

Annual Report 08

JPMorgan Smaller Companies Investment Trust plc

Annual Report & Accounts for the year ended 31st July 2008

Features

Contents

About the Company

- 1 Financial Results
- 2 Chairman's Statement

Investment Review

- 5 Investment Managers' Report
- 8 Summary of Results
- 9 Performance
- 10 Ten Year Financial Record
- 11 Ten Largest Investments
- 12 Portfolio Analysis
- 12 Investment Activity
- 13 List of Investments

Directors' Report

- 15 Board of Directors
- 16 Directors' Report
- 22 Corporate Governance

Accounts

- 26 Directors' Remuneration Report
- 27 Directors' Responsibilities in Respect of the Accounts
- 28 Independent Auditors' Report
- 30 Income Statement
- 31 Reconciliation of Movements in Shareholders' Funds
- 32 Balance Sheet
- 33 Cash Flow Statement
- 34 Notes to the Accounts

Shareholder Information

- 47 Information about the Company
- 48 Shareholder Analysis
- 49 Notice of Meeting
- 52 Appendix
- 55 Glossary of Terms and Definitions

Objective

Capital growth from UK listed smaller companies.

Investment Policy

- To provide capital appreciation for shareholders from a diversified portfolio of UK listed small companies, emphasising capital rather than income growth.
- To invest no more than 15% of its gross assets in other listed investment companies (including investment trusts).
- Liquidity and borrowings are managed with the aim of increasing returns to shareholders.
- Further details on investment policy and risk management are contained in the Director's Report on page 16.

Benchmark

The FTSE Small Cap Index (excluding investment trusts).

Capital Structure

The Company has an authorised share capital of 56,000,000 ordinary shares of 25p each, of which 20,025,322 were in issue at the year end.

Management Company

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

Financial Results

Total Returns (capital plus income)

-29.7%

Return to shareholders¹
(2007: +28.6%)

-29.1%

Return on net assets²
(2007: +32.7%)

-35.5%

Benchmark return³
(2007: +18.7%)

+40.0%

Dividend 7.00p
(2007: 5.0p)

Long Term Performance

for periods ended 31st July 2008



A glossary of terms and definitions is provided on page 55.

¹Source: Standard & Poor's – www.funds.morningstar.com

²Source: Fundamental Data - www.funddata.com

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

Chairman's Statement



Investment Performance

The period under review has been extremely difficult for investment managers generally, with the UK stock market in particular experiencing some of the biggest challenges seen in recent times. This is reflected in the Company's portfolio returns for the year. However, despite the volatile conditions, it is pleasing to report that the Company has again outperformed its benchmark index by a significant margin. Over the year to 31st July 2008 the Company recorded a negative total return on net assets of 29.1%, which compares favourably with the negative total return of the benchmark, the FTSE Small Cap Index (excluding investment trusts) of 35.5%. The negative return to shareholders was 29.7%.

Since the year end, conditions in the world markets have remained exceptionally volatile. As at 14th October 2008, the net asset value per share was 359.57p, the share price 309p and the discount 14%.

Revenue and Dividends

Net revenue after taxation for the year was £1,785,000 (2007: £1,172,000) and revenue return per share, calculated on the average number of shares in issue, was 8.67p (2007: 5.22p). The Directors are recommending a final dividend of 7.00p per share up by 40.0% (2007: 5.00p), costing £1,402,000 (2007: £1,062,000). If approved, the dividend will be paid on 12th December 2008 to shareholders on the register on 14th November 2008.

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

Investment Manager

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

Since the year end, the Board has been advised that Sarah-Jane Morley will no longer be on the team managing the Company's portfolio as she will be relocating to South Africa. We will be sorry to lose Sarah-Jane and wish her all the best. Kent Kwan has now joined the investment management team to work alongside Georgina Brittain.

Continuation Vote

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

The table below shows that the Company has consistently outperformed the Company's benchmark, the FTSE Small Cap Index over these periods, and was ranked 4 out of 10 funds in the UK Smaller Companies Funds Sector as measured by the Association of Investment Companies (AIC) since July 2005.

	1st August 2007 to 31st July 2008	1st August 2005 to 31st July 2008
Total Return		
Share price	-29.7%	+25.1%
Net asset value	-29.1%	+24.2%
Benchmark	-35.5%	-13.6%

In the period since the last continuation vote the net asset value outperformance each year against the benchmark has been as follows:-

	1st August to 31st July
2005-2006	+19.5%
2006-2007	+14.0%
2007-2008	+6.4%

The Directors have confidence in the long-term growth prospects for UK smaller companies and in the ability of the Manager to continue to take advantage of this potential. The strength of the Manager is borne out by the Company's consistent out-performance of the benchmark over the last ten consecutive years with a return on net assets of 161.1% (5 years: 101%) compared with the benchmark return of 27.1% (5 years: 17.7%). The Directors nonetheless have continued to evaluate other investment strategies and methodologies for securing good long term performance for shareholders, but are not yet satisfied of their merits. They therefore recommend that shareholders vote in favour of the resolution at the AGM on 28th November 2008, as they intend to do so in respect of their own holdings.

VAT

In June 2007, the European Court of Justice ruled in favour of the action brought by the Association of Investment Companies and JPMorgan Claverhouse that VAT should not be charged on management fees paid by investment trust companies. As a result, VAT has not been charged on the Company's management fees since 1st October 2007. This represents a cost saving to the Company and the Board is taking steps to recover the VAT paid in previous years to the extent it can. However, the process is not straightforward and it may take some time for the Company to recover the amounts due. More details are given in note 18 to the accounts.

Share Buy backs

At last year's AGM, shareholders granted the Directors authority to repurchase the Company's shares for cancellation, such authority is due to expire at the earlier of 27th May 2009 or the conclusion of the AGM in 2008. During the financial year the Company repurchased a total of 1,223,661 ordinary shares for cancellation for a total consideration of £5,675,000, representing 5.8% of the issued share capital at the beginning of the year. This has added approximately 6.6p per ordinary share to the net asset value for continuing shareholders.

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

Chairman's Statement continued

Board of Directors

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

Corporate Governance

The Board has put in place procedures to monitor the Company's compliance with the Combined Code and the AIC Code on Corporate Governance.

Annual General Meeting

The Company's eighteenth AGM will be held on Friday 28th November 2008 at 12.00 noon at The Library, 60 Victoria Embankment, London EC4Y 0JP. In addition to the formal part of the meeting, there will be a presentation from the Investment Manager who will answer questions on the portfolio and performance. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes.

Outlook

The current uncertainty in the financial sector globally continues to sap investors' confidence. The immediate outlook for the UK economy provides little encouragement and continues to look difficult for the second half of 2008 and beyond as markets absorb the increasing likelihood of a much more difficult period for the whole economy.

However, a large number of smaller company stocks are significantly undervalued, with some now reaching distress levels. This presents us with opportunities to invest in stocks at very attractive values. Whilst the journey to recovery may be quite long, the Board, and the Investment Manager, are optimistic that the portfolio is well positioned when investor interest in the smaller companies market returns and valuations bounce back from their current low levels.

Strone Macpherson

Chairman

17th October 2008

Investment Manager's Report



Georgina Brittain

Market Background

The end of the bull run in stockmarkets that began in 2003 coincided with the start of the financial year. As the year progressed, it gradually became clear that the unwinding of past financial excesses was going to be a much longer and more painful process than most commentators had initially envisaged. Overstretched bank balance sheets, lack of liquidity in the inter-bank market and deleveraging on a global basis, combined with slowing global growth and rising inflation, led stockmarkets to suffer steep declines.

