



JPMorgan American Investment Trust plc

ANNUAL REPORT & ACCOUNTS – YEAR ENDED 31ST DECEMBER 2006

Features

OBJECTIVE

Capital growth from North American investments.

INVESTMENT PHILOSOPHY

- To invest in US companies including, when appropriate, exposure to small and micro capitalisation sectors.
 - To emphasise capital growth rather than income.
 - To use gearing when appropriate to increase potential returns to shareholders.
 - To hedge the currency risk only in respect of the geared portion of the portfolio.
 - To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).
-

BENCHMARK

The S&P 500 Index expressed in Sterling terms.

CAPITAL STRUCTURE

- Authorised share capital of 90,904,952 ordinary shares of 25p each, of which 43,279,449 were in issue at the year end.
 - £50 million debenture at a fixed rate of 6.875%, repayable in June 2018.
-

WIND-UP DATE

The Company has no fixed duration.

MANAGEMENT COMPANY

The Company employs JPMorgan Asset Management ('JPMAM') to manage its assets. The US equity management team consists of 70 investment professionals and manages around US\$90 billion for its clients worldwide.

AIC

The Company is a member of the Association of Investment Companies.

CONTENTS

Results	1	Directors' Remuneration Report	31
Chairman's Statement	2	Directors' Responsibilities in Respect	
Investment Managers' Report	5	of the Accounts	33
Summary of Results	10	Notice of Annual General Meeting	34
Ten Year Financial Record	11	Independent Auditors' Report	36
Portfolio Analyses	12	Income Statement	38
Ten Largest Investments	13	Reconciliation of Movements in	
Investment Activity	14	Shareholders' Funds	39
List of Investments	14	Balance Sheet	40
Shareholder Analysis	18	Cash Flow Statement	41
Board of Directors	19	Notes to the Accounts	42
Directors' Report	20	Information about the Company	55
Corporate Governance	26		

Results

+4.6%	Return to shareholders¹ (2005: +17.1%)
+2.2%	Return on net assets² (2005: +17.1%)
+1.2%	Return on benchmark index^{3, 4} (2005: +16.8%)
11.0p	Proposed dividend (2005: 8.0p)

¹Change in share price with net dividends reinvested (Source: Standard & Poor's – www.funds-sp.com).

²Change in net asset value per share (debt at par) with net dividends reinvested.
(Source: Fundamental Data – www.funddata.com).

³Change in value with net dividends reinvested (Source: Standard & Poor's – www.funds-sp.com).

⁴The Company's benchmark is the S&P 500 Index (in sterling total return terms). Comparison of the Company's performance is made with this benchmark. 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 track this index and consequently, there may be some divergence between its performance and that of the Company.

Chairman's Statement



Hamish Buchan CHAIRMAN

Investment Performance

Your Company produced during the year to 31st December 2006 a total return on net assets of 2.2%, outperforming the sterling total return of the S&P 500 Index (our benchmark) of 1.2%. Encouragingly this is the fourth consecutive year of outperformance achieved by our Managers. The Company's total return to shareholders was somewhat better, at 4.6%, reflecting a narrowing of the discount from 7.3% to 6.3%.

In Dollar terms our benchmark rose over the course of the year by 15.5% (total return) and on the same basis the Company's net asset value increased by 16.6%. However for Sterling based investors, the Dollar's weakness meant that returns were reduced by 12.4%. The Dollar began 2006 at a rate of 1.7163 to the pound and ended at 1.9589. As previously reported, in order to protect against currency fluctuations in respect of the Company's existing £50 million debenture, a currency hedge was put in place on 3rd October, 2001 at a \$/£ rate of 1.4576.

The Company therefore produced a net asset value return of 1.0% in excess of our benchmark index. Performance attribution data shows that the larger companies' portfolio outperformed by 3.1%, however the negative impact of gearing and the costs associated with running the Company detracted from this. The investment management team have continued their policy of investing in larger, blue chip growth companies on attractive valuations. Full details of the activities of the investment managers are set out in their report on pages 5 to 9.

Revenue Account and Dividends

Earnings per share for the year, calculated on the average weekly number of shares in issue, were 11.3p, substantially higher than the 7.8p achieved in 2005. The main reasons for this increase were the higher yield on large cap US stocks and the series of interest rate rises witnessed over the course of the year, which increased interest receivable. The Company's dividend policy has been to distribute substantially all of the available income in each year and in this instance, the Board is proposing a dividend of 11.0p per share (2005: 8.0p). Shareholders should note that income streams can vary significantly, and the Company's dividend payout will reflect those variations. After accounting for the payment of the proposed final dividend, a balance of £10.1m is left in revenue reserves. The dividend will be paid on 4th May 2007 to shareholders on the register on 10th April 2007.

Gearing

The Board of Directors sets the overall gearing strategic policy and guidelines and reviews these at each meeting. The investment management team manages the gearing levels actively within these agreed levels. At present, there is an upper net gearing limit of 120% of shareholders' funds and this can only be increased with Board consent. The £50 million debenture provides the potential to gear up to 116%. As at the year end, the Company's net gearing level (offsetting cash and near cash against our debenture) was 104% of shareholders' funds, having ranged between 101% and 109% during the year.

Investment Manager

The Company's objective is to provide shareholders with capital growth from a broad portfolio of North American investments. Your Board has once again thoroughly reviewed the capabilities of the Investment Manager in order to assess whether JPMorgan Asset Management remains the most appropriate manager of the Company's assets. In addition to scheduled Board Meetings, your Directors have undertaken additional strategy and investment meetings with the named investment managers, conducted comparisons with the peer group both in the UK and the US with regard to performance, fee rates and the costs of management and spent time reviewing the investment management operation whilst in New York for a Board Meeting. We have concluded that the ongoing appointment of the existing Investment Manager is in the best interests of shareholders.

Management of the Discount

The Company's discount narrowed 1.0% over the course of the year finishing at 6.3%. During the year the discount traded between 4.5% and 9.0%. On 22nd February 2006, the Company repurchased 200,000 ordinary shares (0.5% of the shares in issue) at a discount of 9.2%. The total cost of this repurchase was £1.3 million and this activity enhanced the net asset value by 0.3p per share. Encouragingly, the level of buybacks has remained extremely low as demand for the Company's shares has picked up. A resolution to renew the authority to allow the Company to repurchase shares will be submitted to the Annual General Meeting.

The Board

Your Board has put in place procedures to ensure that the Company complies fully with the revised Combined Code and the AIC Code on Corporate Governance™. Full details are given in the Corporate Governance section of this report on pages 26 to 30.

In accordance with the Company's Articles of Association, James Fox and James Williams will retire at this year's Annual General Meeting and seek re-election from shareholders. Both contribute significantly on a wide range of topics and the Board recommends their re-election. Details of their background and experience can be found on page 19.

Change of Auditors

During the course of the year, the Board undertook a review of audit companies as part of its ongoing responsibility to provide the best level of service, at a competitive cost, to shareholders. Following this review, Deloitte & Touche LLP were appointed to replace the incumbents PricewaterhouseCoopers LLP with effect from 10th August 2006.

Annual General Meeting

Your Directors and I very much look forward to welcoming shareholders to the Annual General Meeting, which will be held at Trinity House, Tower Hill, London EC3N 4DH on Thursday 3rd May 2007 at 2.00 p.m. Garrett Fish, our lead investment manager, will make a presentation to shareholders, reviewing the year and commenting on the outlook for the current year. It would be helpful if shareholders could submit in writing any detailed or technical questions that they wish to raise at the Annual General Meeting in advance to the Company Secretary at Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ.

Outlook

A modest slowdown in the US economy and the removal of any lingering threats of inflation would be the ideal scenario in 2007. Investor attention will be focussed on these areas and positive news should, in the end, allow investors to look forward to lower interest rates and an upturn in economic fortunes.

Hamish Buchan

Chairman

14th March 2007

Investment Managers' Report



Garrett Fish
INVESTMENT MANAGER



Tim Parton
INVESTMENT MANAGER



Eytan Shapiro
INVESTMENT MANAGER

Market Review

Equity markets provided investors with handsome returns in Dollar terms for 2006 as evidenced by the 15.5% total return obtained from the S&P 500 Index. Returns were fueled by increased investor expectations of a soft US economic landing, robust corporate profits, falling energy prices and moderating inflation. For UK investors however these gains were substantially reduced by the weakness of the US Dollar against Sterling. During the first six months of the year investors were challenged by rising interest rates, a housing slowdown, higher energy and commodity prices, and fears of increasing inflation. The Federal Reserve ('Fed') raised interest rates four times for a total of 100 basis points in the first half of the year, leaving the Fed Funds Rate at 5.25%.

These challenges continued into the second half of 2006 amid rising inflation concerns and escalating conflict in the Middle East. Equity markets then proceeded to rally, as a pause in the Fed's interest rate rises was followed by a series of relatively benign inflation reports. The Federal Open Market Committee left interest rates unchanged at the remainder of its meetings for the year, as the Fed believes inflationary pressures will moderate over time resulting from the cumulative impact of its restrictive policy actions, lower energy prices and reduced inflation expectations.

The following table provides a breakdown, relative to the benchmark, of the contributions to total return.

Performance Attribution for the Year to 31st December 2006

	Year to 31st December 2006 %	Year to 31st December 2005 %
Net asset value total return (in sterling terms)	+2.2	+17.1
Benchmark total return (in sterling terms)	+1.2	+16.8
Relative return (in sterling terms)	+1.0	+0.3
Analysis of relative return		
Large Cap Portfolio	+3.1	-1.3
Allocation effect	-0.2	-0.7
Selection effect	+3.3	-0.6
Small Cap Portfolio¹	-0.1	+0.4
Allocation effect/Selection effect	-0.1	+0.4
Gearing/Cash effect	-2.0	+3.4
Debenture hedge	+0.9	-1.8
Fees/Expenses	-0.7	-0.8
Buybacks/Issuances	0.0	+0.8
Residual item	-0.2	-0.4
Relative return	+1.0	+0.3

Source: Wilshire/JPMAM/Fundamental Data/S&P.

¹Small Cap Portfolio includes investments in the Microcap Fund and unquoted investments.

Definitions

Performance attribution: Analyses how the Company achieved its recorded performance relative to its benchmark.

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

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

Gearing/Cash effect: Measures the impact of returns on borrowings or cash balances, cash substitutes on the Company's relative performance.

Debenture hedge: Measures the effect of the currency hedge on the Company's relative performance.

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

Buybacks/Issuances: Measures the net effect on relative performance of decreasing and increasing the number of shares in issue.

