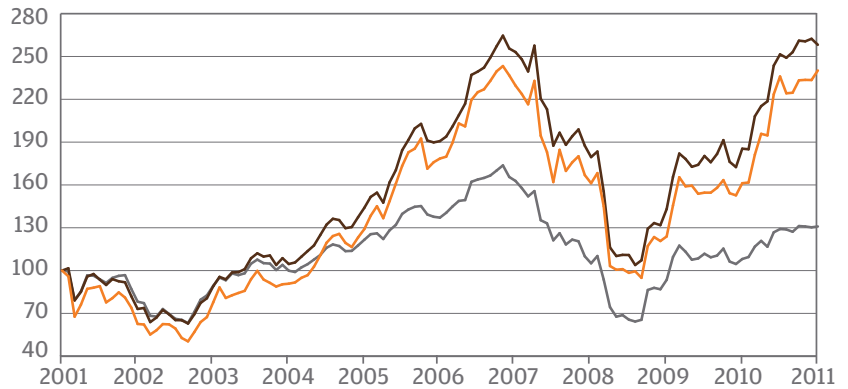
⁴Actual gearing means investments expressed as a percentage of net assets.

⁵Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year. The Total Expense Ratio is calculated in accordance with guidance issued by the Association of Investment Companies.

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st July 2001

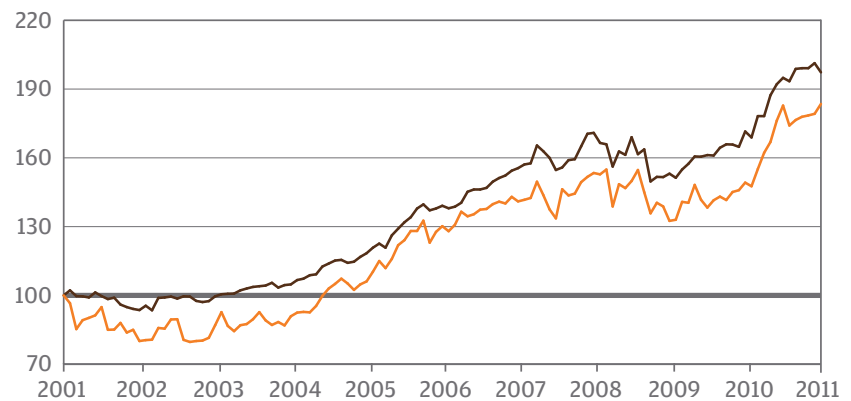


Source: Morningstar/Datastream.

- JPMorgan Smaller Companies - share price total return.
- JPMorgan Smaller Companies - net asset value total return.
- Benchmark return.

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st July 2001



Source: Morningstar/Datastream.

- JPMorgan Smaller Companies - share price total return.
- JPMorgan Smaller Companies - net asset value total return.
- The benchmark has been rebased to 100 and is represented by the grey horizontal line.

Ten Year Financial Record

At 31st July	2001	2002	2003	2004 ¹	2005 ¹	2006	2007	2008	2009	2010	2011
Shareholders' funds (£'000)	76,162	55,204	62,954	74,217	94,753	118,326	143,657	96,035	73,016	89,460	120,126
Net asset value per share (p)	285.6	207.0	247.7	292.0	395.7	513.8	676.1	479.6	372.3	472.3	644.5
Share price (p)	265.0	164.0	199.5	230.0	322.0	440.5	562.0	391.3	289.0	368.0	538.0
Discount (%)	7.2	20.8	19.5	21.2	18.6	14.3	16.9	18.4	22.4	22.1	16.5
Actual gearing factor (%)	120	119	114	107	106	106	107	106	107	106	107
Year ended 31st July											
Gross revenue attributable to shareholders (£'000)	1,804	1,821	1,479	1,790	1,750	2,057	2,540	2,977	2,579	2,355	2,525
Revenue return per share (p)	2.35	3.10	2.85	3.80	3.62	4.37	5.22	8.67	11.43	8.92	8.50
Dividend per share (p)	2.30	3.00	2.85	3.75	3.75	4.25	5.00	7.00	11.00 ²	8.50	8.50
Total expense ratio (%) ³	1.37	1.52	1.54	1.49	1.31	1.30	1.33	1.15	1.39	1.26	1.16
Rebased to 100 at 31st July 2001											
Return to shareholders ⁴	100.0	62.6	77.7	90.8	129.1	178.5	229.6	161.2	123.9	161.2	240.2
Return on net assets ⁴	100.0	73.1	89.0	104.6	144.0	190.7	253.1	179.5	143.1	185.4	258.2
Benchmark return ⁵	100.0	78.2	89.3	99.9	121.6	137.1	162.8	105.1	93.5	108.1	130.9

A glossary of terms and definitions is provided on page 56.

¹The results for the year ended 31st July 2005 and 31st July 2004 have been restated in accordance with Financial Reporting Standard 21.

²Includes a special dividend of 3.00p per share representing VAT recovered on investment management fees.

³Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

⁴Source: Morningstar.

⁵Source: Datastream.

Ten Largest Investments

Company	Sub-Sector	2011 Valuation		2010 Valuation	
		£'000	% ¹	£'000	% ¹
Oxford Instruments² Oxford Instruments produces advanced instrumentation equipment. The company's products are used for scientific research, chemical analysis, patient monitoring, semiconductor processing, and diagnostic imaging. The company conducts manufacturing operations in the United Kingdom and the United States.	Electronics & Electrical Equipment	4,659	3.6	1,163	1.3
Brammer² Brammer provides industrial services in the areas of distribution and equipment rental. Brammer distributes mechanical and electrical power transmission products, bearings and motion control systems. The company also rents industrial and process control, telecommunication, computer, environmental and chemical analysis equipment.	Support Services	3,531	2.7	1,547	1.7
Diploma Diploma distributes research instruments, specialised wiring and connectors, hydraulic seals and gaskets.	Support Services	3,227	2.5	2,297	2.6
Hyder Consulting Hyder Consulting offers infrastructure consulting, design, financing, and project management services systems.	Support Services	3,001	2.3	2,359	2.6
KCOM² KCOM provides information and communications technology and telecommunications services to businesses regionally in the UK. The company also works with selected UK consumer markets with internet and telecommunications services.	Fixed Line Telecommunications	2,876	2.2	1,797	2.0
TT electronics² TT electronics manufactures electronic and electrical components for the automotive, telecommunication and industrial engineering sectors. The company's products include electronic components and systems, electrical cables, uninterruptible power supplies and generators. TT has manufacturing facilities in the UK, Continental Europe, USA and low labour cost countries.	Electronics & Electrical Equipment	2,721	2.1	629	0.7
Senior Senior manufactures specialist engineering products for the automotive, industrial and aerospace sectors.	Aerospace & Defence	2,703	2.1	1,877	2.1
RPC² RPC manufactures and sells rigid plastic packaging. The company has seven factories which produce sauce bottles and jars, lubricating oil bottles, containers for DIY/adhesive products, bottles for mineral water and other drinks, and paint containers.	General Industrials	2,636	2.1	1,803	2.0
Nautical Petroleum² Nautical Petroleum explores for and produces heavy crude oils in the North Sea.	Oil & Gas Producers	2,580	2.0	717	0.8
Fenner Fenner is a diversified manufacturing and engineering company. The company manufactures industrial conveyor belts and high performance seals.	Industrial Engineering	2,579	2.0	1,841	2.1
Total³		30,513	23.6		

¹Based on total assets less current liabilities of £129.1m (2010: £89.5m).

²Not included in the ten largest investments at 31st July 2010.