In the UK, this was accompanied by a marked slowdown in the economy. While a number of banks began to repair their balance sheets with rights issues, lending criteria continued to become markedly harsher. This lack of liquidity exacerbated problems in the slowing housing market. While interest rates were cut from 5.75% to 5%, as the year progressed the Monetary Policy Committee was constrained by rising inflation from cutting interest rates more aggressively to compensate. As this economic backdrop played itself out through-out the year, investor confidence in the equities market evaporated, and markets fell.

Hardest hit was the smaller companies market. With little exposure to the strong commodities upswing, and large exposure to the worsening domestic economy, forecasts were downgraded and money was removed from the sector, leading to a swift and savage derating of the smaller companies arena.

Portfolio

The financial year to July 31st 2008 was a torrid year for the smaller companies market. The FTSE Smaller Companies (ex Investment Trusts) Index declined by over one third, falling -35.5%. Your company outperformed its benchmark over the period, producing a return on net assets of -29.1%. This was despite having gearing in place throughout the period which reduced outperformance by 1.9%.

Performance attribution

Contributions to Total Return	12 months to 31st July 2008		12 months to 31st July 2007		12 months to 31st July 2006	
	%	%	%	%	%	%
Benchmark total return	-35.5		18.7		12.8	
Asset allocation	5.3		3.6		7.9	
Stock selection	3.9		9.6		11.9	
Gearing/cash	-1.9		1.1		0.1	
Currency	—		-0.1		—	
Investment Manager contribution	7.3		14.2		19.9	
Portfolio total return	-28.2		32.9		32.7	
Management fees/other expenses	-1.1		-1.6		-1.8	
Share buy back/issuance	0.8		1.4		0.7	
Bid valuation adjustment	—		—		0.9	
Residual*	-0.6		—		—	
Other effects	-0.9		-0.2		-0.2	
Net asset value total return	-29.1		32.7		32.5	
Impact of decrease/(increase) in discount	-0.6		-4.1		5.8	
Share price total return	-29.7		28.6		38.3	

Source: Xamin/JPMAM/Fundamental Data. All figures are on a total return basis.

*The Residual arises principally from timing differences in the treatment of income flows.

The Xamin attribution system accounts for income on a received (on the ex-dividend date) basis whereas Fundamental Data calculates the Company's NAV Total Return using the actual dividend(s) paid by the Company (on the ex-dividend date).

A glossary of terms and definitions is provided on page 55.

Investment Manager's Report continued

Stock selection was an important part of this relative outperformance. A number of large positions in the portfolio produced very strong performance, despite the market backdrop. These included Aveva (technology stock), Wellstream (oil services), Chloride (uninterruptible power supplier) and Chemring (defence stock). Corporate activity was a feature over the year. Although the portfolio did not own a number of companies which were taken over in the period, such as Whatman and Northgate Information Systems, it benefitted significantly from the take-outs of Nord Anglia Education, Foseco, Imperial Energy (on-going) and Tradus.

Sector selection was the major contributor to the relative outperformance. There were no notable areas of sector underperformance, while on the positive side were the overweight positions in Oil Equipment, Services & Distribution and Aerospace & Defence. The strongest sector performance, however came from the holdings in the General Retailers sector. While the sector has been a very poor performer, due to concerns over consumer spending, our stock selection was extremely strong, including Game Group, CVS and Tradus, and we avoided holding a number of weak retailers which fell in value by over 75%.

The positioning of the portfolio did not change significantly throughout the period, as we had already introduced a non-domestic bias into the portfolio, underweighting exposure to the consumer and focussing the portfolio more on international businesses with strong end markets. Industrials therefore remained a very large position within the portfolio. The one marked change over the year was the move in Financials. Having been underweight previously, we moved significantly more so at the end of 2007, selling out of a number of real estate and speciality financial holdings. The overarching emphasis continued to be on stock selection, and in the difficult investment climate much effort was placed on avoiding the significant losers, in addition to owning the winners.

The investment process underlying the fund, as discussed in the last annual report, remains unchanged. The methodology uses a quantitative screen which breaks down the individual stocks in the investible universe and ranks them according to four factors: value, earnings momentum, price momentum and growth. After fundamental research to check the data, the balance sheet and the market environment, our aim is to construct the portfolio around stocks which demonstrate these tilts. This aims to ensure not only that the portfolio is constructed around our underlying philosophy of fast-growing cheap stocks with good newsflow, but also that the portfolio has both growth and value characteristics, which academic evidence has demonstrated to be the two long-term drivers of outperformance in the stockmarkets. This quantitative approach is the starting point for the stock selection that is the bedrock of the portfolio; it is then overlaid by the fund managers' extensive knowledge of individual companies and their markets and their own research efforts.

Market Outlook

We continue to face a period of global and domestic economic uncertainty. The global outlook hinges on a number of factors: the current commodity cycle pullback, allied to the recent strength in the dollar; the extent to which China's growth slows post the Beijing Olympics; and the ability of the USA to avoid recession.

In the UK, the economic picture continues to deteriorate. Falling house prices, huge pressure on the consumer's wallet, and the importance of financial and business services to the domestic economy all point to a further slowdown in growth. The latest Bank of England growth forecasts show the economy slowing to close to zero annual growth early next year.

With a cash-strapped Government unable to create any significant fiscal stimulus, the silver lining is the sharp pullback in commodity prices, notably the oil price. This and the slowdown in growth should bring inflation down sharply from its current high levels, allowing for the Monetary Policy Committee to cut rates again, as it did in the first part of 2008. History suggests that both inflation and the interest rate cycle are key for investors. If we are correct in our assumptions on both, recovery in the stockmarket should follow.

While the economic backdrop is gloomy, and forecasts are continuing to fall in several sectors, valuations in a number of stocks are now reaching distressed levels, and there are pockets of extraordinary value emerging. While private equity firms are finding it difficult to raise debt in the current environment, trade buyers have begun to appear. This confirms our view that a large number of stocks are now significantly undervalued, and the recent sharp fall in sterling is likely to encourage this tendency. Thus, although the smaller companies market is currently trendless and friendless, we expect investor interest to return, and valuations to bounce from their compelling level. The timing of any recovery is uncertain, but the stockmarket will pre-empt any recovery on the ground.

Georgina Brittain
Investment Manager

17th October 2008

Summary of Results

	2008	2007	
Total Returns (capital plus income) for the year ended 31st July			
Return to shareholders ¹	-29.7%	+28.6%	
Return on net assets ²	-29.1%	+32.7%	
Benchmark return ³	-35.5%	+18.7%	
Net Asset Value Share Price and Discount at 31st July			% change
Shareholders funds (£'000)	96,035	143,657	-33.1
Net asset value per share	479.6p	676.1p	-29.1
Share price	391.3p	562.0p	-30.4
Discount of share price to net asset value	18.4%	16.9%	
Shares in issue	20,025,322	21,248,983	
Revenue for the year ended 31st July			
Gross revenue return (£'000)	2,977	2,540	+17.2
Net revenue available for ordinary shareholders (£'000)	1,785	1,172	+52.3
Revenue per share	8.67p	5.22p	+66.1
Dividends per share	7.00p	5.00p	
Actual Gearing Factor at 31st July	106%	107%	
Total Expense Ratio (TER) ⁴	1.15%	1.33%	

A glossary of terms and definitions is provided on page 55.

¹Source: Standard & Poor's – www.funds.morningstar.com

²Source: Fundamental Data – www.funddata.com

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

⁴Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and the prior year restated. Further details are given in the glossary of terms and definitions on page 55.