Residual item: Arises when there is a divergence between total return as calculated by the AIC/Fundamental Data, and total return as calculated by the attribution generating system. This is a result of methodology differences with respect to the treatment of income and cashflows, and timing differences.

Sources of investor concern remained centered around the housing market and its potential impact on the broader economy. The increased weakness of the Dollar has also shaken the confidence of investors.

Overall Asset Allocation

The investment management team is responsible for managing the allocation between the two investment portfolios together with the levels of cash and gearing. In recent years your investment team has worked closely with the Board of Directors to develop modeling tools to assist in both the allocation and gearing decisions. In 2006 the gearing level ranged between 101% and 109% of shareholders' funds, with the level at the year end being 104%. At regular intervals, this is adjusted within the gearing guidelines reflecting our outlook on both risk and return for equities and bonds. Whilst we reduced gearing significantly during the early part of the year, we were still geared going into the market fall in May of last year and this lowered overall returns for the year. Gearing was increased through the remainder of the year as the outlook for equities brightened.

The weighting in the smaller companies' portfolio ranged between 7.6% and 11.1% of the Company's total assets less current liabilities and at the end of the year was 8.7%. We believe that this overall investment approach enhances the potential returns to shareholders and our attribution data shows that in 2006 it was the larger companies

portfolio that gave the greatest contribution towards the outperformance of the benchmark index. The large cap outperformance was driven more by very strong stock selection than by sector positioning.

In contrast, despite the rise in the market over the year, gearing proved to be a negative factor. This was due to the Company being relatively highly geared during the second quarter of 2006 when the market fell sharply.

Large Companies' Portfolio

Our investment methodology continues to focus on investing in high quality, reasonably valued companies. This style leads us to invest in companies that exhibit good growth characteristics with growing earnings, strong cash flows and reasonable valuations.

The large companies' portfolio provided positive absolute returns during the year and outperformed the S&P 500 Index by 3.1%. We are encouraged by our results in a year that many active managers found the benchmark very difficult to beat. In 2005, the large companies' portfolio underperformed the market and it is pleasing to note that our methodology has borne fruit in 2006. We remain confident that our portfolio of robust, large companies, offers an attractive investment proposition given the reasonable valuations that we continue to exploit in the large cap arena.

Our large overweight positions in information technology and consumer staples contributed significantly throughout the year backed by outstanding performance by companies such as **Mastercard**, **Lockheed Martin** and **McDonald's**.

	Large Company Portfolio %	S&P 500 %	Overweight/Underweight %
Financials	21.1	22.2	-1.1
Information Technology	17.3	15.1	2.2
Healthcare	14.2	12.0	2.2
Industrials	10.2	10.6	-0.4
Consumer Discretionary	11.5	10.8	0.7
Consumer Staples	9.7	9.2	0.5
Energy	9.5	10.0	-0.5
Telecom Services	3.9	3.5	0.4
Utilities	2.6	3.6	-1.0
Materials	-	3.0	-3.0

Source: Wilshire

Mastercard's revenue and earnings surpassed Wall Street expectations, causing the stock to rally as credit and debit cards continue to gain market share from paper money in transactions around the globe. The company is seeing significant increases in cards issued, the number of transactions and card purchases, resulting in expanding profit margins. **McDonald's** was another top contributor to the portfolio for the year as the company delivered solid earnings growth driven by strong same-store sales across the US and noticeable growth in Europe. **McDonald's** announced that they are raising their annual dividend and plan to return at least US\$10 billion

to shareholders over the next couple of years through share repurchase and dividend increases. We believe that the company's stock still has more room to grow as overall trends in the quick-service restaurant category continue to support robust earnings growth.

Countering these successes, the overweight positions in telecom services detracted from returns, prompted by lacklustre performance from stocks such as **Sprint Nextel** and **Motorola**. Our difficulty in telecom services was mainly attributable to an overweight position in **Sprint Nextel**, as the stock has suffered from repeated earnings misses and disappointing consumer demand for its wireless products. **Sprint Nextel** has valuable assets that could lead to healthy cash flow with modest growth potential over the coming years and we believe it still has significant upside potential.

Our overweight position in **Motorola** also underperformed during the year after the company disappointed investors with poor results. Third quarter profits declined by 45% from the previous year following the disappointing launch of its new product KRZR and lower than expected demand for phones designed specifically for Nextel customers. **Motorola** plans to acquire technology to improve its current smart phone positioning and competitiveness and we have maintained our overweight positioning supported by its stock buy-back plans and its sustained control over 20% of the global handset market.

Investment Managers' Report continued

The table below shows the largest positive and negative stock contributors to portfolio performance in 2006:

Positive Contributors			
Stock	Action	Price performance %	Weighted contribution %
Mastercard Inc.	B/D	152.9	1.80
Exxon Mobil Corp.	D/I	39.1	1.61
McDonald's Corp.	I/D	34.6	0.96
Lockheed Martin	I	47.0	0.91
Hewlett Packard Co.	I	45.2	0.71
Negative Contributors			
Stock	Action	Price performance %	Weighted contribution %
Intel Corp. ¹	S	-20.2	-0.32
Sprint Nextel Corp.	I/D	-10.4	-0.26
Affiliated Computer	D	-17.5	-0.20
Motorola Inc.	I	-8.2	-0.18
Ebay Inc. ¹	S	-40.0	-0.17

B – Bought during period; D – Decreased;
I – Increased; S – Sold during the period.
¹Not held in the Portfolio at year end.
Source: Wilshire

Outlook

The US economy appears to be on a transition path to a period of sub-trend growth. Now, investors will be focussed on the extent to which economic activity will cool. The growth in consumer spending, which has underpinned the US economy over recent years, is threatened by falling house prices and the resulting damage to consumer confidence.

While some economic indicators, particularly in the goods-producing sectors point to signs of weakness, the broad economy and, crucially the job market, have held up rather well. The employment picture would need to weaken if a move towards monetary stimulus is to be forthcoming. In the meantime, interest rates will most likely stay on hold with an outside risk of further increases.

A moderate US slowdown should ultimately be bullish for equities in 2007 but we are, nonetheless, prepared for some periods of economic uncertainty and corresponding bouts of market weakness.

Garrett Fish

Investment Manager

14th March 2007

Small Companies' Portfolio

Overall the smaller companies' portfolio made a neutral contribution to performance in 2006. As a reminder, the three underlying segments are: a portfolio of small capitalisation growth companies; an investment in the JPMorgan America Microcap Fund, which focuses on the smallest companies in the market; and a small legacy portfolio of unquoted investments and funds that has now been almost completely liquidated.

Small Cap Growth Portfolio: The allocation of assets to the small cap growth portfolio can range between zero and 11% of the Company's gross assets, depending upon relative value of the asset class compared with the S&P500 Index. The return on this portfolio was 16.7% for the year, versus 15.5% for the S&P500 Index and 13.4% for the small cap growth benchmark index. The portfolio benefited in particular from strong stock selection in the consumer discretionary, healthcare and financial services sectors. At the end of December the small cap growth weighting was 5.8%, just below our neutral weighting of 6.0%.

Microcap: The America Microcap Fund underperformed for the first time in several years in 2006, with a return of 9.2%. The microcap weighting can range between zero and 4% of gross assets, and in mid-April, with the fund up about 12%, the weighting was reduced from 3.4% to the neutral position of 2.0%. The year end weighting was 1.6%.

Unquoted Investments: At the end of the year the total investment in unquoted companies was £4.6m or 1.3% of the Company's total assets less current liabilities. This comprises just four remaining investments, one of which we expect to be sold shortly.

Outlook

Looking forward, from a relative valuation perspective the small cap growth asset class remains approximately in line with its long term average against the S&P 500. However unlike last year, it appears to enter 2007 with less of an earnings momentum advantage. We will continue to follow the guidance of our asset allocation model that has functioned successfully for several years, mindful of the fact that in addition to the aspect of return, the small cap growth portfolio adds a valuable element of diversification to the style of the large cap portfolio.

Tim Parton

Eytan Shapiro

Investment Managers

14th March 2007

Summary of Results

	2006	2005	
TOTAL RETURNS for the year ended 31st December			
Return to shareholders ¹	4.6%	+17.1%	
Return on net assets ²	2.2%	+17.1%	
Benchmark return ^{3, 4}	1.2%	+16.8%	
			% change
Total assets less current liabilities (£'000)	361,653	358,662	+0.8
Net assets for ordinary shareholders (£'000)	311,987	309,025	+1.0
Net asset value per ordinary share with debt at par value	720.9p	710.7p	+1.4
Net asset value per ordinary share with debt at fair value ⁵	708.8p	690.7p	+2.6
MARKET DATA for year to 31st December			
Market cap. (£'000)	283,048	275,225	+2.8
Ordinary share price	654.0p	633.0p	+3.3
S&P 500 Index in £ (capital only) ⁶	724.68	727.13	-0.3
Exchange rate	£1=\$1.9589	£1=\$1.7163	-12.4
Discount of share price to net asset value with debt at fair value (after deducting the proposed final dividend)	6.3%	7.3%	
REVENUE for the year ended 31st December			
Gross revenue (£'000)	7,300	5,759	+26.8
Net revenue available for ordinary shareholders (£'000)	4,884	3,472	+40.7
Revenue earnings per ordinary share	11.28p	7.78p	+45.0
Proposed dividend declared per ordinary share	11.00p	8.00p	+37.5
TOTAL EXPENSE RATIO ⁷	0.60%	0.62%	
MANAGEMENT FEE ⁸	0.50%	0.50%	
ACTUAL GEARING FACTOR at 31st December ⁹	104.3	108.8	

¹Change in share price with net dividends reinvested. (Source: Standard & Poor's – www.funds-sp.com).

²Change in net asset value per share (debt at par) with net dividends reinvested. (Source: Fundamental Data Ltd – www.funddata.com).

³Change in value with net dividends reinvested. (Source: Standard & Poor's – www.funds-sp.com).

⁴The Company's benchmark is the S&P 500 Index (in sterling total return terms). This 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 'track' this benchmark and, consequently, there may be some divergence between its performance and that of the Company.

⁵The fair value of the £50m debenture issued by the Company has been calculated with reference to a similar dated gilt plus a margin.

⁶Source: Datastream – capital only.

⁷Management fees and all other operating expenses (including tax relief, where allowable, but excluding interest payable) expressed as a percentage of average monthly shareholders' funds over the year.

⁸If applicable, a performance fee may be payable by the Company. Full details of the management and performance fees are given on page 23.

⁹Actual gearing factor means investments (excluding holdings in liquidity funds) expressed as a percentage of shareholders' funds.