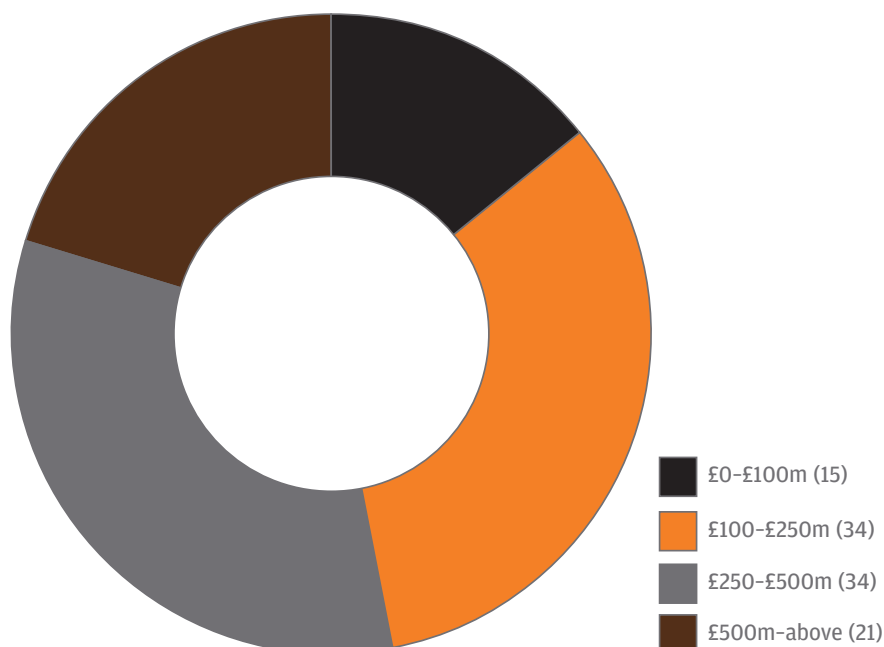
³At 31st July 2010, the value of the ten largest investments amounted to £21.9m representing 24.5% of total assets less current liabilities.

Portfolio Analysis

Sector	31st July 2011		31st July 2010	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Industrials	49.0	39.3	37.5	33.6
Financials	14.7	22.0	14.9	22.9
Oil & Gas	10.5	3.5	7.4	1.5
Consumer Services	8.5	14.8	11.3	16.6
Technology	8.2	6.1	12.0	7.6
Basic Materials	7.5	2.2	9.3	5.5
Consumer Goods	3.5	5.7	6.9	5.9
Telecommunications	3.4	1.6	2.5	2.0
Health Care	1.6	4.8	3.2	4.4
Utilities	0.4	—	0.5	—
Liquidity fund	—	—	1.5	—
Net current liabilities and loan balances	(7.3)	—	(7.0)	—
Total	100.0	100.0	100.0	100.0

Based on net assets of £120.1m (2010: £89.5m).

Holdings breakdown based on Market Cap as at 31st July 2011



List of Investments

at 31st July 2011

Company	Valuation £'000	Company	Valuation £'000
Industrials		General Industrials	
Support Services		RPC	2,636
Brammer	3,531	Smith (DS)	423
Diploma	3,227	Construction & Materials	
Hyder Consulting	3,001	Costain	898
Interserve	2,550	Galliford Try	821
Menzies (John)	2,029	Low & Bonar	806
Robert Walters	1,806	Industrial Transportation	
Hogg Robinson	1,518	Clarkson	1,379
Hargreaves Services ²	1,349	Goldenport	355
Fiberweb	941	Aerospace & Defence	
St Ives	830	UMECO	1,132
Ashtead	772	Total Industrials	
Harvey Nash	665	58,902	
Tribal ²	582	Financials	
Howden Joinery	534	Real Estate	
Shaft Sinkers ²	515	Quintain Estates & Development	2,267
Staffline ²	490	Development Securities	1,780
Acal	462	CLS	1,627
CPP	159	LSL Property Services	1,469
Healthcare Locums ^{1,2}	77	Unite	602
Electronics & Electrical Equipment		St. Modwen Properties	360
Oxford Instruments	4,659	General Financial	
TT electronics	2,721	International Personal Finance	1,857
Dialight	2,179	GlobeOp	1,840
Renishaw	1,779	Lonrho	1,569
Volex	1,739	City of London Investment	861
E2V Technologies	1,738	H&T ²	301
XP Power	1,526	Brookwell	81
Andor Technology ²	375	Non Life Insurance	
Industrial Engineering		Novae	1,521
Senior	2,703	Life Insurance	
Fenner	2,579	Chesnara	1,472
Severfield-Rowen	1,093	Total Financials	
Hill & Smith	976	17,607	
Renold	843		
Hamworthy ²	504		

List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
Oil & Gas		Technology	
Oil & Gas Producers		Software & Computer Services	
Nautical Petroleum ²	2,580	Kofax	1,834
Cove Energy ²	2,063	NCC	1,804
Exillon Energy	1,535	Anite	1,716
Bowleven ²	1,027	Computacenter	847
Oilex ²	463	AVEVA	522
Aurelian Oil & Gas ²	418	Alterian	499
Bahamas Petroleum ²	336	K3 Business Technology ²	346
		Advanced Computer Software ²	343
Oil Equipment, Services & Distribution		Technology Hardware & Equipment	
Cape	2,512	Wolfson Microelectronics	1,340
Kentz	1,662	Telit Communications ²	603
Total Oil & Gas	12,596	Total Technology	9,854
Consumer Services		Basic Materials	
Media		Chemicals	
Chime Communications	1,688	Elementis	2,453
Entertainment One	1,604	Yule Catto	2,406
ITE	862	Carclo	1,435
Tarsus	784		
Creston	754	Mining	
Trinity Mirror	160	Avocet Mining ²	951
		Anglo Pacific	601
Travel & Leisure		Gemfields ²	560
Fuller Smith & Turner	1,620		
Cineworld	939	Industrial Metals	
		International Ferro Metals	672
General Retailers		Total Basic Materials	9,078
Lookers	681		
JD Sports Fashion	625		
Mulberry ²	551		
Total Consumer Services	10,268		

Company	Valuation £'000	Company	Valuation £'000
Consumer Goods		Health Care	
Food Producers		Pharmaceuticals & Biotechnology	
Hilton Food	1,176	Abcam ²	1,273
Devro	880		
Asian Plantations ²	630	Healthcare Equipment & Services	
Anglo-Eastern Plantations	542	Immunodiagnostic Systems ²	597
MP Evans ²	388		
		Total Health Care	1,870
Personal Goods		Utilities	
Supergroup	656	Electricity	
		OPG Power Venture ²	455
Total Consumer Goods	4,272	Total Utilities	455
Telecommunications		Total Investments	
Fixed Line Telecommunications		128,948	
KCOM	2,876	The portfolio comprises investments in equity shares.	
Alternative Networks ²	755	¹ Trading in the shares of this company was suspended as at 31st July 2011.	
		² AIM listed company.	
Mobile Telecommunications			
Monitise ²	415		
Total Telecommunications	4,046		

Board of Directors



Strone Macpherson†‡ (Chairman of the Board and Nomination Committee)

A Director since June 1990.

Last re-elected to the Board: 2010.

Remuneration: £27,000.

He is chairman of Close Brothers Group plc, British Empire Securities and General Trust plc, and Estover Energy Limited. He is a director of Best Securities Limited, and a trustee of The King's Fund and chairman of its investment committee. He is also a governor of Heriot-Watt University.

Connections with Manager: Previously a director of Robert Fleming & Co. Limited.

Other connections: Winterflood Securities Limited, the Company's broker, is a subsidiary of Close Brothers Group plc, of which Mr Macpherson is the Chairman. The Board has approved this potential conflict.

Shared directorships with other Directors: British Empire Securities and General Trust plc, and Best Securities Limited (with Andrew Robson).

Shareholding in Company: 24,860 shares.



Ivo Coulson*†‡

A Director since October 2005.

Last re-elected to the Board: 2009.

Remuneration: £19,000.

He is a director of Baring Emerging Europe plc, Eco Age Ltd, and Squint Limited. He is also an investment partner at Stanhope Capital LLP and a Fellow of the Securities Institute.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 5,000 shares.



Richard Fitzalan Howard†‡

A Director since February 1997.

Last re-elected to the Board: 2010.

Remuneration: £19,000.

He is chairman of FF&P Asset Management Limited and a director of CCFHB Limited and CCLA Investment Management Limited.

Connections with Manager: Previously a director of Fleming Investment Management Limited (now JPMorgan Asset Management (UK) Limited - manager of the Company's assets) from 1986 to 2000.

Shared directorships with other Directors: CCLA Investment Management Limited (with Michael Quicke).