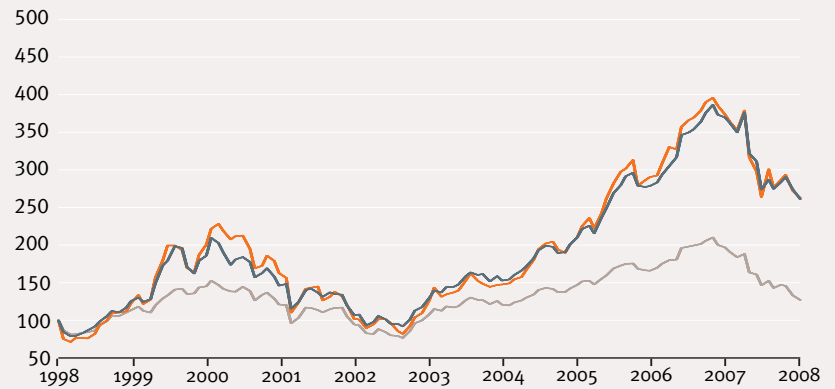
Performance

- JPMorgan Smaller Companies – Share price
- JPMorgan Smaller Companies – Net asset value
- Benchmark

Source: Standard & Poor's – www.funds.morningstar.com/ Fundamental Data – www.funddata.com/Datastream.

Ten Year Performance

Figures have been rebased to 100 as at 31st July 1998

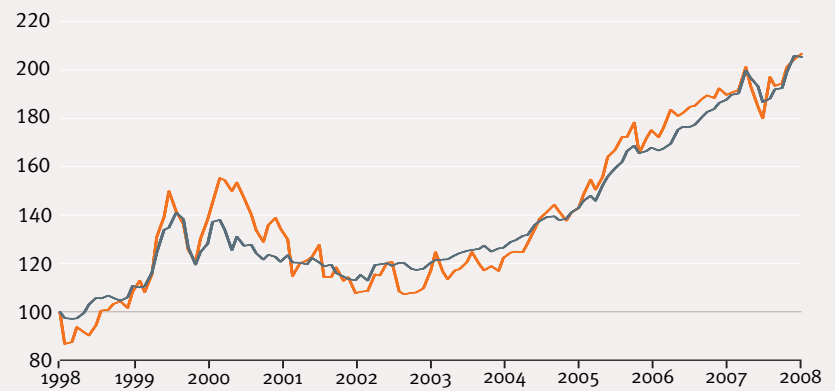


- JPMorgan Smaller Companies – Share price
- JPMorgan Smaller Companies – Net asset value
- The benchmark index is represented by the grey horizontal line

Source: Standard & Poor's – www.funds.morningstar.com/ Fundamental Data – www.funddata.com/Datastream.

Performance relative to Benchmark

Figures have been rebased to 100 as at 31st July 1998



Ten Year Financial Record

As at 31st July	1998	1999	2000	2001	2002	2003	2004 ¹	2005 ¹	2006	2007	2008
Shareholders' funds (£'000)	54,016	66,805	97,609	76,162	55,204	62,954	74,217	94,753	118,326	143,657	96,035
Net asset value per share (p)	202.6	250.5	366.0	285.6	207.0	247.7	292.0	395.7	513.8	676.1	479.6
Share price (p)	170.0	204.5	329.0	265.0	164.0	199.5	230.0	322.0	440.5	562.0	391.3
Discount (%)	16.1	18.4	10.1	7.2	20.8	19.5	21.2	18.6	14.3	16.9	18.4
Actual gearing factor (%)	114	110	112	120	119	114	107	106	106	107	106
Year ended 31st July											
Revenue attributable to shareholders (£'000)	1,417	1,508	1,565	1,804	1,821	1,479	1,790	1,750	2,057	2,540	2,977
Revenue per share (p)	2.64	3.28	2.35	2.35	3.10	2.85	3.80	3.62	4.37	5.22	8.67
Dividends per share (p)	2.60	3.00	2.30	2.30	3.00	2.85	3.75	3.75	4.25	5.00	7.00
Total expense ratio (TER) (%) ²	1.26	1.11	1.27	1.37	1.52	1.54	1.49	1.31	1.30	1.33	1.15
Rebased to 100 at 31st July 1998											
Share price total return ³	100.0	122.9	200.7	162.7	101.9	126.4	147.7	210.0	290.4	373.5	262.7
Net asset value total return ⁴	100.0	125.7	185.9	146.0	106.8	129.9	152.7	210.2	278.1	369.0	261.1
Benchmark ⁵	100.0	113.6	145.2	121.0	94.5	108.0	120.8	147.1	165.9	197.0	127.1

A glossary of terms and definitions is included on page 55.

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

²Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. Further details are given in the glossary of terms and definitions on page 55.

³Source: Standard & Poor's – www.funds.morningstar.com

⁴Source: Fundamental Data – www.funddata.com

⁵Source: Datastream. The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts).

Ten Largest Investments

Company	Sub-Sector	As at 31st July 2008		As at 31st July 2007	
		Valuation £'000	% ¹	Valuation £'000	%
Hampson Industries Hampson Industries is engaged in aerospace and specialist engineering.	Aerospace & Defence	2,864	3.0	1,742	1.2
Hill & Smith Hill & Smith is an engineering company specialising in galvanised steel products for the infrastructure, building and construction industries.	Industrial Engineering	2,589	2.7	3,263	2.3
Elementis Elementis engages in the manufacture and sale of speciality chemicals worldwide. The company operates through three segments; speciality products, surfactants and chromium.	Chemicals	2,267	2.4	2,539	1.8
Hyder Consulting Consultant Engineers specialising in large infrastructure and construction projects in Europe and further afield.	Support Services	2,173	2.3	3,019	2.1
Chemring Chemring is the world's leading producer of expandable decoy countermeasures for protecting air, sea and land platforms against guided missile threats. The Company's products include flares, chaff, special materials and naval decoys.	Aerospace & Defence	2,109	2.2	2,785	1.9
AVEVA Aveva is the world's leading engineering IT software provider to the plant, power and marine industries.	Software & Computer Services	2,044	2.1	1,977	1.4
Connaught² The group's principal activity is providing integrated asset management and compliance services to the public and private sectors.	Support Services	1,975	2.1	—	—
Senior Senior is an international manufacturing group which designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, diesel engine, exhaust system and energy markets.	Industrial Engineering	1,974	2.0	2,475	1.7
Chloride Chloride Group is the UK's largest supplier of secure power systems to hospitals and other public buildings and facilities.	Electronic & Electrical Equipment	1,957	2.0	2,752	1.9
Wellstream Wellstream is a British company which designs and manufactures flexible pipeline systems for the oil and gas industry.	Oil Equipment, Services & Distribution	1,898	2.0	2,674	1.9
Total³		21,850	22.8		

¹Based on total assets less current liabilities of £96.0m (2007: £143.7m).

²Not held in the portfolio at 31st July 2007.

³As at 31st July 2007, the value of the ten largest investments amounted to £30.3m representing 21.1% of total assets less current liabilities.

Portfolio Analysis

Sector Breakdown	31st July 2008		31st July 2007	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Industrials	55.3	28.1	55.3	30.5
Consumer Services	10.2	12.5	12.2	15.1
Technology	9.4	11.5	9.3	11.7
Oil & Gas	7.7	1.4	5.7	2.7
Financials	7.6	22.1	15.7	20.5
Consumer Goods	6.5	6.5	3.1	6.5
Healthcare	3.5	10.5	3.6	8.5
Basic Materials	2.7	4.8	1.8	2.4
Telecommunications	2.3	2.6	0.6	2.1
Utilities	0.4	—	—	—
Liquidity Funds	4.7	—	—	—
Net current liabilities	(10.3)	—	(7.3)	—
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £96.0m (2007: £143.7m).