Ten Year Financial Record

As at 31st December	1996	1997	1998	1999 ¹	2000	2001	2002	2003	2004 ²	2005	2006
Total assets less current liabilities (£m)	344.5	451.3	534.1	601.4	604.7	556.8	344.6	362.7	339.3	358.7	361.7
Net assets for ordinary shareholders (£m)	344.5	451.3	534.1	601.4	528.5	479.8	295.1	313.1	289.7	309.0	312.0
Net asset value per ordinary share (p) ³	438.7	605.8	692.0	830.6	880.0	786.9	502.3	586.3	615.1	710.7	720.9
Share price (p)	386.5	545.0	610.5	734.0	876.0	808.0	465.0	540.0	548.0	633.0	654.0
Exchange rate (£1=US\$)	1.7113	1.6454	1.6638	1.6117	1.4938	1.4554	1.6099	1.7901	1.9199	1.7163	1.9589
(Discount)/premium (%) ³	(11.9)	(10.0)	(11.8)	(11.6)	(0.4)	2.7	(7.4)	(7.9)	(8.1) ³	(7.3) ³	(6.3)³
Actual gearing (%) ⁴	106.3	102.5	103.4	103.7	107.0	106.9	118.6	110.8	112.5	108.8	104.3
Total expense ratio (%) ⁴	0.74	0.64	0.56	0.49	0.59	0.63	0.65	0.62	0.61	0.62	0.60
Year to 31st December											
Gross revenue return £'000	9,008	7,797	8,949	7,217	7,242	7,215	6,481	6,168	6,568	5,759	7,300
Revenue return per ordinary share (p)	4.18	4.13	4.46	6.01	5.48	5.30	4.75	6.41	8.20	7.78	11.28
Dividends per ordinary share (p)	2.80	2.68 ⁵	2.90	2.30	5.70	5.20	4.80	6.80	7.50	8.00	11.00
Total return rebased to 100 at 31st December 1996											
Net asset value per ordinary share	100.0	138.1	157.7	189.3	200.6	179.4	114.5	133.6	140.2	162.0	164.3
Net asset value per ordinary share – total return ⁶	100.0	138.9	159.3	192.0	203.9	183.8	118.1	139.2	145.9	170.9	174.6
Share price	100.0	146.0	158.0	189.9	226.7	209.1	120.3	139.7	141.8	163.8	169.2
Share price – total return ⁷	100.0	141.9	159.7	192.8	230.8	214.5	124.3	145.8	149.9	175.6	183.6
S&P 500 Index (in sterling terms) – capital only ⁸	100.0	136.3	170.7	210.6	204.2	182.2	126.3	143.5	145.8	168.0	167.5
S&P 500 Index (in sterling terms) – total return ⁷	100.0	138.2	175.2	218.4	213.7	192.8	135.3	156.0	160.7	187.7	189.9

¹Figures have been restated, where necessary, to reflect the change in allocation of management fees and finance costs between the revenue account and capital account.

²The results for the year ended 31st December 2004 have been restated, where necessary, in accordance with Financial Reporting Standards 21, 25 and 26. Years prior to 2004 have not been restated.

³Assuming full conversion of convertible loan stock where applicable. The convertible loan stock expired in 1999. For 2004 onwards the discount has been calculated using the NAV with debt at fair value adjusted for the proposed final dividend.

⁴Definitions are shown on page 10.

⁵Dividends paid as a foreign income dividend of 2.42p and a franked dividend of 0.26p.

⁶Source: Fundamental Data – www.funddata.com.

⁷Source: Standard & Poors – www.funds-sp.com.

⁸Source: Datastream.

Portfolio Analyses

at 31st December

Sector Analysis¹

at 31st December 2006

Sector	Portfolio % ¹	Benchmark %	Large companies' portfolio % ⁴
Technology	16.8	16.3	22.0
Financial	15.6	25.2	20.4
Healthcare	11.5	12.0	15.0
Energy	7.7	9.9	10.1
Consumer non-cyclicals	7.4	7.8	9.6
Commercial services	5.1	1.7	6.7
Telecommunications	3.2	3.5	4.2
Consumer services	2.5	5.6	3.3
Consumer cyclicals	2.4	6.4	3.1
Utilities	2.1	3.4	2.7
Industrials	1.8	3.0	2.4
Transport	0.4	1.7	0.5
Basic materials	–	3.5	–
Other/miscellaneous ²	13.5	–	–
Net current assets ³	10.0	–	–
	100.0	100.0	100.0

¹Based on total assets less current liabilities of £361.7m.

²This comprises small companies assets of 7.4%, unquoted investments of 1.3% and 4.8% from non-index equities.

³Includes investments in liquidity funds.

⁴Analysis of large companies' portfolio of £294.1m.

Asset Analysis

at 31st December 2006

Asset Breakdown	2006 %	2005 %
Large companies	81.3	83.6
Small companies	7.4	8.9
Unquoted investments	1.3	1.3
Net current assets	10.0	6.2

Based on total assets less current liabilities of £361.7m (2005: £358.7m).

Ten Largest Investments¹

at 31st December 2006

Company	Sub Sector	At 31st December 2006		At 31st December 2005	
		Valuation £'000	% ²	Valuation £'000	% ³
Exxon Mobil Exxon Mobil operates petroleum and petrochemicals businesses on a worldwide basis. The company's operations include exploration and production of oil and gas, electric power generation and both coal and minerals operations. With substantial scale efficiencies and broadly-diversified reserves and production capabilities, Exxon Mobil is leading the industry.	Oil and gas	14,747	4.1	10,946	3.0
Altria Altria Group Inc's wholly owned subsidiaries, Philip Morris USA Inc. and Philip Morris International Inc. are engaged in the manufacture and sale of cigarettes and tobacco products. The company's majority owned subsidiary Kraft Foods Inc. is engaged in the manufacture and sale of branded foods and beverages.	Tobacco	11,953	3.3	8,886	2.5
Citigroup Citigroup is the largest diversified financial services holding company in the world. It provides a broad range of financial services to consumer and corporate customers around the globe. The company's services include investment banking, retail brokerage, corporate banking, insurance and cash management products and services.	Insurance/ financials	9,706	2.7	9,590	2.7
Pfizer Pfizer Inc. discovers, develops, manufactures and markets medicines. Pfizer now ranks as the world's largest prescription pharmaceuticals company.	Pharmaceuticals	9,328	2.6	8,543	2.4
McDonald's McDonald's Corporation operates and franchises fast-food restaurants worldwide. The company operates hamburger, chicken, Mexican and pizza restaurants globally.	Retail/ restaurants	8,874	2.4	4,997	1.4
Wyeth Wyeth is a research-driven pharmaceutical and healthcare products company. The company discovers, develops, manufactures and markets pharmaceuticals, vaccines, biotechnology products and non-prescription medicines. Wyeth's major divisions include Wyeth Pharmaceuticals, Wyeth Consumer Healthcare and Fort Dodge Animal Health.	Medical/drugs	7,519	2.1	4,556	1.3
Lockheed Martin Lockheed Martin is a diversified enterprise that primarily researches, designs, develops, manufactures and integrates advanced technology products and services. The company's businesses span space, telecommunications, electronics, information and services, aeronautics, energy and systems integration. Lockheed Martin operates worldwide.	Aerospace/ defence	7,122	2.0	5,505	1.5
Boeing The Boeing Company is one of the world's major aerospace firms. The company operates in six principle segments: Commercial airplanes, aircraft and weapon systems, network systems, support systems, launch and orbital systems and Boeing Capital Corporation.	Aerospace/ defence	7,095	1.9	6,882	1.9
IBM Provides customer solutions through the use of advanced information technology.	Information technology hardware	6,622	1.8	7,156	2.0
United Technologies United Technologies provides high-technology products and support services to customers in the aerospace and building industries worldwide. The company's products include aircraft engines, elevators and escalators, heating and air conditioning equipment, helicopters, aerospace systems, fuel cell systems and fire and safety equipment.	Aerospace/ defence	6,536	1.8	6,541	1.8
Total⁴		89,502	24.7		

¹ Does not include the Company's investments in liquidity funds as these are held as an alternative to cash.

² Based on total assets less current liabilities of £361.7m.

³ Based on total assets less current liabilities of £358.7m.

⁴ The value of the ten largest investments represents 24.7% (2005: 24.2%) of total assets less current liabilities.

The amounts shown in the valuation column may reflect purchases and sales undertaken during the year.

Investment Activity

for the year ended 31st December 2006

	Value at		Purchases	Sales	Change in valuation	Value at	
	31st December 2005	%				31st December 2006	%
	£'000		£'000	£'000	£'000	£'000	
Large Companies	299,760	89.1	82,027	93,678	5,976	294,085	84.5
Small Companies ¹	36,591	10.9	24,049	30,065	867	31,442	9.0
Liquidity Fund	–	–	43,859	20,192	(1,215)	22,452	6.5
Total portfolio	336,351	100.0	149,935	143,935	5,628	347,979	100.0

¹This includes investments in micro-capitalisation and unquoted stocks.