Shareholding in Company: 7,500 shares.



Michael Quicke*†‡ (Chairman of the audit committee)

A Director since October 2005.

Last re-elected to the Board: 2008.

Remuneration: £21,000.

He is chief executive of CCLA Investment Management Limited and a director of Albanwise Limited.

Connections with Manager: None.

Shared directorships with other Directors: CCLA Investment Management Limited (with Richard Fitzalan Howard).

Shareholding in Company: 4,333 shares.



Andrew Robson*†‡

A Director since April 2007.

Last re-elected to the Board: 2010.

Remuneration: £19,000.

He is a director of British Empire Securities and General Trust plc, First Integrity Limited, Matrix Income & Growth 4 VCT plc, Shires Income plc, Brambletye School Trust Limited, Peckwater Limited and Best Securities Limited. He is a chartered accountant.

Connections with Manager: Previously a director of Robert Fleming & Co. Limited.

Shared directorships with other Directors: British Empire Securities and General Trust plc, and Best Securities Limited (with Strone Macpherson).

Shareholding in Company: 1,163 shares.

* Member of the Audit Committee

† Member of the Nomination Committee

‡ Considered independent by the Board

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st July 2011.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ('Section 1158') for the year ended 31st July 2010. 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 1158 each year.

Approval for the year ended 31st July 2010 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 2 to 5, and in the Investment Manager's Report on pages 6 to 7.

Objective

The Company's objective is to achieve capital growth from UK listed smaller companies by consistent out-performance of the Company's benchmark index, the FTSE Small Cap Index (excluding investment trusts) 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 and Risk Management

In order to achieve this objective, the Company invests in a diversified portfolio of small companies, emphasising capital rather than income growth, with the likely result that the level of dividend will fluctuate.

Investment risks are managed by investing in a diversified portfolio of UK listed smaller companies. The number of investments in the portfolio will normally range between 70 and 150. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to stocks and sectors. The maximum exposure to an investment will normally range between +/-2% relative to the

benchmark index. The maximum exposure to a sector will normally range between +/-10% relative to the benchmark index.

The Company invests in smaller companies which tend to be more volatile than larger companies and the investment policy should therefore be regarded as carrying greater than average risk.

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company does not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts).

Investment Restrictions and Guidelines

The Board seeks to manage the Company's risk by imposing various investment limits and restrictions.

- No investment in the portfolio will be greater than 10% of the Company's gross assets
- The Company will not normally invest in unlisted securities
- The Company will not normally invest in derivative instruments
- The Company will utilise liquidity and borrowings in a range of 90% to 115% invested.

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

In the year ended 31st July 2011, the Company produced a total return to shareholders of +49.0% and a total return on net assets of +39.3%. This compares with the return on the Company's benchmark index of +21.1%. As at 31st July 2011, the value of the Company's investment portfolio was £128.9 million. The Investment Manager's Report on pages 6 to 7 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total return for the year amounted to £35,283,000 (2010: £21,472,000) and net total return after deducting interest, administration expenses and taxation amounted to £33,769,000 (2010: £20,391,000). Distributable income for the year amounted to £1,600,00 (2010: £1,723,000).

The Directors recommend a final dividend of 8.5p (2010: 8.5p) per share payable on 9th December 2011 to holders on the register at the close of business on 18th November 2011. This distribution will absorb £1,584,000 (2010: £1,610,000). Following payment of the final dividend, the revenue reserve will amount to £1,000,00 (2010: £978,000).

Gearing

The Board sets the overall gearing policy. A £10 million unsecured floating rate borrowing facility is currently in place with ING Bank NV which expires in April 2013. This facility is highly flexible and can be used tactically as investment opportunities present themselves, with the aim of enhancing returns. As at 31st July 2011, £9 million had been drawn on the facility. Further details about the loan facility are given in Note 22 to the Accounts on page 48.

Key Performance Indicators ('KPIs')

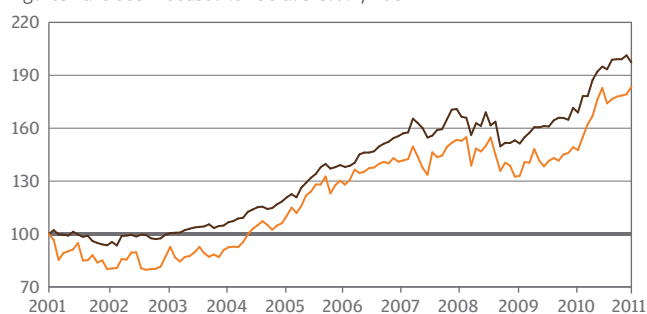
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Performance against the benchmark index**
This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and the Investment Manager's Report.

Over the ten years to 31st July 2011, the Company recorded a total return of 140.2% which compares very favourably with the benchmark return of 30.9%.

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st July 2001

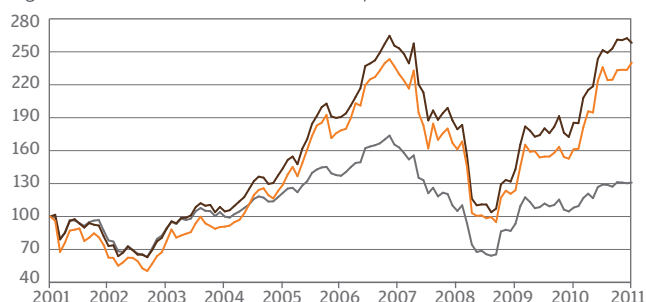


Source: Morningstar/Datastream.

- JPMorgan Smaller Companies - share price total return.
- JPMorgan Smaller Companies - net asset value total return.
- The benchmark is represented by the grey horizontal line.

Ten Year Performance

Figures have been rebased to 100 at 31st July 2001

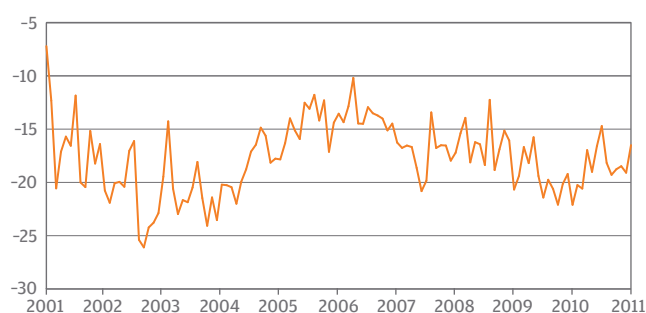


Source: Morningstar/Datastream.

- JPMorgan Smaller Companies - share price total return.
 - JPMorgan Smaller Companies - net asset value total return.
 - Benchmark return.
- **Performance against the Company's peers**
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
 - **Performance attribution**
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 31st July 2011 are given in the Investment Manager's Report on page 6.
 - **Discount to net asset value ('NAV')**
The Board operates 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 per share at which the Company's shares trade. In the year to 31st July 2011, the discount ranged between 14.7% and 22.1%.

Directors' Report continued

Discount Performance



Source: Datastream.

— JPMorgan Smaller Companies - discount.

• Total expense ratio ('TER')

The TER is an expression of the Company's management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the month end net assets during the year. The TER for the year ended 31st July 2011 was 1.16% (2010: 1.26%). 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 both to repurchase shares in the market for cancellation and issue new shares for cash.

During the year the Company repurchased a total of 301,971 ordinary shares, nominal value £75,493, for cancellation for a total consideration of £1,499,000. This amount represented 1.6% of the issued share capital at the beginning of the year. As the shares were repurchased at a discount to the underlying net asset value ('NAV') per share, they enhanced the NAV per share of the remaining shares. Since the year end the Company repurchased an additional 39,844 ordinary shares for cancellation.

A resolution to renew the authority to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting.

The Company did not issue any new shares during the year.

The Company does not currently hold any shares in Treasury and does not have authority to reissue shares from Treasury at a discount to NAV per share.