Investment Activity

during the year to 31st July 2008

	Value at 31st July 2007		Purchases £'000	Sales £'000	Change in value £'000	Value at 31st July 2008	
	£'000	%				£'000	%
Equities	154,170	100.0	61,801	72,781	(41,796)	101,394	95.7
Liquidity Funds	—	—	39,435	34,900	—	4,535	4.3
Total Portfolio	154,170	100.0	101,236	107,681	(41,796)	105,929	100.0

List of Investments

at 31st July 2008

Company	Valuation £'000	Company	Valuation £'000
Industrials		Industrial Transportation	
Support Services		James Fisher	1,842
Hyder Consulting	2,173	Braemer Shipping Services	1,375
Connaught	1,975	Goldenport	986
WSP	1,870	Air Partner	753
Babcock International	1,833	Electronic & Electrical Equipment	
Diploma	1,658	Chloride	1,957
Brammer	1,637	PV Crystalox Solar	681
Nord Anglia Education	1,598	Dialight	74
Spice	1,343	General Industrials	
Lavendon	1,088	Cosalt	394
White Young Green	1,047	Norcros	283
Ricardo	977	Total Industrials	
CVS	833		53,120
CAPE	750	Consumer Services	
Tribal	683	Travel & Leisure	
Health Care Locums	643	888 Holdings	1,080
BSS	535	Goals Soccer Centres	757
John Menzies	482	Restaurant	530
Latchways	357	All Leisure	504
Harvey Nash	317	Hotel Corporation	454
OPD	280	Domino's Pizza	347
Speedy Hire	269	Media	
Eaga	245	ITE	1,321
Hargreaves Services	210	Centaur	796
Assetco	208	Eros International	522
St.lves	154	YouGov	435
Industrial Engineering		RWS	405
Hill & Smith	2,589	General Retailers	
Senior	1,974	GAME	1,685
Fenner	1,832	The John David Group	952
Severfield-Rowen	1,529	Total Consumer Services	
Vitec	1,181		9,788
Charter	887	Technology	
TGE Marine	474	Software & Computer Services	
Renold	450	AVEVA	2,044
Construction & Materials		Axon	1,621
ROK	1,436	Micro Focus	1,590
Low & Bonar	1,173	NCC	1,278
Keller	1,159	Intec	1,103
Renew	942	RCG Holdings	334
Costain	739	Technology Hardware & Equipment	
Henry Boot	240	BATM Advanced Communications	1,094
Morgan Sindall	32	Total Technology	
Aerospace & Defence			9,064
Hampson Industries	2,864		
Chemring	2,109		

List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
Oil & Gas		Healthcare	
Oil & Gas Producers		Pharmaceuticals & Biotechnology	
Imperial Energy	1,677	Dechra Pharmaceuticals	1,759
Salamander Energy	743	Concateno	421
JKX Oil & Gas	620	Genus	335
Valiant Petroleum	422	Healthcare Equipment & Services	
Afren	329	CareTech	817
Oil Equipment, Services & Distribution		Claimar Care	13
Wellstream	1,898	Total Healthcare	
Hunting	1,383	3,345	
Bateman Litwin	327	Basic Materials	
Total Oil & Gas	7,399	Chemicals	
Financials		Elementis	
General Financial		2,267	
Brewin Dolphin	1,292	Mining	
City of London Investment	821	Central Rand Gold	
GlobeOp	790	319	
Record	694	Total Basic Materials	
London Capital	369	2,586	
Davenham	346	Telecommunications	
Lupus Capital	161	Fixed Line Telecommunications	
Advanced Aim Value Realisation	98	Telecom Plus	
Non Life Insurance		Alternative Networks	
Chaucer	1,378	789	
Real Estate		Total Telecommunications	
Marylebone Warwick Balfour	533	2,169	
Big Yellow	364	Utilities	
Unite	272	Electricity	
Quintain Estates & Development	158	OPG Power Venture	
Total Financials	7,276	367	
Consumer Goods		Total Utilities	
Food Producers		367	
Cranswick	1,506	Total Equities	
Hilton Food	1,227	101,394	
New Britain Palm Oil	524	Liquidity Funds	
PureCircle	504	JPMorgan Sterling Liquidity Fund	
MP Evans	372	4,535	
Booker	364	Total Liquidity Funds	
Leisure Goods		4,535	
Pace Micro	1,783	Total Portfolio	
Total Consumer Goods	6,280	105,929	

Board of Directors



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

Joined the Board and appointed Chairman in 1990.

He is chairman of Tribal Group plc, Close Brothers Group plc, and of British Empire Securities and General Trust plc. He was formerly deputy chairman of Misys plc, the international software and computer services group and a non-executive director of AXA UK plc.



Ivo Coulson* † §

Joined the Board in 2005.

He is Investment Partner at Stanhope Capital LLP, a multi family office based in London. He was formerly an Executive Director of SG Warburg (1994-2000) and a Director of BZW Portfolio Management (1985-1994). He is a Fellow of the Securities Institute.



Richard Fitzalan Howard† §

Joined the Board in 1997.

He is chief executive of FF&P Asset Management Limited. He was a director of Fleming Investment Management Limited (now JPMorgan Asset Management (UK) Limited – manager of the Company's assets) from 1986 to 2000.



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

Joined the Board in 2005.

He is chief executive of CCLA Investment Management Limited, and was formerly chief executive of Leopold Joseph Holdings plc. He is also chairman of the National Trust Investment Committee and a member of the Board of Trustees.



Andrew Robson† § *

Joined the Board in 2007.

He is a chartered accountant and was a director of SG Hambros and Robert Fleming & Co. Limited. He was formerly financial director of eFinancial Group Limited and the National Gallery. He is a director of Shires Income plc, M&G Equity Investment Trust plc and British Empire Securities and General Trust plc. He was a director of Edinburgh UK Smaller Companies Tracker Trust plc.

* Member of the Audit Committee.

† Member of the Nomination Committee.

§ Considered independent by the Board.

Directors' Report

The Directors present their report for the year ended 31st July 2008.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st July 2007. 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 July 2007 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

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

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Managers' Report on pages 5 to 7.

Objective

The Company's objective is to achieve capital growth from UK listed smaller companies by consistent out-performance of the Company's benchmark index, the FTSE Small Cap Index (excluding investment trusts) expressed in Sterling terms, and a rising share price over the longer term by taking carefully controlled risks through an investment method that is clearly communicated to shareholders.

Investment Policies and Risk Management

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

Investment risks are managed by investing in a diversified portfolio of UK listed smaller companies. The number of investments in the portfolio will normally range between 70 and 150. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to stocks and sectors. The maximum exposure to an investment will normally range between +/-2% relative to the benchmark index. The maximum exposure to a sector will normally range between +/-10% relative to the benchmark index.

The Company invests in smaller companies which tend to be more volatile than larger companies and the investment

policy should therefore be regarded as carrying greater than average risk.

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

Investment Restrictions and Guidelines

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

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

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

Performance

In the year to 31st July 2008, the Company produced a total return to shareholders of -29.7% and a total return on net assets of -29.1%. This compares with the return on the Company's benchmark index of -35.5%. As at 31st July 2008, the value of the Company's investment portfolio was £105.9m. The Investment Managers' Report on pages 5 to 7 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total loss for the year amounted to £38,840,000 (2007: gains of £38,511,000) and net total loss after deducting interest, administration expenses and taxation amounted to £40,900,000 (2007: gains £36,127,000). Distributable income for the year amounted to £1,785,000 (2007: £1,172,000).