List of Investments

at 31st December 2006

Company	Market value	Company	Market value
	£'000		£'000
Large Companies			
<i>These are generally defined as companies which have a market capitalisation above US\$3 billion.</i>			
Exxon Mobil	14,747	Pepsico	4,599
Altria	11,953	Washington Mutual	4,371
Citigroup	9,706	Prudential Financial	4,354
Pfizer	9,328	Johnson & Johnson	4,210
McDonald's	8,874	Comcast	3,951
Wyeth	7,519	Morgan Stanley	3,937
Lockheed Martin	7,122	Cisco Systems	3,818
Boeing	7,095	Home Depot	3,771
IBM	6,622	ConocoPhillips	3,687
United Technologies	6,536	Abbott Laboratories	3,673
General Dynamics	6,127	Wellpoint	3,557
Microsoft	6,067	PNC Financial Services	3,440
Hewlett Packard	5,904	Chevron	3,256
Assurant	5,881	Google	2,821
Motorola	5,822	Duke Energy	2,742
MasterCard	5,762	Gannett	2,724
Bank Of America	5,474	Metlife	2,723
US Bancorp	5,443	Verizon Communications	2,722
General Electric	5,376	Wachovia	2,513
Genworth Financial	5,348	Colgate-Palmolive	2,482
Oracle	5,055	CBS	2,360
Corning	4,892	Bellsouth	2,356
Sprint Nextel	4,606	Edison International	2,342
		Viacom	2,315
		Marathon Oil	2,307
		Wells Fargo	2,305

Company	Market value £'000	Company	Market value £'000
Omnicom	2,246		
Qualcomm	2,205		
Amerisource Bergen	2,196		
Baxter	2,101		
Chubb	2,097		
United Health Group	2,080		
Occidental Petroleum	2,068		
Affiliated Computer	1,996		
Medco Health Solutions	1,989		
Amgen	1,942		
CVS	1,940		
Valero Energy	1,807		
Procter & Gamble	1,787		
Cardinal Health	1,734		
Norfolk Southern	1,626		
Principal Financial	1,582		
Johnson Controls	1,540		
Firstenergy	1,538		
SunTrust Banks	1,519		
Kroger	1,494		
Coca-Cola	1,463		
Kimberly Clark	1,446		
Safeway	1,444		
Federated Department Stores	1,418		
E-Trade Financial	1,395		
Zimmer	1,383		
Centurytel	1,108		
TXU	1,058		
Embarq	661		
Chipotle Mexican Grill	522		
Idearc	105		
	294,085		
		Small Companies	
		<i>These are generally defined as companies which, at the date of investment, have a market capitalisation of less than US\$3 billion.</i>	
		JPM America Micro-Cap Fund	5,740
		Heico	473
		DJO	413
		Verifone	407
		Marlin Business Services	350
		Gamestop	325
		General Cable	323
		INVESTools	321
		Gentiva Health Services	299
		Century Aluminium	296
		American Commercial Lines	294
		Microsemi	285
		Priceline.com	259
		Globalstar	258
		Bankrate	258
		Healthways	253
		Brigham Exploration	252
		Hornbeck Offshore Services	249
		WSFS Financial	243
		Pool	242
		Adams Respiratory Therapeutics	241
		Security Capital Assurance	238
		World Fuel Services	235
		Superior Energy Services	235
		Eagle Materials	235
		Orient Express Hotels	233
		Varian Semiconductor Equipment	231
		Nuance Communications	231
		WMS Industries	230
		Universal Compression	230
		Resource Capital	228
		Champion Enterprises	225
		Aeroflex	225
		Viasat	222
		Chemed	220
		DealerTrack	217
		Blackboard	217
		Acuity Brands	217

List of Investments continued

Company	Market value £'000	Company	Market value £'000
Rackable Systems	216	Thoratec	150
Per-Se Technologies	216	Childrens Place Retail Store	140
Myriad Genetics	215	Coldwater Creek	137
Bebe Stores	215	Psychiatric Solutions	134
Komag	209	Intertape Polymer	128
Proassurance	205	Investment Technology Group	125
Gaylord Entertainment	205	Arthrocare	125
Formfactor	204	Quicksilver Technology	118
Mentor	202	Applied Micro Circuits	118
Jamba	200	Allegheny Technologies	116
Gulf Island Fabrication	198	Pioneer Drilling	114
Covance	197	Marchex	114
Cbeyond Communications	194	Keryx Biopharmaceuticals	113
Trident Microsystems	191	Finisar	112
Diodes	191	Talx	110
Affiliated Managers Group	191	Alliance Data Systems	107
Kyphon	190	Redback Networks	105
Iconix Brand	187	Witness Systems	104
Gatx	186	Integrated Device Technology	104
Lions Gate Entertainment	184	International Securities Exchange	103
Interface	183	Bois d'Arc Energy	101
UTI Worldwide	178	United Therapeutic	99
Illumina	172	Technology Investment Capital	99
Gartner	171	Cypress Bioscience	97
Gaiam	171	Symbion	95
Heelys	170	Exelixis	95
Northstar Neuroscience	169	Theravance	94
Nektar Therapeutics	169	Neurometrix	94
Under Armour	168	Nastech Pharmaceutical	94
Aeropostale	166	Sunrise Senior Living	88
NeuStar	163	Christopher & Banks	88
Isilon Systems	163	Hologic	87
Hibbett Sporting Goods	163	Medivation	73
ViroPharma	161	Geomet	60
Chipotle Mexican Grill	160	KBW	57
Morningstar	159	Symmetricom	47
Wright Express	158	Avanir	18
IPG Photonics	158		
J Crew Group	156		
Epicor Software	152		
Hyperion Solutions	151		
			26,870

Company	Market value £'000
---------	-----------------------

Unquoted Companies

Fleming US Discovery III	1,754
Kane Holding ¹	1,853
Tritex ¹	798
Portola Packaging	167
	4,572

Liquidity Fund

JPMorgan US Dollar Liquidity	22,452
------------------------------	---------------

Total investments	347,979
Net current assets	13,674
Total assets	361,653

Note: Total investments include 1.3% in unlisted investments, of which 0.4% are convertible and other non-equity securities.

¹Includes or comprises convertible or other non-equity securities.

Shareholder Analysis

at 31st December 2006

	Number of shares	% holding
Unit trusts	5,964,777	13.8
Pension funds	3,150,368	7.3
Other institutions	2,099,380	4.9
Charities	1,633,136	3.8
Investment trusts ¹	910,277	2.1
Insurance companies	572,255	1.2
UK Government	41,686	0.1
Total institutions	14,371,879	33.2
Private Client Brokers	19,026,000	44.0
Retail investors ²	7,608,891	17.6
Named individuals in Investment Trusts Share Plan ³	1,515,702	3.5
Named individuals in Investment Trusts Pension Accounts ³	348,573	0.8
Named individuals in Individual Savings Account ³	322,557	0.7
Named individuals in Investment Trusts Personal Equity Plan ³	85,847	0.2
Total individuals	28,907,570	66.8
Total shares in issue	43,279,449	100.0

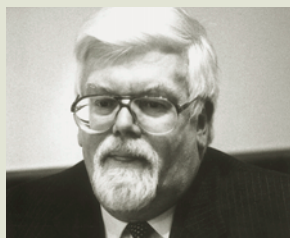
Nominee accounts have been allocated to their appropriate category.

¹*Includes 902,326 shares held by JPMorgan Elect plc.*

²*Includes shares below 10,000 threshold.*

³*Savings products managed by JPMorgan.*

Board of Directors



Hamish N Buchan (Chairman of the Board and the Nomination Committee)* ‡

Born 1944

A Director since November 2000 and appointed Chairman in April 2003

He is currently a Director of Aberforth Smaller Companies Trust plc, Personal Assets Trust plc, Standard Life European Private Equity Trust plc, The Scottish Investment Trust plc and Scottish Community Foundation. He has been involved in the investment trust sector for over 35 years, mainly as an investment trust analyst and is currently the Chairman of the Association of Investment Companies.



Sarah Bates* ‡

Born 1959

A Director since July 2005.

She is a Director of St. James's Place plc, Invesco English and International Trust plc, MTI Partners Ltd., New India Investment Trust plc and Witan Pacific Investment Trust plc and is a Director of the Association of Investment Companies. She is also Chairman of the Stena Line (UK) Pension Scheme, sits on the investment committees of Newnham College and the Cancer Research UK Pension fund and is advisor to Merseyside and East Riding Pension funds and the Royal College of Surgeons' Charitable Funds. She publishes a guide to investment jargon and was formerly CEO of Invesco's UK Institutional (including investment trusts) business.



Kate Bolsover* ‡

Born 1958

A Director since July 2005

Retired as Director of Corporate Communications at Cazenove & Co in June 2005. She was previously Managing Director of Signature Financial Group. She is Deputy Chairman of Tomorrow's People Trust Limited.



James G Fox (Chairman of the Audit Committee)* ‡

Born 1943

A Director since July 2003

He is a Director of iimia Investment Trust plc. He has over thirty five years experience of investment management and is a former Deputy Chairman of the Association of Investment Companies.



George P Greener CBE* ‡

Born 1945

A Director since December 1999

He is Chairman of The London National Health Service and of Kellen Investments Limited. He was formerly Senior Independent Director of Reckitt Benckiser plc and Chairman of The British Waterways Board, The Big Food Group plc, Swallow Hotels plc, Allied Dunbar Assurance plc, Eagle Star Holdings plc, Threadneedle Asset Management plc and a Director of BAT Industries plc and Hillsdown Holdings plc.



James P Williams* ‡

Born 1950

A Director since July 2003

He has been professionally involved in the investment management industry for over 35 years. He retired from Baring Asset Management in 2002, where he was Chief Investment Officer, and head of global investment strategy. He is a non-executive Director of Close Brothers Group plc, a Director of Pan-Asia Special Opportunities Fund and a Director of Prosperity Russia Domestic Fund.

* Member of the Audit Committee.

‡ Member of the Nomination Committee.

Directors' Report

The Directors present their report for the year ended 31st December 2006.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st December 2005. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 31st December 2005 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 266 of the Companies Act 1985. 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 4 and the Investment Managers' Report on pages 5 to 9.

Investment Objective and Policies

The Company's objective is to achieve capital growth from North American investments. The concentration is on capital growth with income a lesser consideration.

Performance

In the year to 31st December 2006, the Company produced a total return to shareholders of +4.6% and a total return on net assets of +2.2%. This compares with the return on the Company's benchmark index of +1.2%. As at 31st December 2006, the value of the Company's investment portfolio was £348.0m. The Investment Managers' Report on pages 5 to 9 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 totalled £14.4m (2005: £49.4m) and net total return after deducting interest, administrative expenses and taxation, amounted to £7.7m (2005: £42.9m). Distributable income for the year totalled £4.9m (2005: £3.5m).

The Directors recommend a final dividend of 11.0p per share (2005: 8.0p), payable on 4th May 2007 to shareholders on the register at the close of business on 10th April 2007. This distribution totals £4.8m (2005: £3.5m) and once paid, will result in a transfer of £123,000 to the revenue reserve in respect of the year ended 31st December 2006. A transfer of £1.5m has been made from the revenue reserve to the capital reserve in respect of accumulated tax relief on expenses charged to capital. Therefore the revenue reserve after allowing for the final dividend will amount to £10.1m (2005: £11.5m).

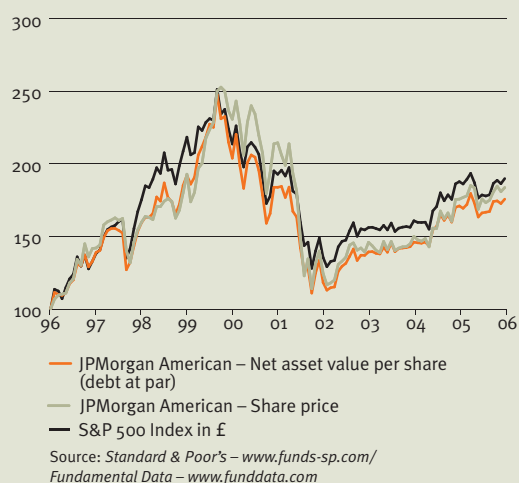
Key Performance Indicators ('KPIs')

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.