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 diversification of investments through its investment restrictions and guidelines which are monitored and reported on. JPMorgan Asset Management (UK) Limited (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 usually holds a separate meeting devoted to strategy each year.
- **Discount:** A disproportionate widening of the discount relative to the Company's peers could result in loss of value for shareholders. The Board regularly discusses discount policy and has set parameters for the Manager and the Company's broker to follow.
- **Political:** Changes in financial or tax legislation, including in the European Union, may adversely affect the Company. The Manager makes recommendations to the Board on accounting, dividend and tax policies, and seeks external advice where appropriate.
- **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 23 to 27.
- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that 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 implication 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 1158 of the Income and Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' above. Should the Company breach Section 1158, it may lose its investment trust status and as a consequence capital gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 1158 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 2006 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules may result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Acts and the UKLA Listing Rules.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records may 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 pages 26 and 27.
- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to daily credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives regular reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 22 on pages 47 to 51.

Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Manager discusses the outlook in her report on page 7.

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract terminable on three month'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 Investment Managers, noting consistent out-performance of the benchmark over the long term, and the support that the Company receives from JPMAM.

Management Fee

The management fee is paid by monthly instalments based on the total assets less current liabilities at the beginning of each month and is charged at a rate of 0.8% per annum. Loans that are drawn down under a loan facility with an original maturity date of one year or more are not classified as current liabilities for the purpose of the management fee calculation. If the Company invests in funds managed or advised by JPMAM or any of its associated companies, the investments are excluded from the calculation and therefore attract no fee. The Company invests any surplus liquidity into a non-charging class of the JPMorgan Sterling Liquidity Fund and this Fund is therefore not excluded from the management fee calculation.

Going Concern

The Directors believe that having considered the Company's investment objective (see page 18), risk management policies (see pages 47 to 51), liquidity risk (see note 22(b) on page 50), capital management policies and procedures (see page 52), the nature of the portfolio 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.

Directors' Report continued

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 these terms. As at 31st July 2011, the Company had no outstanding trade creditors (2010: same).

Directors

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

Directors	31st July 2011	1st August 2010
Strone Macpherson	24,860	24,860
Ivo Coulson ¹	5,000	5,000
Richard Fitzalan Howard	7,500	9,450
Michael Quicke	4,333	4,333
Andrew Robson	1,163	1,163

¹Ivo Coulson also had a non-beneficial interest in 5,200 shares.

No changes in the above holdings have been recorded as at the date of this report.

In accordance with the Company's Articles of Association, the Directors retiring by rotation at the forthcoming Annual General Meeting will be Michael Quicke, Richard Fitzalan Howard and Strone Macpherson. All three Directors being eligible, offer themselves for re-election. As Richard Fitzalan Howard and Strone Macpherson have been Directors for more than nine years, they stand for re-election annually. 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.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of a deed of indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. The deeds of indemnity were executed on 25th May 2010 and are currently in force.

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 2006) of which the Company's auditors are unaware, and
- 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 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 418 of the Companies Act 2006.

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 the inside front cover 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 16 to the Notice of AGM on page 55.

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	Number of voting rights	%
JPMorgan Asset Management ¹	3,763,868	19.96
Chase Nominees Limited ²	2,687,587	13.70
East Riding of Yorkshire	1,400,000	7.12
Barclays PLC	993,939	5.34
Royal London Asset Management	799,082	4.29
City of Bradford Legal & General Investment Management	782,158	4.00
Rensburg Sheppards Investment	566,548	3.00

¹Includes JPMorgan Elect plc (Managed Growth shares)

²Includes shares held on behalf of JPMAM Investment Account, ISA and SIPP.

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 Act 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 affect its control following a takeover bid; and no agreements between the Company and its Directors concerning compensation for loss of office.

Environmental Matters, Social and Community Issues

Information on environmental matters, social and community issues is set out on page 27. The Company has no employees.

Independent Auditors

Deloitte LLP have expressed their willingness to continue in office as Auditors and a resolution proposing their re-appointment, and to authorise the Directors to determine their remuneration for the ensuing year, will be put to shareholders at the Annual General Meeting.

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 item of special business will be proposed at the forthcoming Annual General Meeting:

(i) Authority to repurchase the Company's ordinary shares (Resolution 8)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2010 Annual General Meeting, will expire on 24th May 2012. The repurchase of shares at a discount to the underlying net asset value ('NAV') would enhance the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority which will last until 27th May 2013 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 53. 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 as and when market conditions are appropriate.

(ii) Authority to issue new shares for cash and disapply pre-emption rights (Resolutions 9 and 10)

The Directors will seek renewal of the authority at the AGM to issue up to 5% of the present issued share capital for cash. The full text of the resolutions is set out in the Notice of Meeting on pages 53 and 54.

It is advantageous for the Company to be able to issue new shares to participants purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the NAV, thereby increasing the assets underlying each share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies.

(iii) Continuation vote (Resolution 11)

The Directors recommend that the Company continue in existence as an investment trust for a further three year period.

Recommendation

The Board considers that resolutions 8 to 11 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 42,856 shares representing approximately 0.2% of the voting rights of the Company.

Corporate Governance Statement

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 29, indicates how the Company has applied the principles of recommended governance of the Financial Reporting Council UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

Directors' Report continued

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 UK Corporate Governance Code, other than in respect of the provision relating to the appointment of a senior independent director and the term of office of the directors, and with the best practice provisions of the AIC Code throughout the year under review and up to the date of approval of the annual report and accounts.

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 has procedures in place to deal with potential conflicts of interest and confirms that the procedures have operated effectively during the period under review.

The Board meets at least four times 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 Strone Macpherson, 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, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 16 and 17.

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 UK Corporate Governance Code and the Association of Investment Companies' Corporate Governance and the AIC Code. The Board believes that length of service, and hence experience in the industry, are beneficial to the Company, and that continuity, self-examination and ability to do the job should be the relevant criteria when evaluating Directors and recommending their re-election. 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.

As a result of the Board's evaluation process described below, it confirms that Richard Fitzalan Howard, Strone Macpherson and Michael Quicke continue to be effective Directors and demonstrate commitment to their role and therefore recommends their re-election at the forthcoming 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 pages 16 and 17. Directors who are not members of Committees may attend at the invitation of the Chairman.

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. There were also two Audit Committee meetings and one meeting of the Nomination Committee during the year.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Strone Macpherson	5	2 ¹	1
Ivo Coulson	4	2	0
Richard Fitzalan Howard	5	2 ¹	1
Michael Quicke	5	2	1
Andrew Robson	5	2	1

¹Mr Macpherson and Mr Fitzalan Howard attend the Audit Committee Meetings by invitation.

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 has agreed procedures for the 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 those committees.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Strone Macpherson, consists of all the independent 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 are considered.

On an annual basis each Director submits a list of potential conflicts of interest for approval at the Nomination Committee

meeting. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved for a period of one year. Following the introduction of The Bribery Act 2010, the Board has adopted appropriate procedures designed to prevent bribery.

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. In accordance with recommended best practice, the Board plans to implement a process for Board, Committee and individual Director evaluation consisting of an independently facilitated external review. The aim of the Board review process will be to ensure that the individual Directors continue to contribute effectively to the Board's performance and that the Board as a whole and its committees continue to function effectively. The Committee also reviews Directors' fees and makes recommendations to the Board as and when required.

Audit Committee

The Audit Committee, chaired by Michael Quicke and whose membership is set out on page 17, 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 and are satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance 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 including the provision of non audit services and the period of service held by the senior statutory auditor. In the Directors' opinion, the auditors are independent. The Audit Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of external auditors. Representatives of the Company's auditors attend the Audit Committee meeting at which the draft annual report and accounts are considered. There are no contractual restrictions on the choice of the committee as to external auditors. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee.

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

Directors' Report continued

Terms of Reference

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 on request at the Company's registered office, on the Company's website and at the Company's AGM.

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 quarterly each year by way of the annual report and Accounts, the half year report and two interim management statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders have the opportunity, and 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 57.

The Company's Annual Report and Accounts are 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 57.

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 UK Corporate Governance 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, which the Board has identified as including 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 misstatement 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. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accounts with the Turnbull guidance. 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:

- reviews the terms of the management agreement and receives regular reports from JPMAM's internal audit and Compliance department;
- reviews reports on the internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed; and

- reviews 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 it has reviewed, and is satisfied with, the effectiveness of the Company's system of internal control for the year ended 31st July 2011, and to the date of approval of this Annual Report and Accounts.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board.