The Directors recommend a dividend of 7.0p per share payable on 12th December 2008 to holders on the register at the close of business on 14th November 2008. This distribution will absorb £1,402,000. No other dividends were paid in respect of the year. Following payment the revenue reserve after this transfer will amount to £754,000.

Gearing

The Board sets the overall gearing policy. A £23.5 million unsecured floating rate borrowing facility is currently in place with Bank of Ireland. This facility is highly flexible and can be used tactically as investment opportunities present

themselves, with the aim of enhancing returns. As at 31st July 2008, £10 million had been drawn on the facility. The facility is due to expire in April 2009 when the Board will consider its renewal. Further details about the loan facility are given in Note 20 to the Accounts on page 42.

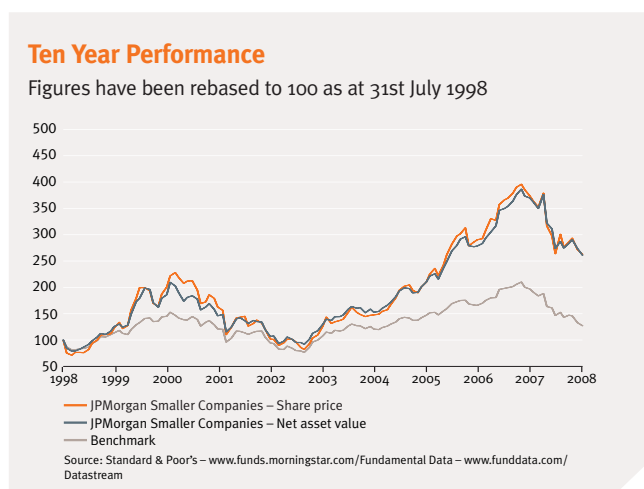
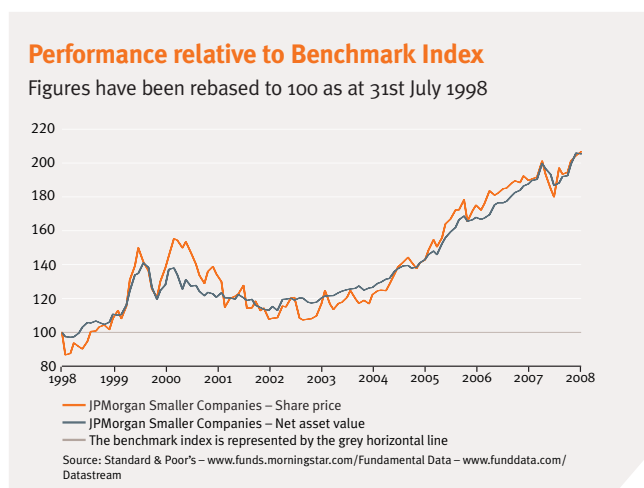
Key Performance Indicators ('KPIs')

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.

Over the ten years to 31st July 2008, the Company recorded a total return of 162.7% which compares very favourably with the benchmark return of 27.1%.



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

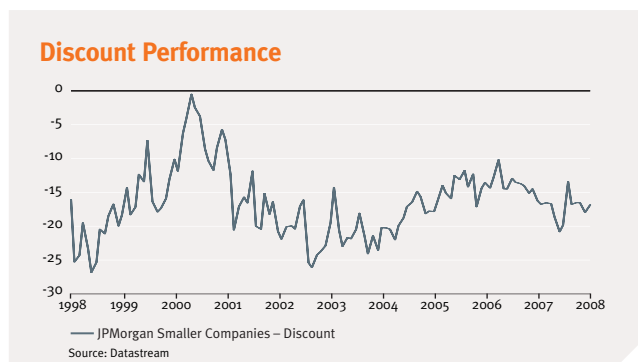
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds. Over ten years the Company ranked second out of nine in the peer group.

- **Performance attribution**

The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 31st July 2008 are given in the Investment Managers' Report on page 5.

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

The Board operates a share repurchase programme that seeks to address imbalances in supply and demand of the Company's shares within the market and thereby minimise the volatility and absolute level of the discount to NAV at which the Company's shares trade. In the year to 31st July 2008, the discount (with debt valued at par) ranged between 13% and 21%.



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

The TER is an expression of the Company's management fees and all other operating expenses excluding interest, expressed as a percentage of the opening and closing net assets. The TER for the year ended 31st July 2008 was 1.15% (2007: 1.33% as restated). The Board reviews each year an analysis which shows a comparison of the Company's TER and its main expenses with those of its peers.

Directors' Report continued

Share Capital

The Company has authority both to repurchase shares in the market for cancellation and issue new shares for cash.

During the year the Company repurchased a total of 1,223,661 ordinary shares for cancellation for a total consideration of £5,675,000. This amount represented 5.8% of the issued share capital at the beginning of the year. As the shares were repurchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares. Since the year end the Company has not repurchased any ordinary shares for cancellation.

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

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

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

Principal Risks

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

- **Investment and Strategy:** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on. JPMorgan Asset Management (UK) Limited (JPMAM) provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Manager employs the Company's gearing tactically, within a strategic range set by the Board. The Board usually holds a separate meeting devoted to strategy each year.
- **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 22 to 25.
- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implication and results of the investment process with the Manager.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 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. Should the Company breach Section 842, it may lose its investment trust status and as a consequence capital gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 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.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on pages 24 and 25.
- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 20 on pages 42 to 45.

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 4 and 7.

Management of the Company

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

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

The Board has evaluated the performance of the Manager and confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. In arriving at this view, the Board considered the investment strategy and process of the Investment Managers, noting consistent out-performance of the benchmark over the long term, and the support that the Company receives from JPMAM.

Management Fee

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

Going Concern

The Directors 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 there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st July 2008, the Company had no outstanding trade creditors (2007: same).

Directors

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

Directors	31st July 2008	1st August 2007
Strone Macpherson	24,860	24,860
Ivo Coulson	5,000	5,000
Richard Fitzalan Howard	9,450	9,450
Michael Quicke	4,333	4,333
Andrew Robson	1,163	1,163

No changes in the above holdings have been notified since the year end.

In accordance with the Company's Articles of Association, the Directors retiring by rotation at the forthcoming Annual General Meeting will be Richard Fitzalan Howard and Strone Macpherson who having been Directors for more than nine years are subject to annual re-election.

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

Disclosure of Information to Auditors

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

- (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 he ought to have taken as a Director in order to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

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

Directors' Report continued

Section 992 Companies Act 2006

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

Capital Structure

The Company's capital structure is summarised on the inside cover of this report.

Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 11 to the Notice of AGM on page 51.

Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%
JPMorgan Asset Management (UK) Ltd ¹	2,710,335	13.04
Puddle Dock Nominees Limited ²	2,617,127	13.07
Royal London Asset Management	1,787,477	8.93
ING Bank N.V.	1,289,977	6.44
Legal & General Investment Management	1,025,282	5.02
Barclays plc	993,939	4.96
East Riding of Yorkshire Council	900,000	4.29
Metage Capital Limited	700,000	3.50

¹Includes: JPMorgan Elect plc (Managed Growth shares) 710,000 3.50

²Held on behalf of JPMAM Share Plan, PEP and ISA participants.

Independent Auditors

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

Annual General Meeting

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

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

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

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2008 Annual General Meeting, will expire on 27th May 2009 unless renewed at the forthcoming Annual General Meeting. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying net asset value ('NAV') would enhance the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority which will last until 27th May 2010 or until the whole of the 14.99 per cent has been acquired, whichever is the earlier.