Ten Year Performance

Total returns rebased to 100 at 31st December 1996



Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st December 1996

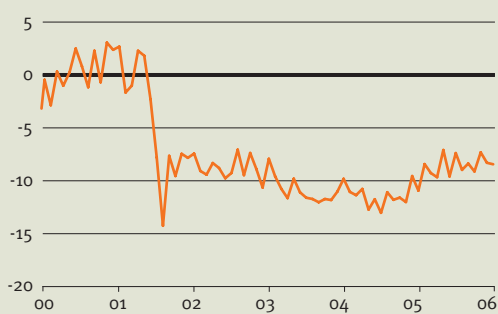


- JPMorgan American – Net asset value per share (debt at par)
- JPMorgan American – Share price
- The benchmark index is represented by the black horizontal line

Source: Standard & Poor's – www.funds-sp.com/Fundamental Data – www.funddata.com (Total Return)

- **Performance Against the Company's Peers**
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors performance relative to a broad range of competitor funds both in the UK and the US.
- **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 December 2006 are given in the Investment Managers' Report on page 5.
- **Discount to Net Asset Value ('NAV')**
The Board has adopted a share repurchase policy that seeks to address imbalances in supply and demand of the Company's shares in the market and thereby minimise the volatility and absolute level of the discount to NAV at which the Company's shares trade. The Board's intention is to use its share repurchase powers with the aim of establishing a reasonably stable long term level of discount (with debt at fair value).

Discount Performance



- JPMorgan American – Net asset (bid) value per share (debt at par)

Source: Datastream/Fundamental Data

- **Total Expense Ratio**
The total expense ratio ('TER') is an expression of the Company's management fees and all other operating expenses (including tax relief, where allowable, but excluding interest payments) as a percentage of average monthly net assets over the year. The TER for the year ended 31st December 2006 was 0.60% (2005: 0.62%). The Board reviews each year an analysis which shows a comparison of the Company's TER and its main component expenses with those of its peers.

Share Capital

On 22nd February 2006 the Company repurchased 200,000 ordinary shares for cancellation. This amount represented 0.46% of the issued share capital as at 1st January 2006. The shares were repurchased to help address the balance between supply and demand of the Company's shares and as they were purchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares.

The Company has bought back a further 9,500 ordinary shares for cancellation since the year end.

A resolution to renew the authority to buy in ordinary shares is due to be put to shareholders at the forthcoming Annual General Meeting. The full text of the resolution is set out in the Notice of Meeting on page 34.

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 underperformance 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 regularly by the Managers. JPMorgan Asset Management ('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 the majority of Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under "Business of the Company" above. Were the Company to breach Section 842, it might lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 842 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act 1985 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act 1985 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 842. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with The Companies Act 1985 and The UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with corporate governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 26 to 30.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on pages 26 to 30.
- **Financial:** The financial risks faced by the Company are disclosed in note 21 on pages 52 to 54.

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 Managers discuss the outlook in their report on pages 5 to 9.

Management

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract terminable on six 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 Manager, noting consistent outperformance of the benchmark over the long term and the support that the Company receives from JPMAM.

Management and Performance Fees

JPMAM is employed under a contract which is subject to six month's notice of termination. The basic management fee is calculated monthly and paid quarterly in arrears and is charged at a rate of 0.5% per annum of the Company's assets less current liabilities. If the Company invests in funds managed or advised by JPMAM, or any of its associated companies, they are excluded from the calculation and therefore attract no fee. In addition, a performance fee may be payable.

The performance fee is calculated at the rate of 10% of the difference between the net asset value capital return and the capital return of the S&P 500 Index, expressed in sterling terms. The performance fee due in respect of any single year is divided into equal parts payable over three years.

Any negative fee resulting from underperformance is deducted from any unpaid fees carried forward from prior years with any remaining amount of the negative fee carried forward to be absorbed in future years.

The amount paid in any one year for the basic management fee plus the above performance fee will not exceed 0.75% of assets, with any unpaid excess being carried forward until paid in full.

In the year ended 31st December 2006 the Company's net asset value capital return outperformed the capital return of the S&P 500 Index, expressed in sterling terms, by 1.79 percentage points on the above basis. This results in a positive performance fee calculation of £558,000, which when subtracted from the negative balance of £2,057,000 which had been brought forward from previous years' underperformance, results in a negative fee of £1,499,000 to be carried forward, to be offset by any outperformance in future years.

Going Concern

After making relevant enquiries, the Directors consider 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 continue to adopt the going concern basis in preparing the accounts.

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore it has no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Board's policy to abide by these terms. As at 31st December 2006, the Company had no outstanding trade creditors (2005: nil).

Directors' Report continued

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 shares, are shown below:

	14th March 2007	31st December 2006	1st January 2006 or as at date of appointment
Hamish Buchan	10,000	10,000	10,000
Sarah Bates	5,000	5,000	5,000
Kate Bolsover	1,088	1,088	1,088
James Fox	35,800	35,800	35,800
George Greener	1,801	1,801	1,792
James Williams	6,000	6,000	6,000

Other than as disclosed above, no changes in the above holdings have been recorded to the date of this report.

In accordance with the Articles of Association the Directors retiring by rotation at the Annual General Meeting will be James Fox and James Williams, who, being eligible, offers themselves for re-election by shareholders.

During the year an insurance policy has been maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties.

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:

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

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

Notifiable Share Interests

At the date of this report, the Company was aware of the following notifiable interests in its issued ordinary share capital:

Shareholders	Number of shares held	%
Rensburg Sheppards	5,311,122	12.27
British Empire Securities and General Trust plc	3,011,947	6.96

Independent Auditors

PricewaterhouseCoopers LLP resigned as the Company's auditors on 10th August 2006 and Deloitte & Touche LLP were appointed to fill the ensuing casual vacancy. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution, having received special notice, proposing their appointment will be put to shareholders at the forthcoming Annual General Meeting.

Annual General Meeting

A resolution relating to the following item of special business will be proposed at the forthcoming Annual General Meeting:

Authority to repurchase the Company's ordinary shares (Resolution 7)

At the Annual General Meeting held on 3rd May 2006, shareholders gave authority to the Company to purchase up to 14.99% of its then issued ordinary share capital. At that time shareholders

were informed that this authority would expire on 2nd November 2007 and could be renewed by shareholders at any time at a General Meeting of the Company. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole, as the repurchase of ordinary shares at a discount to the underlying net asset value ('NAV') enhances the NAV of the remaining ordinary shares. The Directors therefore recommend that shareholders vote in favour of the resolution. The full text of the resolution renewing the ordinary share repurchase authority is set out as Resolution number 7 in the Notice of Meeting on page 34.

By order of the Board

Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary 14th March 2007

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 33, indicates how the Company has applied the principles of good governance of the updated Combined Code published in June 2006 (the 'Combined Code') and the AIC's Code of Corporate Governance™, published in 2003 (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the Combined Code, other than in respect of the provision relating to the appointment of a senior independent director, and the AIC Code throughout the year under review.

Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administrative, and marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved for Board 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, review of key investment and financial data and the Company's corporate governance, risk control arrangements and the appointment and removal of third party service providers.

The Board meets at least quarterly during the year and additional meetings are arranged as

necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

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

Board Composition

The Board consists of six 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 page 19.

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 is comprised entirely of non-executive directors, this is unnecessary. However, the Chairman of the Audit Committee, James Fox, 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 maximum term of three years. Subject to the performance

evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election, but when making a recommendation, the Board will take into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. 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 James Fox and James Williams who retire by rotation at this year's AGM, continue to be very effective as Directors and demonstrate commitment to their roles, and thus the Board recommends their re-election.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of the membership of committees are shown with the Directors' profiles on page 19. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board, Audit and Nomination Committee meetings attended by each Director. During the year there were six Board meetings, two Audit Committee meetings and one Nomination Committee meeting.

Director	Board meetings attended	Audit Committee meetings attended	Nomination Committee meetings attended
Hamish Buchan	6	2	1
Sarah Bates	6	2	1
Kate Bolsover	6	2	1
James Fox	6	2	1
George Greener	6	2	1
James Williams	6	2	1

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 that of its committees and individual Directors as follows: 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 George Greener leads the evaluation of the Chairman's performance. The Board as a whole evaluates the Manager, its own performance and that of its committees.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Hamish Buchan and comprising all of the Directors, meets at least annually to ensure that the Board has an appropriate balance of skills to carry out its fiduciary duties and to select and propose suitable candidates, when necessary, for appointment. A variety of sources, including the use of external

search consultants, are used to ensure that a wide range of candidates are considered.

The Committee undertakes an annual performance evaluation, as described above, to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the Board. The Committee also reviews Directors' fees and makes recommendations to the Board as and when required.

Audit Committee

The Audit Committee, chaired by James Fox and comprising all of the Directors, meets at least twice each year. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Committee reviews the actions and judgements of the Manager in relation to the interim and annual accounts and the Company's compliance with the Combined Code. It reviews the terms of the management agreement, examines the effectiveness of the Company's internal control systems and receives information from the Manager's compliance department. It also 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. Representatives of the Company's auditors attend the Committee meeting at which the draft annual report and accounts are considered. The Directors' statement on the Company's system of internal control is set out below.

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on request at the Company's registered office and at the 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 twice a year by way of the Annual Report and Accounts and the Interim Report. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with and answer shareholders' questions. In addition, a presentation is given by one of the New York based members of the investment management team who reviews the Company's performance. During the year the investment management team, JPMAM and the Company's brokers 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 55.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 55.

Internal Control

The Combined Code requires the Directors, at least annually, to review the effectiveness of the Company's system of internal control and to report

to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified to include 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. The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM and the Board reviews this position annually. 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 keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

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

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st December 2006, 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 continued

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from JPMAM on request, or can be downloaded from www.jpmorgan.com:

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

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

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

All votes cast against resolutions are reported to the Board.

Corporate Social Responsibility

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

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

Directors' Remuneration Report

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

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on pages 36 and 37.

Directors' Remuneration¹

Director's name	2006 £	2005 £
Hamish Buchan (Chairman)	30,000	30,000
Sarah Bates	20,000	10,000
Kate Bolsover	20,000	10,000
James Fox (Chairman of the Audit Committee)	23,000	23,000
George Greener	20,000	20,000
Iain Saunders	–	6,462
James Williams	20,000	20,000
Total	133,000	119,462

¹ Audited information.