Corporate Governance

JPMAM believes that corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.

Proxy Voting

JPMAM manages the voting rights of the shares entrusted to it as it 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.

Stewardship/Engagement

JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients;

- disclose their policy on managing conflicts of interest;
- monitor their investee companies;
- establish clear guidelines on how they escalate engagement;
- be willing to act collectively with other investors where appropriate;
- have a clear policy on proxy voting and disclose their voting record; and
- report to clients.

JPMAM endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere. We believe that regular contact with the companies in which we invest is central to our investment process and we also recognise the importance of being an 'active' owner on behalf of our clients.

Social & Environmental

JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request. JPMAM is also a signatory to Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: <http://www.jpmorganinvestmenttrusts.co.uk/governance>, which also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary

21st October 2011

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution to approve this report will be put to shareholders 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 page 30.

Directors' Remuneration¹

Directors Name	2011 £	2010 £
Strone Macpherson (Chairman)	27,000	24,000
Ivo Coulson	19,000	17,000
Richard Fitzalan Howard	19,000	17,000
Michael Quicke	21,000	19,000
Andrew Robson	19,000	17,000
Total	105,000	94,000

¹The above table is audited information.

Following the Nomination Committee's review of the Directors' fees, with effect from 1st August 2010, Directors' fees were paid at a fixed rate of £27,000 per annum for the Chairman, £21,000 per annum for the Chairman of the Audit Committee and £19,000 per annum for each other Director in the year under review.

The total Directors' fees of £105,000 (2010: £94,000) were all paid to Directors and £nil (2010: £nil) paid to third parties for making available the services of Directors.

The Board's policy 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.

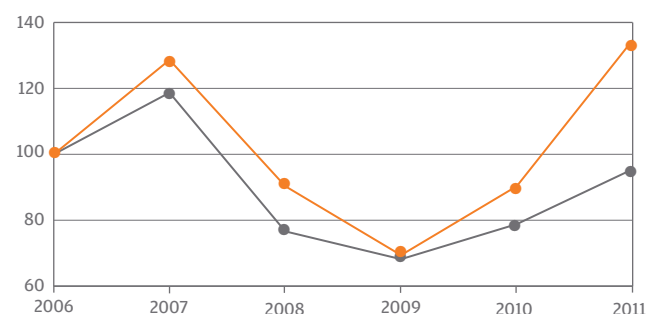
As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM and industry 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. The Company's Articles stipulate that aggregate fees must not exceed £150,000 per annum. Directors' fees are reviewed regularly and any increase in the maximum aggregate amount requires both Board and shareholder approval. The Directors do not have service contracts with the Company.

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.

A graph showing the Company's share price total return compared with its benchmark index total return, the FTSE Small Cap Index (excluding investment trusts), over the last five years is shown below.

Five Year Share Price and Benchmark Total Return to 31st July 2011



Source: Morningstar/Datastream.

— Share price total return.
— Benchmark total return.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary

21st October 2011

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

The accounts are published on the www.jpmsmallercompanies.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.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Michael Quicke
Director

21st October 2011

Independent Auditor's Report

Independent Auditor's Report to the members of JPMorgan Smaller Companies Investment Trust plc

We have audited the financial statements of JPMorgan Smaller Companies Investment Trust plc for the year ended 31st July 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st July 2011 and of its net return for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, contained within the Directors' Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

Stuart McLaren (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom

21st October 2011

Income Statement

for the year ended 31st July 2011

	Notes	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss							
	2	–	32,758	32,758	–	19,117	19,117
Income from investments	3	2,511	–	2,511	2,185	–	2,185
Other interest receivable and similar income	3	14	–	14	170	–	170
Gross return		2,525	32,758	35,283	2,355	19,117	21,472
Management fee	4	(472)	(472)	(944)	(373)	(373)	(746)
VAT recoverable	4	–	–	–	178	20	198
Other administrative expenses	5	(333)	–	(333)	(340)	–	(340)
Net return on ordinary activities before finance costs and taxation		1,720	32,286	34,006	1,820	18,764	20,584
Finance costs	6	(117)	(117)	(234)	(96)	(96)	(192)
Net return on ordinary activities before taxation		1,603	32,169	33,772	1,724	18,668	20,392
Taxation	7	(3)	–	(3)	(1)	–	(1)
Net return on ordinary activities after taxation		1,600	32,169	33,769	1,723	18,668	20,391
Return per share	9	8.50p	170.90p	179.40p	8.92p	96.65p	105.57p

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 Total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason a STRGL has not been presented.

The notes on pages 35 to 52 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st July 2011

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st July 2009	4,903	18,360	1,763	45,564	2,426	73,016
Repurchase and cancellation of the Company's own shares	(168)	–	168	(2,386)	–	(2,386)
Net return on ordinary activities	–	–	–	18,668	1,723	20,391
Dividend appropriated in the year	–	–	–	–	(1,561)	(1,561)
At 31st July 2010	4,735	18,360	1,931	61,846	2,588	89,460
Repurchase and cancellation of the Company's own shares	(75)	–	75	(1,499)	–	(1,499)
Net return on ordinary activities	–	–	–	32,169	1,600	33,769
Dividend appropriated in the year	–	–	–	–	(1,604)	(1,604)
At 31st July 2011	4,660	18,360	2,006	92,516	2,584	120,126

The notes on pages 35 to 52 form an integral part of these accounts.

Balance Sheet

at 31st July 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Investments held at fair value through profit or loss		128,948	94,396
Investment in liquidity fund held at fair value through profit or loss		–	1,305
Total investments	10	128,948	95,701
Current assets			
Debtors	11	212	734
Cash and short term deposits		1,313	271
Creditors: amounts falling due within one year	12	1,525 (1,347)	1,005 (7,246)
Net current assets/(liabilities)		178	(6,241)
Total assets less current liabilities		129,126	89,460
Creditors: amounts falling due after more than one year	13	(9,000)	–
Net assets		120,126	89,460
Capital and reserves			
Called up share capital	14	4,660	4,735
Share premium	15	18,360	18,360
Capital redemption reserve	15	2,006	1,931
Capital reserves	15	92,516	61,846
Revenue reserve	15	2,584	2,588
Total equity shareholders' funds		120,126	89,460
Net asset value per share	16	644.5p	472.3p

The accounts on pages 31 to 52 were approved and authorised for issue by the Directors on 21st October 2011 and were signed on their behalf by:

Michael Quicke
Director

The accompanying notes on pages 35 to 52 form an integral part of these accounts.

Company registration number: 2515996.

Cash Flow Statement

for the year ended 31st July 2011

	Notes	2011 £'000	2010 £'000
Net cash inflow from operating activities	17	1,198	1,501
Returns on investments and servicing of finance			
Interest paid		(174)	(199)
Net cash outflow from returns on investments and servicing of finance		(174)	(199)
Capital expenditure and financial investment			
Purchases of investments		(70,393)	(78,839)
Sales of investments		71,533	81,733
Other capital charges		(19)	(22)
Net cash inflow from capital expenditure and financial investment		1,121	2,872
Dividend paid		(1,604)	(1,561)
Net cash inflow before financing		541	2,613
Financing			
Net drawdown of loans		2,000	–
Repurchase and cancellation of the Company's own shares		(1,499)	(2,442)
Net cash inflow/(outflow) from financing		501	(2,442)
Increase in cash and cash equivalents	18	1,042	171

The accompanying notes on pages 35 to 52 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st July 2011

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the AIC in January 2009.

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

The accounts have been prepared on a going concern basis. The disclosures on going concern in the Directors' Report on page 21 form part of these accounts.

The policies applied in these accounts are consistent with those applied in the preceding year.

The Company has a dormant and wholly owned subsidiary, Fleming Smaller Companies Securities Limited. Consolidated accounts have not been prepared as exemption under Section 405 of the Companies Act 2006 has been exercised due to the immateriality of the subsidiary.

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their 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 a documented investment strategy, and information 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 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 are quoted bid prices for investments traded in active markets. Unquoted investments are valued at the Investment Manager's best estimate of market value.