The full text of the resolution is set out in the Notice of Meeting on page 50. Repurchases will be made at the discretion of the Board, and will only be made in the market at prices below the prevailing NAV per share as and when market conditions are appropriate.

(ii) Authority to increase the aggregate maximum Directors' fees (resolution 9)

To allow for Board succession planning, the Directors recommend that, in accordance with Article 86 of the Company's Articles of Association, the permitted maximum aggregate of Directors' fees payable be increased from £125,000 to £150,000 per annum.

(iii) Continuation vote (resolution 10)

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

(iv) Authority to issue new shares for cash and disapply pre-emption rights (Resolutions 11 and 12)

The Directors will seek renewal of the authority at the AGM to issue up to 1,001,266 new ordinary shares for cash up to an aggregate nominal amount of £250,316, such amount being equivalent to approximately 5% of the present issued share capital. The full text of the resolutions is set out in the Notice of Meeting on pages 49 and 51.

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

(v) Adoption of new Articles of Association (Resolution 13)**The Company proposes to adopt new articles of association**

These incorporate amendments to the current articles of association to reflect the provisions of the Companies Act 2006 (the '2006 Act') and otherwise generally update the Articles of Association for current law, regulation and market practice. The 2006 Act came, or will come, into effect in 2007, 2008 and 2009. As the 2006 Act will not be fully in force until October 2009, it is not yet possible to fully reflect the 2006 Act changes and it is expected that shareholders will be asked to approve further changes to the articles of association at the 2009 AGM.

The principal changes brought about by the new articles of association proposed to be adopted at the forthcoming AGM relate to electronic communication with shareholders, shareholder meetings and resolutions, directors' indemnities, transfers of shares and directors' conflicts of interest. For a more detailed explanation of these and other amendments please refer to the Appendix on pages 52 to 54.

A copy of the current Articles of Association and the proposed new Articles of Association will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMAM, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ from the date of this report up until the close of the AGM. Copies will also be available at The Library, JPMorgan, 60 Victoria Embankment, London EC4y 0JP, being the place of the AGM, for 15 minutes prior to, and during, the meeting.

Recommendation

The Board considers that resolutions 8 to 13 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 44,806 shares representing approximately 0.22% of the voting rights of the Company.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
17th October 2008

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 27, indicates how the Company has applied the principles of good governance of the 2003 Financial Reporting Council Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

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

Role of the Board

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

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

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

Board Composition

The Board chaired by Strone Macpherson, consists of five non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 15.

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

Tenure

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

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

As a result of the Board's evaluation process described below, it confirms that Richard Fitzalan Howard and Strone Macpherson, who retire by rotation at this year's AGM, continue to be effective Directors and demonstrate commitment to their role and therefore recommends their re-election at the forthcoming AGM.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of Committees are shown with the Directors' profiles on page 15. Directors who are not members of Committees may attend at the invitation of the Chairman.

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Strone Macpherson	5	2	1
Ivo Coulson	4	2	1
Richard Fitzalan Howard	5	2	1
Michael Quicke	5	2	1
Andrew Robson	5	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 of that of its committees and individual Directors. Questionnaires, drawn up by the Board, are completed by each Director. The responses are collated and then discussed at a private meeting. The evaluation of individual Directors is led by the Chairman, and the Chairman of the Audit Committee leads the evaluation of the Chairman's performance. The Board as a whole evaluates the Manager, its own performance and that of those committees.

Board Committees

Nomination Committee

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

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

Audit Committee

The Audit Committee, chaired by Michael Quicke and whose membership is set out on page 15, meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee and are satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Managers' Compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors; in the Directors' opinion, the auditors are independent. The Audit Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of external auditors. Representatives of the Company's auditors attend the Audit Committee meeting at which the draft annual report and accounts are considered. The Directors' statement on the Company's system of internal control is set out overleaf.

Corporate Governance continued

Terms of Reference

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

Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Managers are available in person to meet with shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 47.

The Company's Annual Report and Accounts are published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 47.

Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

Internal Control

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

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

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

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

Management Agreement – Appointment of a manager and custodian regulated by the Financial Services Authority (FSA), whose responsibilities are clearly defined in a written agreement.

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

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

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

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

By the means of the procedures set out above, the Board confirms that it has reviewed, and is satisfied with, the effectiveness of the Company's system of internal control for the year ended 31st July 2008, and to the date of approval of this Annual Report and Accounts. During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

Corporate Governance and Voting Policy

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

"JPMAM is committed to delivering superior investment performance to its clients worldwide. We believe that one of the drivers of investment performance is an assessment of the

corporate governance principles and practices of the companies in which we invest our clients' assets and we expect those companies to demonstrate high standards of governance in the management of their business.

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

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

Corporate Social Responsibility

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

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

Directors' Remuneration Report

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

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on pages 28 and 29.

Directors' Remuneration

Director's Name	2008 £	2007 £
Strone Macpherson (Chairman)	24,000	22,000
Ivo Coulson	17,000	16,000
Richard Fitzalan Howard	17,000	16,000
Michael Quicke	19,000	18,000
Andrew Robson ¹	17,000	5,108
Total	94,000	77,108

Directors' fees were paid at a fixed rate of £24,000 per annum for the Chairman, £19,000 per annum for the Chairman of the Audit Committee and £17,000 per annum for each other Director from the beginning of the financial year.

The total Directors' fees of £94,000 (2007: £77,108) comprise £94,000 (2007: £77,108) in respect of aggregate emoluments paid to Directors and £nil (2007: £nil) paid to third parties for making available the services of Directors.

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

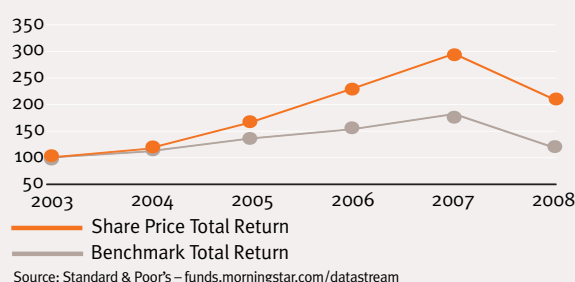
As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. The Company's Articles stipulate that aggregate fees must not exceed £125,000 per annum. Directors' fees are reviewed

regularly and any increase in the maximum aggregate amount requires both Board and shareholder approval. The Board will seek shareholder approval at the forthcoming Annual General Meeting to increase the maximum aggregate amount payable per annum to £150,000. The Directors do not have service contracts with the Company.

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

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

Five year share price and benchmark total return to 31st July 2008



By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
17th October 2008

Directors' Responsibilities in Respect of the Accounts

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

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company as at the end of the year and of the total return for the year for that period. In preparing these accounts, the Directors are required to:

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

The Directors confirm that they comply with these requirements.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The accounts are published on the www.jpmsmallercompanies.co.uk website, which is maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website is, so far as it relates to the Company, the responsibility of JPMAM.

Statement under the Disclosure & Transparency Rules

4.1.12

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

- (a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- (b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board
 Strone Macpherson
 Chairman
 17th October 2008

Independent Auditors' Report

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

We have audited the financial statements of JPMorgan Smaller Companies Investment Trust plc for the year ended 31st July 2008 which comprise the Income Statement, Reconciliation of Movements 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. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and in the Investment Manager's Report that is cross referenced from the business review section of the Directors' Report.