The total Directors' fees were last increased at the Annual General Meeting held on 23rd April 2004, when shareholders passed a resolution to increase the aggregate payable to Directors from £100,000 to £175,000. The Chairman is now paid £30,000 per annum, the Audit Committee Chairman £23,000 per annum and the other Directors £20,000 per annum.

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' 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 relevant 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. Any increase in aggregate fees above £175,000 requires both Board and shareholder approval.

The Directors do not have service contracts with the Company. Details of the Board's policy on tenure are set out on pages 26 and 27.

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.

The Company's Articles of Association have a qualification that each Director shall have a personal holding of at least 500 ordinary shares. The Board also has a policy whereby Directors are encouraged to purchase additional shares in the Company.

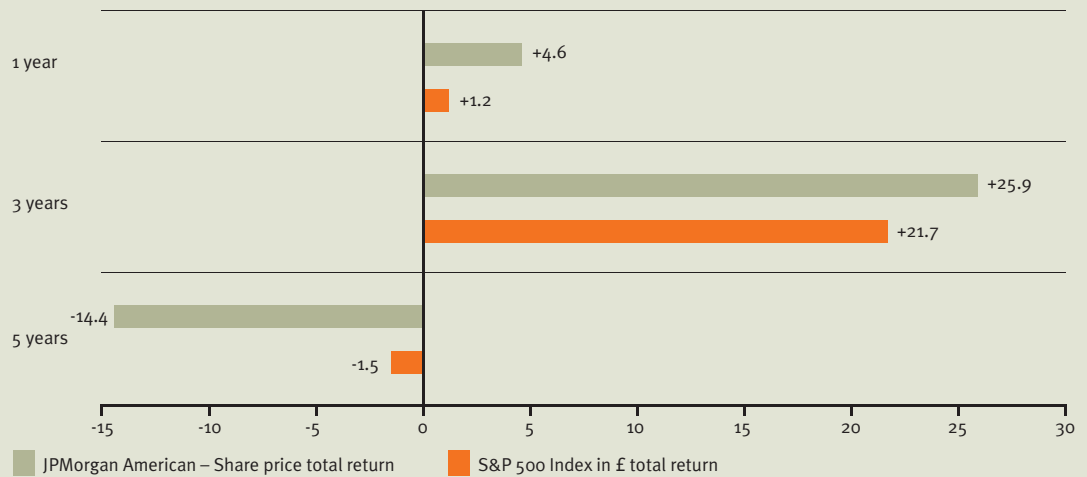
Directors' Remuneration Report continued

Graphs showing the Company's share price total return compared with its benchmark index, the S&P500 Index (in Sterling terms), over the last five years are shown below:

Five Year Share Price and Benchmark Total Return to 31st December



Source: Standard & Poor's – www.funds-sp.com



Source: Standard & Poor's – www.funds-sp.com

The Company's benchmark is the S&P 500 Index (in sterling terms). This is a recognised index of stocks that has been selected by the Board as the benchmark against which the Company's performance is judged, although it should not be taken as wholly representative of the Company's investment universe.

By order of the Board

Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary

14th March 2007

Statement of Directors' Responsibilities in Respect of the Accounts

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice and applicable law which give a true and fair view of the state of affairs of the Company as at the end of the year and of the total return for the year. In preparing those 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 accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Notice of Annual General Meeting

Notice is hereby given that the ninety-first Annual General Meeting of JPMorgan American Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH at 2.30 p.m. on Thursday 3rd May 2007 for the following purposes:

- 1 To receive the Directors' report, the Annual Accounts and the Auditors' report for the year ended 31st December 2006.
- 2 To approve the Remuneration report for the year ended 31st December 2006.
- 3 To declare a final dividend on the ordinary shares of 11.0 pence per share.
- 4 To re-elect James Fox a Director of the Company.
- 5 To re-elect James Williams a Director of the Company.
- 6 To re-appoint Deloitte & Touche LLP as auditors to the Company and to authorise the Directors to agree their remuneration (special notice having been received).

Special Business:

To consider the following resolution:

- 7 Authority to repurchase the Company's shares – Special Resolution:

THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued ordinary shares of 25p each in the capital of the Company ('ordinary shares').

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 6,486,165 or if less, that number of shares which is equal to 14.99% of the Company's 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 an ordinary share shall be an amount equal to 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 ordinary share is purchased;
- (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 at the earlier of 2nd November 2008 or at the conclusion of the Company's Annual General Meeting in 2008 unless the authority is renewed prior to such time; and
- (vi) the Company may make a contract to purchase ordinary 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.

By order of the Board

Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary

14th March 2007

Notes

- 1 A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll vote on their behalf. A proxy need not be a member of the Company. The lodging of a form of proxy does not prevent a member from attending and voting if he so wishes.
- 2 Any instrument appointing a proxy, to be valid, must be lodged at the Company's Registrar not less than 48 hours before the time of the meeting.
- 3 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. on 1st May 2006 (the 'specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two days prior to the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
- 4 Entry to the above Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.

Representatives of shareholders which are corporations attending the meeting should produce evidence of their appointment by an instrument executed in accordance with Section 346A of the UK Companies Act 1985 or signed on behalf of the corporation by a duly authorised officer or agent.
- 5 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 and public holidays excepted). It will also be available for inspection at the Annual General Meeting.
- 6 No Director has any contract of service with the Company.

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. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's CREST Manual. The CREST message must be transmitted so as to be received by the issuer's agent (ID7RA01) by not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST message by the CREST Applications Host) from which the issuer's agent is able to retrieve the CREST message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s), should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member(s) is/are a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) is/are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

Independent Auditors' Report

to the shareholders of JPMorgan American Investment Trust plc

We have audited the financial statements of JPMorgan American Investment Trust plc for the year ended 31 December 2006 which comprise the Income Statement, Reconciliation of Movement in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective Responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited

have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in

the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st December 2006 and of its total return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

14th March 2007

¹The accounts are on the www.jpmorgan website, which is a website maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM or any of its subsidiaries 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 or any other website upon which the accounts may be published and accordingly, the auditors accept no responsibility for any changes that may occur to the accounts following presentation on a website. Visitors to any website containing the accounts need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

Income Statement

for the year ended 31st December 2006

	Notes	2006 Revenue £'000	2006 Capital £'000	Total £'000	2005 Revenue £'000	2005 Capital £'000	Total £'000
Gains from investments held at fair value through profit or loss							
	2	–	5,703	5,703	–	44,653	44,653
Net foreign currency gains/(losses)		–	1,431*	1,431	–	(1,074)	(1,074)
Income from investments	3	6,235	–	6,235	5,176	–	5,176
Other interest receivable and similar income	3	1,065	–	1,065	583	–	583
Gross return		7,300	7,134	14,434	5,759	43,579	49,338
Management fee	4	(366)	(1,465)	(1,831)	(329)	(1,313)	(1,642)
Other administrative expenses	5	(516)	–	(516)	(508)	–	(508)
Net return on ordinary activities before finance costs and taxation							
		6,418	5,669	12,087	4,922	42,266	47,188
Finance costs	6	(713)	(2,851)	(3,564)	(703)	(2,811)	(3,514)
Net return on ordinary activities before taxation							
		5,705	2,818	8,523	4,219	39,455	43,674
Taxation	7	(821)	–	(821)	(747)	–	(747)
Net return on ordinary activities after taxation							
	9	4,884	2,818	7,702	3,472	39,455	42,927
Return per share	9	11.28p	6.50p	17.78p	7.78p	88.44p	96.22p

*Includes £3,831,000 gain on forward FX contract.

Dividends proposed in respect of the year ended 31st December 2006 total 11.0p per share (2005: 8.0p per share) costing £4,761,000 (2005: £3,478,000). More details can be found in note 8 on page 46.

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. 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 42 to 54 form part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st December 2006

	Called up share capital £'000	Share redemption premium £'000	Capital reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st December 2004	11,773	18,906	7,060	237,025	14,890	289,654
Repurchase and cancellation of shares	(903)	–	903	(20,160)	–	(20,160)
Total return from ordinary activities	–	–	–	39,455	3,472	42,927
Dividends appropriated in the year	–	–	–	–	(3,396)	(3,396)
At 31st December 2005	10,870	18,906	7,963	256,320	14,966	309,025
Repurchase and cancellation of shares	(50)	–	50	(1,295)	–	(1,295)
Total return from ordinary activities	–	–	–	2,818	4,884	7,702
Transfer of accumulated tax relief on expenses charged to capital	–	–	–	1,538	(1,538)	–
Dividends appropriated in the year	–	–	–	–	(3,445)	(3,445)
At 31st December 2006	10,820	18,906	8,013	259,381	14,867	311,987

The notes on pages 42 to 54 form part of these accounts.

Balance Sheet

as at 31st December 2006

	Notes	2006 £'000	2005 £'000
Fixed assets			
Investments at fair value through profit or loss	10	347,979	336,351
Current assets			
Derivative instrument	11	12,174	8,343
Debtors		610	467
Cash and short term deposits		1,347	13,842
		14,131	22,652
Creditors: amounts falling due within one year	12	(457)	(341)
Net current assets		13,674	22,311
Total assets less current liabilities		361,653	358,662
Creditors: amounts falling due after more than one year			
	13	(49,666)	(49,637)
Total net assets		311,987	309,025
Capital and reserves			
Called up share capital	14	10,820	10,870
Share premium	15	18,906	18,906
Capital redemption reserve	15	8,013	7,963
Capital reserve	15	259,381	256,320
Revenue reserve	15	14,867	14,966
Shareholders' funds		311,987	309,025
Net asset value per share	16	720.9p	710.7p

The accounts on pages 38 to 54 were approved by the Directors and authorised for issue on 14th March 2007:

James Fox

Director

The notes on pages 42 to 54 form part of these accounts.

Cash Flow Statement

for the year ended 31st December 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	17	4,074	2,735
Returns on investments and servicing of finance			
Interest paid		(3,533)	(3,477)
Taxation recovered		-	5
Capital expenditure and financial investment			
Purchases of investments		(149,756)	(128,833)
Sales of investments		143,868	162,893
Other capital charges		(8)	(13)
Net cash (outflow)/inflow from capital expenditure and financial investment		(5,896)	34,047
Dividends paid		(3,445)	(3,396)
Net cash (outflow)/inflow before financing		(8,800)	29,914
Financing			
Repurchase of shares		(1,295)	(20,706)
Net cash outflow from financing		(1,295)	(20,706)
(Decrease)/increase in cash for the year	18	(10,095)	9,208

The notes on pages 42 to 54 form part of these accounts.