Gains and losses on sales of investments are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end are accounted for in capital reserves within 'Holding gains and losses on investments'.

All purchases and sales are accounted for on a trade date basis.

(c) Income

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

UK dividends are accounted for net of tax credits.

Interest receivable is taken to revenue on an accruals basis.

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 in revenue. Any excess in the value of the shares received over the amount of cash dividend is recognised in capital.

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

Notes to the Accounts continued

1. Accounting policies continued

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue with the following exceptions:

- management fees are allocated 50% to revenue and 50% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and include items such as stamp duty and brokerage commission.

(e) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest rate method in accordance with the provisions of FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

Finance costs are allocated 50% to revenue and 50% to capital in line with the Board's expected long term split of revenue and capital returns from the Company's investment portfolio.

(f) Financial instruments

Cash and short term deposits may comprise 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 debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method.

The Company has not utilised any derivative instruments in the current or comparative year.

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

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis.

(h) Dividends

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

(i) Value added tax ('VAT')

Irrecoverable VAT is included in the expense on which it has been suffered. Recoverable VAT is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies.

	2011 £'000	2010 £'000
2. Gains on investments held at fair value through profit or loss		
Gains on investments held at fair value through profit or loss based on historical cost	8,327	8,169
Amounts recognised in investment holding gains in the previous year in respect of investments sold during the year	(4,333)	(1,150)
Gains on sales of investments based on fair value at previous balance sheet date	3,994	7,019
Net movement in investment holding gains and losses	28,780	12,120
Other capital charges	(16)	(22)
Total capital gains on investments held at fair value through profit or loss	32,758	19,117
	2011 £'000	2010 £'000
3. Income		
Income from investments		
UK dividend income	2,410	2,034
Overseas dividends	95	108
Dividends from liquidity fund	4	6
Scrip dividends	2	37
	2,511	2,185
Other interest receivable and similar income		
Underwriting commission	14	7
Interest on VAT recovered	–	162
Deposit interest	–	1
	14	170
Total income	2,525	2,355

Notes to the Accounts continued

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
4. Management fee						
Management fee ¹	472	472	944	373	373	746
VAT recoverable ²	–	–	–	(178)	(20)	(198)
	472	472	944	195	353	548

¹Details of the management fee are given in the Directors' Report on page 21.

²This represents VAT relating to management fees paid in the past, following HM Revenue & Customs' acceptance in 2007 that VAT was not chargeable on investment trust management fees. This amount has been allocated between revenue and capital in the same proportion as it was originally expensed to revenue and capital. Interest amounting to £162,000 has also been received and allocated wholly to revenue and is included within 'other interest receivable and similar income' in note 3 above.

	2011 £'000	2010 £'000
5. Other administrative expenses		
Other administration expenses	82	99
Directors' fees ¹	105	94
Savings scheme costs ²	62	62
Printing costs	29	29
Brokers fees	24	27
Auditor's remuneration for audit services ³	25	24
Auditor's remuneration for all other services	6	5
	333	340

¹Full disclosure is given in the Directors' Remuneration Report on page 28.

²Paid to JPMAM for the marketing and administration of savings scheme products.

³Includes £4,000 (2010: £4,000) irrecoverable VAT.

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	117	117	234	96	96	192

7. Taxation

(a) Analysis of tax charge in the year

	2011 £'000	2010 £'000
UK corporation tax at 27.33% (2010: 28%)	–	–
Overseas tax	3	1
Current tax charge for the year	3	1

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2010: lower) than the UK corporation tax rate chargeable for the year of 27.33% (2010: 28%). The factors affecting the current tax charge for the year are as follows:

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
Net return on ordinary activities before taxation	1,603	32,169	33,772	1,724	18,668	20,392
Net return on ordinary activities before taxation multiplied by the applicable rate of corporation tax of 27.33% (2010: 28%)	438	8,792	9,230	483	5,226	5,709
Effects of:						
Non taxable capital gains	–	(8,953)	(8,953)	–	(5,352)	(5,352)
Non taxable UK dividends	(659)	–	(659)	(570)	–	(570)
Non taxable overseas dividends	(26)	–	(26)	(30)	–	(30)
Non taxable scrip dividends	–	–	–	(10)	–	(10)
Unrelieved expenses	247	161	408	127	126	253
Overseas withholding tax	3	–	3	1	–	1
Current tax charge for the year	3	–	3	1	–	1

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £5,043,000 (2010: £4,850,000) based on a prospective corporation tax rate of 26% (2010: 27%). The reduction in the standard rate of corporation tax was substantively enacted on 29th March 2011 and is effective from 1st April 2011. The Government has also indicated that it intends to enact future reductions in the main rate of corporation tax of 1% each year down to 23% by 1st April 2014. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

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.

Notes to the Accounts continued

8. Dividends

(a) Dividends paid and proposed	2011 £'000	2010 £'000
Unclaimed dividends refunded to the Company	–	(8)
2010 final dividend of 8.5p (2009: 8.0p)	1,604	1,569
Total dividends paid in the year	1,604	1,561
Final dividend proposed of 8.5p (2010: 8.5p)	1,584	1,610

The final dividend proposed in respect of the year ended 31st July 2010, amounted to £1,610,000. However, the actual payment amounted to £1,604,000 due to shares repurchased and cancelled after the Balance Sheet date but prior to the share register Record Date.

The final dividend has been proposed in respect of the year ended 31st July 2011 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st July 2012.

(b) Dividend for the purposes of Section 1158 of the Corporation Tax Act 2010 ("Section 1158")

The requirements of Section 1158 are considered on the basis of the dividend declared in respect of the financial year as follows:

	2011 £'000	2010 £'000
Final dividend of 8.5p (2010: 8.5p)	1,584	1,610

The revenue available for distribution by way of dividend for the year is £1,600,000 (2010: £1,723,000).

9. Return per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £1,600,000 (2010: £1,723,000) and on the weighted average number of shares in issue during the year of 18,823,179 (2010: 19,316,003).

The capital return per share is based on the capital return attributable to the ordinary shares of £32,169,000 (2010: £18,668,000) and on the weighted average number of shares in issue during the year of 18,823,179 (2010: 19,316,003).

Total return per share is based on the total return attributable to the ordinary shares of £33,769,000 (2010: £20,391,000) and on the weighted average number of shares in issue during the year of 18,823,179 (2010: 19,316,003).

10. Investments

	2011 £'000			2010 £'000	
Investments listed on a recognised stock exchange	128,871			95,701 ¹	
Unlisted investments	77			–	
	128,948			95,701	
	Listed £'000	Unlisted £'000			Total £'000
Opening book cost	82,341	–			82,341
Opening unrealised gains	13,360	–			13,360
Opening valuation	95,701	–			95,701
Movements in the year:					
Delisted investment	(870)	870			–
Purchases at cost	71,439	–			71,439
Sales - proceeds	(70,966)	–			(70,966)
Gains on sales based on the carrying value at the previous balance sheet date	3,994	–			3,994
Net movement in investment holding gains and losses	29,573	(793)			28,780
	128,871	77			128,948
Closing book cost	90,213	928			91,141
Closing investment holding gains/(losses)	38,658	(851)			37,807
Total investments held at fair value	128,871	77			128,948

¹Investments at 31st July 2010 include a holding in the JPMorgan Sterling Liquidity Fund valued at £1,305,000 which is not listed on a recognised stock exchange.

Transaction costs on purchases during the year amounted to £312,000 (2010: £342,000) and on sales during the year amounted to £77,000 (2010: £93,000). These costs include stamp duty and brokerage commission.

During the year £4,333,000 (2010: £1,150,000) of investment holding gains have been transferred to gains and losses on sales of investments as disclosed in note 15 on page 43.

Subsidiary Company

The Company has a wholly-owned subsidiary called Fleming Smaller Companies Securities Limited which was incorporated as a dealing company and registered in England. During the year to 31st July 2011 the subsidiary did not trade and had negligible assets and liabilities at 31st July 2010 and 2011. Therefore, consolidated accounts have not been prepared.