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 2006 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 and consider whether it is consistent with the audited financial statements. The other information comprises only the Director's report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Investment Manager's Report. 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 July 2008 and of its loss 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, United Kingdom

17th October 2008

Income Statement

for the year ended 31st July 2008

	Notes	Revenue £'000	2008 Capital £'000	Total £'000	Revenue £'000	2007 Capital £'000	Total £'000
(Losses)/gains from investments held at fair value through profit or loss							
Net foreign currency gains/(losses)	2	—	(41,818)	(41,818)	—	35,973	35,973
Income from investments	3	2,943	—	2,943	2,519	—	2,519
Other interest receivable and similar income	3	34	—	34	21	—	21
Gross return/(loss)							
Management fee	4	(533)	(533)	(1,066)	(697)	(697)	(1,394)
Other administrative expenses	5	(314)	—	(314)	(351)	—	(351)
Net return/(loss) on ordinary activities before finance costs and taxation							
Finance costs	6	(335)	(335)	(670)	(319)	(319)	(638)
Net return/(loss) on ordinary activities before taxation							
Taxation	7	(10)	—	(10)	(1)	—	(1)
Net return/(loss) on ordinary activities after taxation							
Return/(loss) per ordinary share							
	9	8.67p	(207.22)p	(198.55)p	5.22p	155.62p	160.84p

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies. The 'Total' column represents all the information that is required to be disclosed in a 'Statement of Total Recognised Gains and Losses' ('STRGL'). For this reason a STRGL has not been presented.

The notes on pages 34 to 46 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st July 2008

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st July 2006	5,757	18,360	909	92,075	1,225	118,326
Shares bought back and cancelled	(445)	—	445	(9,817)	—	(9,817)
Net return from ordinary activities	—	—	—	34,955	1,172	36,127
Dividends appropriated in the year	—	—	—	—	(979)	(979)
At 31st July 2007	5,312	18,360	1,354	117,213	1,418	143,657
Shares bought back and cancelled	(306)	—	306	(5,675)	—	(5,675)
Net (loss)/return from ordinary activities	—	—	—	(42,685)	1,785	(40,900)
Dividends appropriated in the year	—	—	—	—	(1,047)	(1,047)
At 31st July 2008	5,006	18,360	1,660	68,853	2,156	96,035

The notes on pages 34 to 46 form an integral part of these accounts.

Balance Sheet

at 31st July 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Investments at fair value through profit or loss		101,394	154,170
Investments in liquidity funds at fair value through profit or loss		4,535	—
Total investments	10	105,929	154,170
Current assets			
Debtors	11	237	984
Cash at bank and in hand		99	—
		336	984
Creditors: amounts falling due within one year	12	(10,230)	(11,497)
Net current liabilities		(9,894)	(10,513)
Total assets less current liabilities		96,035	143,657
Total net assets			
Capital and reserves			
Called up share capital	13	5,006	5,312
Share premium	14	18,360	18,360
Capital redemption reserve	14	1,660	1,354
Capital reserve	14	68,853	117,213
Revenue reserve	14	2,156	1,418
Shareholders' funds		96,035	143,657
Net asset value per ordinary share	15	479.6p	676.1p

The accounts on pages 30 to 46 were approved and authorised for issue by the Directors on 17th October 2008 and are signed on their behalf by:

Strone Macpherson

Chairman

The notes on pages 34 to 46 form an integral part of these accounts.

Cash Flow Statement

for the year ended 31st July 2008

	Notes	2008 £'000	2007 £'000
Net cash inflow from operating activities	16	1,443	932
Returns on investments and servicing of finance			
Interest paid		(788)	(586)
Net cash outflow from returns on investments and servicing of finance		(788)	(586)
Capital expenditure and financial investment			
Purchases of investments		(101,301)	(93,340)
Sales of investments		108,539	100,856
Other capital charges		(13)	(15)
Net cash inflow from capital expenditure and financial investment		7,225	7,501
Dividends paid		(1,047)	(979)
Net cash inflow before financing		6,833	6,868
Financing			
Net (repayment)/drawdown of loans		(1,000)	2,000
Repurchase of ordinary shares		(5,578)	(9,817)
Net cash outflow from financing		(6,578)	(7,817)
Increase/(decrease) in cash for the year	17	255	(949)

The notes on pages 34 to 46 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st July 2008

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 continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value.

The Company has adopted FRS 29: 'Financial Instruments: Disclosures' for the first time in these accounts. FRS 29 introduces new disclosure requirements relating to financial instruments. This standard does not have any impact on the classification and/or valuation of the Company's financial instruments. The disclosures required by this standard are given in notes 20 and 21 on pages 42 to 46.

The Company has a dormant and wholly owned subsidiary, Fleming Smaller Companies Securities Limited. Consolidated accounts have not been prepared as exemption under Section 229 of the Companies Act 1985 has been exercised due to the immateriality of the subsidiary.

(b) Valuation of investments

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

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'. 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 and included in realised gains or losses on investments. UK dividends are accounted for net of any tax credits.

Interest receivable is taken to revenue on an accruals basis.

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

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

(d) Expenses

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

- management fees are allocated 50% to revenue and 50% to capital.
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and include items such as stamp duty and broker commissions. 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 using the effective interest rate method in accordance with the provisions of FRS25 'Financial Instruments: Presentation' and FRS26 'Financial Instruments: Measurement'.

Finance costs are allocated 50% to revenue and 50% to capital.

(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 and payables do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

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

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

(g) Taxation

Deferred tax is accounted for in accordance with FRS19: 'Deferred Tax'.

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

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

(h) Dividends

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

(i) VAT

Irrecoverable VAT is included in the expense on which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. Further information regarding VAT on management fees is given in note 18 on page 42.

	2008	2007
	£'000	£'000
2. (Losses)/gains from investments held at fair value through profit or loss		
Realised gains from investments held at fair value through profit or loss based on historical cost	8,713	24,958
Amounts recognised as revaluation gains in the previous year	(27,173)	(22,129)
Realised (losses)/gains based on carrying value at previous balance sheet date	(18,460)	2,829
Net movement in revaluation gains	(23,336)	33,156
Other capital charges	(22)	(12)
Total capital (losses)/gains from investments held at fair value through profit or loss	(41,818)	35,973

Notes to the Accounts continued

	2008 £'000	2007 £'000
3. Income		
Income from investments:		
UK dividend income	2,599	2,407
Scrip dividends	—	11
Overseas dividends	149	8
Income from liquidity fund	195	93
	2,943	2,519
Other income:		
Deposit interest	14	13
Underwriting commission	20	8
	34	21
Total income	2,977	2,540

	Revenue £'000	2008 Capital £'000	Total £'000	Revenue £'000	2007 Capital £'000	Total £'000
4. Management fee						
Management fee	515	515	1,030	593	593	1,186
VAT thereon	18	18	36	104	104	208
	533	533	1,066	697	697	1,394

Details of the management fee are given in the Directors' Report on page 19.

	2008 £'000	2007 £'000
5. Other administrative expenses		
Other management expenses	134	186
Directors' fees ¹	94	77
Savings product ²	62	62
Auditors' remuneration for audit services ³	23	21
Auditors' remuneration for all other services	1	5
	314	351

¹Full disclosure is given in the Directors' Remuneration Report on page 26.

²Paid to JPMAM for the administration of 'wrapper' products.

³Includes £3,000 (2007: £4,000) irrecoverable VAT.

	Revenue £'000	2008 Capital £'000	Total £'000	Revenue £'000	2007 Capital £'000	Total £'000
6. Finance costs						
On bank loans and overdrafts	335	335	670	319	319	638

	2008 £'000	2007 £'000
7. Taxation		
UK corporation tax at 29.33% (2007: 30%)	—	—
Overseas tax	10	1
Current tax	10	1

The tax charge for the year is higher than (2007: lower than) the Company's applicable rate of corporation tax of 29.33% (2007: 30%). The difference is explained below.