Notes to the Accounts

for the year ended 31st December 2006

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 1985, United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the 'SORP') issued by the AIC in December 2005. All of the Company's operations are of a continuing nature.

(b) Valuation of investments

Investments are designated as "held at fair value through profit or loss" in accordance with FRS 26: "Financial Instruments: Measurement". Listed investments are valued at bid market prices.

Where trading in securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value. Unlisted and restricted investments are valued at fair value by the Board. In making its valuations, the Board takes into account, where appropriate, latest dealing prices, valuations from reliable sources, asset values and other relevant factors.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the income statement within "Gains from investments held at fair value through profit or loss". Transaction costs incurred on the purchase and sale of investments are also included within this caption. 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 taken to capital.

Overseas dividends are included gross of withholding tax.

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

Interest receivable from debt securities together with any premiums or discounts on purchase are allocated to revenue on a time apportionment basis so as to reflect the effective interest rate of those securities.

Deposit interest receivable is taken to revenue on an accruals basis.

Stock lending income is taken to revenue on a receipts basis.

(d) Expenses

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

- performance fees are allocated 100% to capital.
- management fees are allocated 20% to revenue and 80% 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 comprise mainly broker commission. In accordance with the SORP, disclosure of transaction costs is now required and can be found in note 10.

(e) Finance costs

Finance costs are accounted for on an accruals basis and in accordance with the provisions of FRS 25 “Financial Instruments: Disclosure and Presentation” and FRS 26 “Financial Instruments: Measurement”.

Finance costs are allocated 20% to revenue and 80% to capital in line with the Board’s expected long term split of revenue and capital return from the Company’s investment portfolio.

(f) Financial instruments

Cash at bank and in hand 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 receivables 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.

The debenture in issue, 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.

Derivative instruments are valued at fair value in the balance sheet. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

(g) Foreign currency

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

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

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

(h) 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.

(i) Dividends payable

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

Notes to the Accounts continued

	2006	2005
	£'000	£'000
2. Gains from investments held at fair value through profit or loss		
Gains from investments held at fair value through profit or loss based on historical cost	7,873	11,403
Amounts recognised as unrealised in the previous year	(8,498)	(4,333)
Realised (losses)/gains based on carrying value at previous balance sheet date	(625)	7,070
Net movement in unrealised gains	6,253	37,598
Gains on rescheduling of unlisted debt security	85	–
Other capital charges	(10)	(15)
Total capital gains from investments held at fair value through profit or loss	5,703	44,653

	2006	2005
	£'000	£'000
3. Income		
Income from investments:		
Dividends from listed overseas investments	5,473	5,062
Dividends from liquidity funds	563	–
Interest from unlisted overseas investments	199	114
	6,235	5,176
Other income:		
Deposit interest	903	462
Stock lending fees	162	121
	1,065	583
Total income	7,300	5,759

	2006			2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
4. Management fee						
Management fee	345	1,382	1,727	328	1,311	1,639
Irrecoverable VAT thereon	21	83	104	1	2	3
	366	1,465	1,831	329	1,313	1,642

Details of the management fee are given in the Directors' Report on page 23.

	2006 £'000	2005 £'000
5. Other administrative expenses¹		
Other management expenses	276	276
Directors' fees ²	133	119
Savings product ³	89	89
Auditors' remuneration for audit services	18	20
Auditors' remuneration for services relating to internal audit	–	4
	516	508

¹ Expenses include the related irrecoverable VAT.

² Full disclosure is given in the Directors' Remuneration Report on pages 31 and 32.

³ These fees were paid to JPMAM for the marketing of "wrapper" products.

	2006			2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
6. Finance costs						
Debenture	693	2,773	3,466	693	2,773	3,466
Bank loans and overdrafts	20	78	98	10	38	48
	713	2,851	3,564	703	2,811	3,514

	2006 £'000	2005 £'000
7. Taxation		
UK corporation tax at 30% (2005: 30%)	821	729
Double taxation relief	(821)	(729)
Overseas withholding tax	821	752
Overseas tax reclaimed	–	(5)
Current tax	821	747

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% (2005: 30%). The difference is explained below.

	2006 £'000	2005 £'000
Net revenue return on ordinary activities before taxation	5,705	4,219
Net revenue return on ordinary activities before taxation multiplied by the standard rate of corporation tax of 30% (2005: 30%)	1,712	1,266
Income taxed in different periods	(34)	(42)
Relief for overseas taxation	(821)	(729)
Unrelieved expenses	(857)	(495)
Overseas withholding tax	821	752
Overseas tax reclaimed	–	(5)
	821	747

7. Taxation (continued)

The Company has an unrealised deferred tax asset of £5,741,000 (2005: £5,393,000). This has arisen from deductible expenses exceeding taxable income. Given the composition of the Company's portfolio, it is unlikely that this asset will be fully utilised in the foreseeable future.

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

8. Dividends

	2006	2005
	£'000	£'000
(a) Dividends paid and declared		
Unclaimed dividends refunded to the Company	(17)	–
2005 final dividend of 8.op (2004: 7.5p)	3,462	3,396
	3,445	3,396
Final dividend payable of 11.op (2005: 8.op) ¹	4,761	3,478

¹The final dividend declared in respect of the year ended 31st December 2005 amounted to £3,478,000 (2004: £3,532,000). However the amount paid amounted to £3,462,000 (2005: £3,396,000) due to share repurchases after the balance sheet date but prior to the record date.

The final dividend has been declared in respect of the year ended 31st December 2006 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the revised accounting policy of the Company, this dividend will be reflected in the accounts for the year ended 31st December 2007.

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

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

	2006	2005
	£'000	£'000
Final dividend of 11.op (2005: 8.op)	4,761	3,478

The revenue available for distribution by way of dividend for the year is £4,884,000 (2005: £3,472,000).

9. Return per share

The revenue return per ordinary share of 11.28p (2005: 7.78p) is based on the earnings attributable to the ordinary shares of £4,884,000 (2005: £3,472,000) and on the weighted average number of shares in issue during the year of 43,306,372 (2005: 44,613,016).

The capital return per ordinary share of 6.50p (2005: 88.44p) is based on the capital gain attributable to the ordinary shares of £2,818,000 (2005: £39,455,000) and on the weighted average number of shares in issue during the year of 43,306,372 (2005: 44,613,016).

The total return per ordinary share of 17.78p (2005: 96.22p) is based on the total return attributable to the ordinary shares of £7,702,000 (2005: £42,927,000) and on the weighted average number of shares in issue during the year of 43,306,372 (2005: 44,613,016).

	2006	2005
	£'000	£'000
10. Investments		
Investment listed on a recognised investment exchange	343,407	331,587
Unlisted investments	4,572	4,764
	347,979	336,351

	Listed overseas	Unlisted	Total
	£'000	£'000	£'000
Opening book cost	288,270	3,496	291,766
Opening unrealised gains	43,317	1,268	44,585
Opening valuation	331,587	4,764	336,351
Movement in the year:			
Adjustment to bookcost of debt security	–	164	164
Purchases at cost	149,771	–	149,771
Sales – proceeds	(143,935)	–	(143,935)
Sales – realised losses on investments	(625)	–	(625)
Net movement in unrealised gains	6,609	(356)	6,253
	343,407	4,572	347,979
Closing book cost	301,979	3,660	305,639
Closing unrealised gains	41,428	912	42,340
	343,407	4,572	347,979

During the year, prior year unrealised gains amounting to £8,498,000 were transferred to realised gains as disclosed in note 15.

Transaction costs on purchases during the year amounted to £103,000 (2005: £126,000) and on sales during the year amounted to £105,000 (2005: £146,000). These costs comprise mainly broker commission.

At 31st December 2006, the Company held 10% or more of a class of the issued share capital of the following companies which are valued in the accounts at the Company's share of net assets:

	2006	2005
	%	%
Fleming US Discovery Fund III	14.0	14.0
Kane Holdings	23.7	23.7

Unlisted investments include equity investments valued at £2,540,000 (2005: £2,990,000).

The Company does not exercise significant influence over the operating and financial policies of the above mentioned companies which are therefore not considered to be associated companies.

Notes to the Accounts continued

10 Investments (continued)

In addition to the above, at 31st December 2006 the Company had interests of 3% or more in the share capital of a further three (2005: six) investee companies. None of these investments represented more than 1% of the Company's portfolio of investments at the current or prior year ends and are therefore not considered to be material to these accounts. The total value of investments in which the Company had an interest of 3% or more at 31st December 2006 was £4,149,000 (2005: £2,422,000).

The aggregate value of securities on loan at 31st December 2006 amounted to £30,750,000 and the maximum value of stock on loan during the year amounted to £68,274,000. Collateral with a value equivalent to a minimum of 105% of the outstanding value of stocks on loan is obtained by JPMorgan Chase & Co. Limited as agent for the Company. Collateral is held in the form of certificates of deposit, letters of credit or bonds.

	2006	2005
	£'000	£'000

11. Current assets

Derivative instrument

Forward foreign currency contract at fair value	12,174	8,343
---	---------------	-------

The Company partially hedged the US\$ portfolio against foreign exchange rate movements by purchasing £50m against US\$ for settlement on 5th October 2011. The counterparty for this transaction is The Royal Bank of Scotland.

	2006	2005
	£'000	£'000

Debtors

Securities sold for future settlement	76	9
Dividends and interest receivable	498	355
Other debtors	36	103
	610	467

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

	2006	2005
	£'000	£'000

12. Creditors: amounts falling due within one year

Securities purchased for future settlement	15	–
Other creditors and accruals	442	341
	457	341

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

	2006	2005
	£'000	£'000
13. Creditors: amounts falling due after more than one year		
Falling due after more than five years		
£50,000,000 6.875% debenture stock June 2018	49,666	49,637

The debenture is secured by a floating charge over the assets of the Company.

	2006	2005
	£'000	£'000
14. Share capital		
Authorised:		
90,904,952 ordinary shares of 25p each	22,726	22,726
Allotted and fully paid:		
Opening balance of 43,479,449 shares (2005: 47,093,052)	10,870	11,773
Repurchase of 200,000 shares (2005: 3,613,603)	(50)	(903)
Closing balance of 43,279,449 shares (2005: 43,479,449)	10,820	10,870

During the year the Company repurchased 200,000 ordinary shares nominal value £50,000, for cancellation, representing 0.46% of the shares outstanding at the beginning of the year. The total consideration paid for these shares was £1,295,000 and the reason for the purchase was to reduce the share price discount to net asset value.