Notes to the Accounts continued

	2011 £'000	2010 £'000
11. Current assets		
Debtors		
Securities sold awaiting settlement	25	592
Dividends and interest receivable	174	125
Other debtors	13	17
	212	734

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

Cash and short term deposits

Cash and short term deposits comprises bank balances and 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.

	2011 £'000	2010 £'000
12. Creditors – amounts falling due within one year		
Bank loan	–	7,000
Securities purchased awaiting settlement	1,180	136
Other creditors and accruals	167	110
	1,347	7,246

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

	2011 £'000	2010 £'000
13. Creditors – amounts falling due after more than one year		
Bank loan	9,000	–

The loan is unsecured and is drawn down on the Company's floating rate loan facility with ING Bank. Further details are given in note 22 on page 48.

	2011 £'000	2010 £'000
14. Called up share capital		
Issued and fully paid:		
Ordinary shares of 25p each		
Opening balance of 18,940,023 (2010: 19,612,222) ordinary shares	4,735	4,903
Repurchase of 301,971 (2010: 672,199) ordinary shares for cancellation	(75)	(168)
Closing balance of 18,638,052 (2010: 18,940,023) ordinary shares	4,660	4,735

During the year, the Company repurchased 301,971 ordinary shares, nominal value £75,000, for cancellation, representing 1.6% of the shares outstanding at the beginning of the year. The aggregate consideration paid for these shares was £1,499,000 and the reason for the purchases was to seek to manage the volatility and absolute level of the share price discount to net asset value per share.

	2011 Capital reserves				
	Share premium £'000	Capital redemption reserve £'000	Gains and losses on sales of investments £'000	Holding gains and losses on investments £'000	Revenue reserve £'000
15. Reserves					
Opening balance	18,360	1,931	48,486	13,360	2,588
Gains on sales of investments based on fair value at the previous balance sheet date	–	–	3,994	–	–
Transfer on disposal of investments	–	–	4,333	(4,333)	–
Net movement in investment holding gains and losses	–	–	–	28,780	–
Repurchase and cancellation of the Company's own shares	–	75	(1,499)	–	–
Management fee and finance costs charged to capital	–	–	(589)	–	–
Other capital charges	–	–	(16)	–	–
Dividend appropriated in the year	–	–	–	–	(1,604)
Net revenue for the year	–	–	–	–	1,600
Closing balance	18,360	2,006	54,709	37,807	2,584

Notes to the Accounts continued

16. Net asset value per share

Net asset value per share is based on the funds attributable to ordinary shareholders and on 18,638,052 (2010: 18,940,023) ordinary shares in issue at the year end.

	2011 £'000	2010 £'000
17. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total return on ordinary activities before finance costs and taxation	34,006	20,584
Less capital return before finance costs and taxation	(32,286)	(18,764)
Scrip dividends received as income	(2)	(37)
(Increase)/decrease in accrued income	(49)	68
Decrease/(increase) in other debtors	4	(3)
Increase in accrued expenses	–	7
Tax on unfranked investment income	(3)	(1)
Management fee charged to capital	(472)	(353)
Net cash inflow from operating activities	1,198	1,501

	At 31st July 2010 £'000	Cash flow £'000	At 31st July 2011 £'000
18. Analysis of changes in net debt			
Cash and short term deposits	271	1,042	1,313
Bank loan	(7,000)	(2,000)	(9,000)
Net debt	(6,729)	(958)	(7,687)

19. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments at the balance sheet date (2010: nil).

20. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 21. The terms make allowance for the exclusion of management charges on investments held in funds on which JPMorgan Asset Management ('JPMAM') earns a separate management fee. The fee payable to JPMAM for the year was £944,000 (2010: £746,000) of which £nil (2010: £nil) was outstanding at the year end.

Expenses amounting to £52,000 (2010: £53,000) excluding VAT were payable to JPMAM for the marketing and administration of savings scheme products, of which £nil (2010: £nil) was outstanding at the year end.

Included in other administration expenses in note 5 on page 38 are safe custody fees payable to JPMorgan Chase amounting to £2,000 (2010: £2,000) of which £nil (2010: £nil) was outstanding at the year end.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arms' length. The commission payable to JPMorgan Securities for the year was £28,000 (2010: £14,000) of which £nil (2010: £nil) was outstanding at the year end.

Handling charges incurred on dealing transactions amounting to £16,000 (2010: £22,000) were payable to JPMorgan Chase of which £2,000 (2010: £5,000) was outstanding at the year end.

During the current and prior year, the Company made purchases and sales of units in the JPMorgan Sterling Liquidity Fund which is managed by JPMAM. At the year end, the Company's investment in this fund amounted to £nil (2010: £1,305,000) and represented nil% (2010: 1.4%) of the Company's investment portfolio. Income amounting to £4,000 (2010: £6,000) was receivable from this investment for the year, of which £nil (2010: £1,000) was outstanding at the year end. JPMAM earns no management fee on this fund.

At the year end, a bank balance of £1,313,000 (2010: £271,000) was held with JPMorgan Chase. Interest amounting to £nil (2010: £1,000) was receivable by the Company from JPMorgan Chase for the year of which £nil (2010: £nil) was outstanding at the year end.

21. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio.

The investments are categorised into a hierarchy consisting of the following three levels:

Level 1 - valued using quoted prices in active markets.

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. Details of the valuation techniques used by the Company are given in note 1(b) on page 35.

Notes to the Accounts continued

The following table sets out the fair value measurements using the FRS 29 hierarchy at 31st July:

	2011			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss				
Equity investments	128,871	–	77	128,948

	2011 Equity investments £'000
Level 3 financial assets held at fair value through profit or loss	
Opening balance	–
Transfers into Level 3	870
Net movement in investment holding gains and losses	(793)
Closing balance	77

The transfer from Level 1 into Level 3 relates to an investment (Healthcare Locums) for which listing has been suspended during the year.

	2010			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss				
Equity investments	94,149	247	–	94,396
Liquidity fund	1,305	–	–	1,305
Total	95,454	247	–	95,701

There were no transfers between Levels 1, 2 or 3 during the year ended 31st July 2010.

22. 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 of this report. 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 interest rate risk and other 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 strategy. The Company has no significant exposure to foreign currencies. 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 equity shares of UK companies and a sterling liquidity fund. These are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- a sterling bank loan, the purpose of which is to raise finance for the Company's operations and provide leveraged returns for the Company's shareholders.

(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 two elements – interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. 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) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and investments in liquidity funds and the interest payable on the Company's variable rate cash borrowings when rates are re-set.

Management of interest rate risk

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

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

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the loan facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

Notes to the Accounts continued

22. Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(i) Interest rate risk continued

Interest rate exposure

The exposure of financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below.

	2011 £'000	2010 £'000
Exposure to floating interest rates		
JPMorgan Sterling Liquidity Fund	–	1,305
Cash and short term deposits	1,313	271
Creditors: amounts falling due within one year		
Bank loan	–	(7,000)
Creditors: amounts falling due after more than one year		
Bank loan	(9,000)	–
	(7,687)	(5,424)

The target interest rate earned on the JPMorgan Sterling Liquidity Fund is the 7 day sterling London Interbank Bid rate.

Interest receivable on cash balances is at a margin below LIBOR.

The Company has a £10.0 million loan facility with ING Bank which expires in April 2013. Under the terms of this agreement the Company may draw down up to £10.0 million, or the equivalent in euros, at an interest rate of the interbank offer rate for the relevant currency and period, plus a margin of 1.35% per annum plus the Mandatory Cost, which is the lender's cost of complying with certain regulatory requirements of the Bank of England, FSA, or the European Central Bank. At 31st July 2011, the Company had drawn down £9.0 million on this facility, at an interest rate of 2.49% repayable in October 2011.

At 31st July 2010, the Company had drawn down £7.0 million at an interest rate of 2.34% on a similar facility with ING Bank which expired in April 2011.

The exposure to floating interest rates, has fluctuated during the year as follows:

	2011 £'000	2010 £'000
Maximum debit interest rate exposure to floating rates - net loan balances	(8,571)	(7,277)
Minimum debit interest rate exposure to floating rates - net loan balances	(5,384)	(3,955)

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2010: 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 monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2011		2010	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement - return after taxation				
Revenue return	(32)	32	(19)	19
Capital return	(45)	45	(35)	35
Total return after taxation for the year	(77)	77	(54)	54
Net assets	(77)	77	(54)	54

In the opinion of the Directors, the above sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuation in the level of cash balances, investment in the JPM Sterling Liquidity Fund and drawings on the loan facility.

(ii) 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 investments.

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.

Other price risk exposure

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

	2011 £'000	2010 £'000
Equity investments held at fair value through profit or loss	128,948	94,396

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

Concentration of exposure to other price risk

An analysis of the Company's investments by industry sector is given on pages 13 to 15. All of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However, it should be noted that an investment may not be wholly exposed to the economic conditions in its country of domicile or of listing.

Notes to the Accounts continued

22. Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(ii) Other price risk continued

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2010: 10%) in the fair value of the Company's equities. 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.

	2011		2010	
	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 - return after taxation				
Revenue return	(51)	51	(38)	38
Capital return	12,843	(12,843)	9,402	(9,402)
Total return after taxation for the year	12,792	(12,792)	9,364	(9,364)
Net assets	12,792	(12,792)	9,364	(9,364)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, 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, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a) (i) to this note on page 48.

Liquidity risk exposure

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

	2011			2010	
	Three months or less £'000	One to two years £'000	Total £'000	Three months or less £'000	Total £'000
Creditors: amounts falling due within one year					
Bank loan	–	–	–	7,123	7,123
Securities purchased awaiting settlement	1,180	–	1,180	136	136
Other creditors and accruals	167	–	167	110	110
Creditors: amounts falling due after more than one year					
Bank loan	56	9,322	9,378	–	–
	1,403	9,322	10,725	7,369	7,369

(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 a 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 principle 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

JPMorgan Chase is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan Chase's own trading assets. Therefore, these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading. However, no absolute guarantee can be given to investors on the protection of all assets of the Company.

Credit risk exposure

The amounts shown in the balance sheet under investment in liquidity fund, debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year ends.

The liquidity fund has a AAA (2010: AAA) credit rating.

Cash and short term deposits comprises balances held at banks that have a minimum credit rating of A1/P1 (2010: A1/P1) from Standard & Poor's and Moody's respectively.

(d) Fair values of financial assets and financial liabilities

All financial assets and financial 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.

Notes to the Accounts continued

23. Capital management policies and procedures

The Company's debt and capital structure comprises the following:

	2011 £'000	2010 £'000
Debt		
Bank loan	9,000	7,000
Equity		
Share capital	4,660	4,735
Reserves	115,466	84,725
Total equity	120,126	89,460

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

The Board's policy is to limit gearing within the range 90% to 115%. Gearing for this purpose is defined as investments, excluding liquidity fund holdings, expressed as a percentage of net assets.

	2011 £'000	2010 £'000
Investments excluding liquidity fund holding	128,948	94,396
Net assets	120,126	89,460
Gearing	107%	106%

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 issues from Treasury.

Notice of Meeting

Notice is hereby given that the twenty first Annual General Meeting of JPMorgan Smaller Companies Investment Trust plc will be held at The Library, 60 Victoria Embankment, London EC4Y 0JP at 12.00 noon on Monday, 28th November 2011 for the following purposes.

1. To receive the Directors' Report, the Annual Accounts and the Independent Auditors' Report for the year ended 31st July 2011.
2. To approve the Directors' Remuneration Report for the year ended 31st July 2011.
3. To approve a final dividend of 8.5p per ordinary share.
4. To re-elect Richard Fitzalan Howard a Director of the Company.
5. To re-elect Strone Macpherson a Director of the Company.
6. To re-elect Michael Quicke a Director of the Company
7. To reappoint Deloitte LLP as Auditors to the Company and to authorise the Directors to agree their remuneration.

Special Business

To consider the following resolutions:

Authority to repurchase the Company's shares – Special Resolution

8. THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693 of the Act) of its issued Shares of 25p each in the capital of the Company.

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 2,787,871 or, if less, that number of shares which is equal to 14.99% of the Company's ordinary issued share capital as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for an ordinary share shall be 25p;
- (iii) the maximum price which may be paid for a Share shall be an amount equal to the highest of: (a) 105% of the

average of the middle market quotations for an ordinary 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 Share is purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 27th May 2013 unless the authority is renewed at the Company's Annual General Meeting in 2012 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract notwithstanding such expiry.

Authority to allot new shares – Ordinary Resolution

9. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £232,477, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

Notice of Meeting continued

Authority to disapply pre-emption rights on allotment of new shares – Special Resolution

10. THAT subject to the passing of Resolution 9 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570, of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of Section 560(i) of the Act) pursuant to the authority conferred by Resolution 9 as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £232,477, representing approximately 5% of the total ordinary share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuant of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Continuation Vote – Ordinary Resolution

11. THAT the Company continue in existence as an investment trust for a further three year period.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
21st October 2011

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.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
4. 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.
5. 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 business 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 business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.
6. Entry to the Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006 (as amended by the Shareholder Rights Directive 2009, each such representative(s) may exercise the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative. Representatives should bring to the meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an auditor of the company ceasing to hold office since the previous AGM; which the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting; no answer need be given if it is undesirable in the interests of the Company or the good order of the meeting.
10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. 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.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.jpmoveoverseas.co.uk
13. 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.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hard copy Form of Proxy/Voting Direction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Direction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.
16. As at 20th October 2011 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 18,598,208 ordinary share of 25 pence each, carrying one vote each. Therefore the total voting rights in the Company are 18,598,208.

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 and Definitions

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, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

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 into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV per share when calculating the total return on net assets.

Benchmark Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested into 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 benchmark.

Actual Gearing Factor

Investments excluding the holding in the liquidity fund, expressed as a percentage of net assets. This shows the effect of gearing on the net asset value per share if the market value of the portfolio were to increase by 100%.

Total Expense Ratio

Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

Share Price Discount/Premium to Net Asset Value ('NAV')

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

Performance Attribution

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

Performance Attribution Definitions:

Asset Allocation

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

Stock Selection

Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark.

Gearing/Cash

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

Management Fee/Other Expenses

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

Repurchase of Shares for Cancellation

Measures the effect on relative performance of repurchasing and cancelling the Company's own shares at a price which is less than the net asset value per share.

Information about the Company

Financial Calendar

Financial year end	31st July
Final results announced	October
Half year end	31st January
Half year results announced	March
Interim Management Statements announced	June/December
Dividend on ordinary shares paid	December
Annual General Meeting	November/December

History

The Company was formed in June 1990 as River & Mercantile Smaller Companies Trust plc and raised £25 million by a public offer of shares. Its original policy was to invest in a diversified portfolio of investments in UK and foreign smaller companies. Its name was changed to The Fleming Smaller Companies Investment Trust plc in April 1996, and again in November 2002 to JPMorgan Fleming Smaller Companies Investment Trust plc. The Company adopted its present name in 2006.

Company Numbers

Company registration number: 2515996

London Stock Exchange code: 0741600

Bloomberg code: JMI LN

Reuters code: JMI.L

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Times, the Daily Telegraph, The Scotsman, The Independent and on the JPMorgan website at www.jpmsmallercompanies.co.uk, where the share price is updated every fifteen minutes during trading hours.

Website

www.jpmsmallercompanies.co.uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP. These products are all available on the online wealth manager service, J.P. Morgan WealthManager+ available at www.jpmmorganwealthmanagerplus.co.uk

Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone: 020 7742 6000

For company secretarial and administrative matters please contact Divya Amin.

Registrars

Equiniti Limited
Reference 1139
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone number: 0871 384 2341 (Calls to this number cost 8p per minute from BT landline. Other providers' costs may vary. Lines open 8.30am to 5.30pm Monday to Friday).
Overseas helpline: +44 121 415 7047.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrars quoting reference 1139. Registered shareholders can obtain further details on individual holdings on the internet by visiting www.shareview.co.uk.

Independent Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London EC4A 3BZ

Brokers

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Savings Product Administrators

For queries on the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP, see contact details on the back cover of this report.

aic

The Association of
Investment Companies

A member of the AIC

JPMorgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.jpmsmallercompanies.co.uk