	Capital Share redemption premium £'000	Capital reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
15. Reserves					
Opening balance	18,906	7,963	203,392	52,928	14,966
Realised losses on investments	-	-	(625)	-	-
Net movement in unrealised gains	-	-	-	6,253	-
Net currency losses on cash and short term deposits held during the year	-	-	(2,400)	-	-
Movement in unrealised gain on forward currency contract	-	-	-	3,831	-
Transfer on disposal of investments	-	-	8,498	(8,498)	-
Gain on rescheduling of debt security	-	-	85	-	-
Repurchase and cancellation of shares	-	50	(1,295)	-	-
Management fee and finance costs charged to capital	-	-	(4,316)	-	-
Other capital charges	-	-	(10)	-	-
Transfer of accumulated tax relief on expenses charged to capital	-	-	1,538	-	(1,538)
Dividends appropriated in the year	-	-	-	-	(3,445)
Retained revenue for the year	-	-	-	-	4,884
Closing balance	18,906	8,013	204,867	54,514	14,867

16. Net asset value per share

The net asset value per share of 720.9p (2005: 710.7p) is based on the net assets attributable to the ordinary shareholders of £311,987,000 (2005: £309,025,000) and on the 43,279,449 (2005: 43,479,449) shares in issue at the year end.

	2006	2005
	£'000	£'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	12,087	47,188
Less capital return before finance costs and taxation	(5,669)	(42,266)
Increase in accrued income	(143)	(118)
Decrease/(increase) in other debtors	67	(28)
Increase in accrued expenses	96	24
Expenses charged to capital	(1,465)	(1,313)
Discount on debt security allocated to income	(78)	–
Overseas withholding tax	(821)	(752)
Net cash inflow from operating activities	4,074	2,735

	At 31st			At 31st
	December	Exchange	Other	December
	2005	Cash flow	movement	2006
	£'000	£'000	£'000	£'000
18. Analysis of changes in net debt				
Cash and short term deposits	13,842	(10,095)	(2,400)	–
Debentures falling due after more than five years	(49,637)	–	–	(29)
Net debt	(35,795)	(10,095)	(2,400)	(29)

19. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2005: none).

20. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 23. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £1,727,000 excluding VAT (2005: £1,639,000), of which £62,000 was outstanding at the year end (2005: £nil).

During the year £89,000 (2005: £89,000) was payable to JPMAM for the marketing of "wrapper" products, of which £nil (2005: £nil) was outstanding at the year end.

Included in other management expenses in note 5 on page 45 are safe custody fees amounting to £5,000 (2005: £5,000) payable to JPMorgan Chase Bank of which £2,000 (2005: £1,000) was outstanding at the year end.

JPMAM may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable in the year was £nil (2005: £7,000) of which

20. Transactions with the Manager (continued)

£nil (2005: £nil) was outstanding at the year end. The Company has been informed that certain of its dealing transactions may be subject to soft commission arrangements.

Handling charges on dealing transactions amounting to £10,000 (2005: £15,000) were payable to JPMorgan Chase during the year of which £6,000 (2005: £4,000) was outstanding at the year end.

The Company holds investments in funds managed by JPMAM. At 31st December 2006 these were valued at £29.9m (2005: £12.1m) and represented 8.6% (2005: 7.3%) of the Company's investment portfolio. During the year the Company made purchases of such investments with a total value of £43.9m (2005: £nil) and sales with a total value of £24.7m (2005: £nil). During the year income received from these investments was £563,000 (2005: £nil) of which £107,000 was outstanding at the year end. Capital distributions of £nil (2005: £1.2m) were received from these investments during the year.

The Company received £162,000 (2005: £121,000) from stock lending transactions during the year. JPMorgan Chase received commissions amounting to £41,000 (2005: £30,000) in respect of these transactions.

At the year end, a bank balance of £252,000 (2005: £403,000) was held with JPMorgan Chase. A net amount of interest of £223,000 (2005: £32,000) was received by the Company during the year from JPMorgan Chase.

21. Financial instruments

(a) Management of risk

The Company's financial instruments comprise:

- Investments in US equity shares, which are held in accordance with the Company's investment objective;
- Short term debtors, creditors, cash and cash equivalents arising directly from its operations;
- A debenture issued by the Company, the purpose of which is to finance the Company's operations; and
- A forward currency contract, the purpose of which is to manage the currency risk arising from the Company's investment activities.

The Company is an investment trust and invests in shares and securities for the long term. It is the Company's policy that no short term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's operations are market price risk, liquidity risk, interest rate risk, credit risk and foreign currency risk. A description of these risks is given below, together with the Board's policy for managing these risks where appropriate.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss which the Company might incur as a result of holding a portfolio of investments when market prices fall.

21. Financial instruments (continued)

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors. An 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.

Liquidity risk

The Company's assets comprise mainly realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

Interest rate risk

The Company finances its operations through a debenture issue and retained profits. The debenture carries a fixed rate of interest.

Credit risk

The Company's financial assets are bank balances, debtors, a forward foreign currency contract and investments, which represent the Company's maximum exposure to credit risk in relation to financial assets. When buying and selling investments, the Company is exposed to the risk that the counterparty will not deliver the investment or cash. The Company will only deal with brokers which have been approved by JPMAM and banks with high credit ratings assigned by international credit rating agencies. Limits have been set as to the maximum exposure to any one counterparty at any time.

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Foreign currency risk

The Company has exposure to foreign currency as part of the risk reward inherent in a company that invests overseas.

The income and capital value of the Company's investments can be affected by exchange rate movements as the majority of the Company's assets and income are denominated in currencies other than Sterling which is the reporting currency.

The Board has identified three principal areas where foreign currency risk could impact the Company:

- movements in rates affect the value of the US\$ portfolio;
- movements in rates affect short term timing differences; and
- movements in rates affect income received.

The Company has purchased Sterling against US\$ for settlement on 5th October 2011 matching the principal amount but not the maturity date of its £50m debenture. The counterparty for this transaction is The Royal Bank of Scotland.

The Company may be exposed to currency risk due to exchange rate movement in the period between investment trade date and the date of settlement. This exposure is short term and therefore the risk is not significant.

21. Financial instruments (continued)

(b) Currency exposures

An analysis of the Company's net currency assets at 31st December 2006 is:

	2006	2005
	US\$	US\$
	£m	£m
Investments	348.0	336.4
Net current assets	13.7	22.1
Effect of forward foreign currency contract	(49.7)	(49.6)
Financial instruments outstanding at the year end	312.0	308.9

(c) Interest rate risk profile of financial assets and financial liabilities

Financial assets

The Company's financial assets comprise investments, debtors, a forward foreign currency contract and cash. The Company's debtors may comprise unsettled broker balances for securities sold, dividends receivable, prepayments and other small balances on which no interest accrues. Cash balances in excess of a predetermined amount are placed on short term deposit and earn market rates of interest. The investments are predominantly equity shares which neither pay interest nor have a maturity date. However, there are a small number of fixed interest securities in the portfolio, which are not material in total.

Financial liabilities

The Company's liabilities may include unsettled broker balances for securities purchased, other accruals on which no interest is payable, debenture stock in issue and overdrafts. Overdraft interest is payable at the prevailing market rate. The interest rate profile of the Company's financial liabilities at 31st December is:

	2006	2005
	£m	£m
Fixed rate financial liabilities	49.7	49.6
Liabilities on which no interest is paid	0.4	0.4
	50.1	50.0

The fixed rate financial liability comprises £50m of debenture stock in issue carrying a fixed interest rate of 6.875%, repayable in June 2018.

The Company had a US\$20m revolving credit facility with The Royal Bank of Scotland plc which expired on 20th December 2006.

(d) Maturity of the Company's financial liabilities

	2006	2005
	£m	£m
Falling due in one year or less or on demand	0.4	0.4
Falling due after more than five years	49.7	49.6
	50.1	50.0

21. Financial instruments (continued)

(e) Fair values of financial instruments

All financial assets and liabilities are included in the balance sheet at fair values except for the debenture stock which the Company has in issue. The fair value of this debenture stock has been calculated by comparison with the market value of an instrument carrying a similar interest rate, risk rating and repayment date, as follows:

	Accounts value		Fair value	
	2006	2005	2006	2005
	£m	£m	£m	£m
£50m 6.875% debenture stock June 2018	49.7	49.6	54.9	58.3

Information about the Company

FINANCIAL CALENDAR

Financial year end	31st December
Interim results announced	July/August
Final results announced	March
Dividend on ordinary shares paid	May
Annual General Meeting	April/May

History

JPMorgan American Investment Trust plc has its origins in the Alabama, New Orleans, Texas and Pacific Junction Railways Company Limited which was formed in 1881 to acquire interests in, and to undertake the completion of, three American railroads – the Vicksburg and Meridian, the Vicksburg, Shreveport and Pacific and the New Orleans and North Eastern. In 1917 the Company was reorganised, a proportion of the railroad interests were sold, and the investment powers were widened enabling its assets to be invested in several countries including the United Kingdom. To reflect the new objectives the name was changed to The Sterling Trust. The Company's investment policy reverted to North American securities in 1982 when the name was changed to The Fleming American Investment Trust plc. The name was changed to JPMorgan Fleming American Investment Trust plc in April 2002 and to its present form in 2006. JPMorgan has been the Company's manager and secretary since 1966.

Company Numbers

Company registration number: 15543
Stock Exchange Sedol Number: 0846505

Market Information

The Company's net asset value ('NAV') is published daily, via the London Stock Exchange.

The Company's shares are listed on the London Stock Exchange. The market price of the ordinary shares is shown daily in the Financial Times, The Guardian, The Times, The Daily Telegraph, and The Scotsman and on the JPMorgan Internet site at www.jpnamerican.com, where it is updated every 15 minutes during trading hours.

Share Transactions

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

Manager and Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials, 20 Finsbury Street,
London EC2Y 9AQ

Please contact Andrew Norman regarding company secretarial and administrative matters at the above address or telephone 020 7742 6000.

Registrars

Lloyds TSB Registrars, Reference 1077,
The Causeway, Worthing, West Sussex, BN99 6DA
Telephone number: 0870 600 3984
Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1077.

Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Savings Products Administrators

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

Auditors

Deloitte & Touche LLP
Stonecutter Court, 1 Stonecutter Street,
London EC4A 4TR

Brokers

Dresdner Kleinwort
30 Gresham Street,
London EC2V 7PG

JPMorgan Helpline

Freephone 0800 40 30 30 or 020 7742 9999

9.00 am to 5.30 pm Monday to Friday

JPMorgan Pension Helpline

Freephone 0800 413 176 or 01722 414 888

9.00 am to 5.00 pm Monday to Friday

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

Your telephone call may be recorded for your security.

www.jpnamerican.com