	2008 £'000	2007 £'000
Net total (loss)/return on ordinary activities before taxation	(40,890)	36,128
Corporation tax at 29.33% (2007: 30%)	(11,993)	10,838
Effects of:		
Non taxable capital losses/(returns)	12,520	(10,486)
Management fee and finance costs charged to capital	(255)	(305)
Non taxable UK dividends	(762)	(722)
Non taxable scrip dividends	—	(3)
Unutilised expenses	490	678
Overseas tax	10	1
	10	1

The Company has an unrecognised deferred tax asset of £4,793,000 based on a prospective corporation tax rate of 28% (2007: £4,626,000 based on a corporation tax rate of 30%). This has arisen from deductible expenses exceeding taxable income. Given the composition of the Company's portfolio it is not likely that this asset will be 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 for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Accounts continued

	2008 £'000	2007 £'000
8. Dividends		
(a) Dividends paid and proposed		
2007 final dividend of 5.00p (2006: 4.25p)	1,047	979
Total dividends paid in the year	1,047	979
Final dividend proposed of 7.00p (2007: 5.00p)	1,402	1,062

For the year ended 31st July 2007, the Company declared a dividend of £1,062,000 but the dividend paid amounted to £1,047,000 as a result of share buybacks.

The final dividend has been proposed in respect of the year ended 31st July 2008 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ended 31st July 2009.

(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:

	2008 £'000	2007 £'000
Final dividend payable of 7.00p (2007: 5.00p)	1,402	1,062
Total dividends for Section 842 purposes	1,402	1,062

The revenue available for distribution by way of dividend for the year is £1,785,000 (2007: £1,172,000).

9. Return/(loss) per ordinary share

The revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £1,785,000 (2007: £1,172,000) and on the weighted average number of shares in issue during the year of 20,598,483 (2007: 22,462,361).

The capital loss per ordinary share is based on the capital loss attributable to the ordinary shares of £42,685,000 (2007: gains of £34,955,000) and on the weighted average number of shares in issue during the year of 20,598,483 (2007: 22,462,361).

The total loss per ordinary share is based on the total loss attributable to the ordinary shares of £40,900,000 (2007: gains of £36,127,000) and on the weighted average number of shares in issue during the year of 20,598,483 (2007: 22,462,361).

	2008 £'000	2007 £'000
10. Investments		
Investments listed in the UK ¹	105,929	154,170
Opening book cost	97,116	81,020
Opening revaluation gains	57,054	46,027
Opening valuation	154,170	127,047
Movements in the year:		
Purchases at cost	101,236	92,432
Sales – proceeds	(107,681)	(101,294)
Sales – realised (losses)/gains	(18,460)	2,829
Net change in revaluation gains	(23,336)	33,156
	105,929	154,170
Closing book cost	99,384	97,116
Closing revaluation gains	6,545	57,054
	105,929	154,170

¹Includes the investment in the JPMorgan Sterling Liquidity Fund.

Transaction costs on purchases during the year amounted to £349,000 (2007: £345,000) and on sales during the year amounted to £107,000 (2007: £112,000). These costs include stamp duty and broker commission and are included in purchases and netted off against sales in the above note.

During the year £27,173,000 of prior year revaluation gains have been transferred to realised as described in note 14.

Subsidiary Company

The Company has a wholly-owned subsidiary called Fleming Smaller Companies Securities Limited which was formed as a dealing company for its parent. It is incorporated in Great Britain and registered in England and Wales. During the year to 31st July 2008 the subsidiary did not trade and had negligible assets and liabilities at 31st July 2007 and 2008. Therefore, consolidated accounts have not been prepared.

Notes to the Accounts continued

	2008 £'000	2007 £'000
11. Current assets		
Debtors - loans and receivables		
Securities sold for future settlement	8	866
Dividends and interest receivable	212	114
Other debtors	17	4
	237	984

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

Cash at bank and in hand

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

	2008 £'000	2007 £'000
12. Creditors - financial liabilities held at amortised cost		
Bank loan	10,000	11,000
Overdrafts	—	157
Securities purchased for future settlement	12	77
Repurchases of the Company's shares for future settlement	97	—
Other creditors and accruals	121	263
	10,230	11,497

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

The loan is unsecured and is drawn down on the Company's floating rate loan facility with The Bank of Ireland. Further details are given in note 20 on page 43.

	2008 £'000	2007 £'000
13. Called up share capital		
Authorised share capital:		
56,000,000 (2007: 56,000,000) ordinary shares of 25p each – equity	14,000	14,000
50,000 (2007: 50,000) redeemable preference shares of £1 each – non equity	50	50
	14,050	14,050
Issued share capital:		
Ordinary shares of 25p each:		
Opening balance of 21,248,983 (2007: 23,030,186) ordinary shares	5,312	5,757
Repurchase of 1,223,661 (2007: 1,781,203) ordinary shares	(306)	(445)
Closing balance of 20,025,322 (2007: 21,248,983) ordinary shares	5,006	5,312

During the year, the Company repurchased 1,223,661 ordinary shares, nominal value £306,000, for cancellation, representing 5.8% of the shares outstanding at the beginning of the year. The aggregate consideration paid for these shares was £5,675,000 and the reason for the purchases was to reduce discount volatility.

	Share premium £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
14. Reserves					
Beginning of year	18,360	1,354	60,159	57,054	1,418
Realised foreign currency gains on cash and short term deposits	—	—	1	—	—
Realised losses on investments	—	—	(18,460)	—	—
Transfer on disposal of investments	—	—	27,173	(27,173)	—
Net change in revaluation gains	—	—	—	(23,336)	—
Repurchase of ordinary shares	—	306	(5,675)	—	—
Management fee and finance costs charged to capital	—	—	(868)	—	—
Other capital charges	—	—	(22)	—	—
Dividends appropriated in the year	—	—	—	—	(1,047)
Net revenue for the year	—	—	—	—	1,785
Closing balance	18,360	1,660	62,308	6,545	2,156

The Company may only distribute accumulated 'realised' profits. The Institute of Chartered Accountants in England and Wales, has issued guidance (TECH 01/08), stating that profits arising out of the change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence revaluation gains less losses on listed investments amounting to £6,545,000 currently included within the Capital reserve – unrealised may be regarded as distributable under the Company Law. However it should be noted that the Company's Articles of Association prohibit the distribution of capital profits by way of dividend.

15. Net asset value per ordinary share

Net asset value per ordinary share is based on the funds attributable to ordinary shareholders and on 20,025,322 (2007: 21,248,983) ordinary shares in issue at the year end. Since the year end, conditions in the world market have remained exceptionally volatile and there has been a significant change in the net asset value of the Company. The net asset value per share and share price as at 14th October 2008 has been included in the Chairman's Statement on page 2.

	2008 £'000	2007 £'000
16. Reconciliation of total (loss)/return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total (loss)/return on ordinary activities before finance costs and taxation	(40,220)	36,766
Add back capital return/(loss) before finance costs and taxation	42,350	(35,274)
Scrip dividends received as income	—	(11)
(Increase)/decrease in accrued income	(98)	130
Increase in other debtors	(13)	—
(Decrease)/increase in accrued expenses	(33)	19
Tax on unfranked investment income	(10)	(1)
Management fee charged to capital	(533)	(697)
Net cash inflow from operating activities	1,443	932

	At 1st August 2007 £'000	Cashflow £'000	Non-cash movements £'000	At 31st July 2008 £'000
17. Reconciliation of movement in net debt				
Cash at bank and in hand less bank overdrafts	(157)	255	1	99
Bank loans falling due within one year	(11,000)	1,000	—	(10,000)
Net debt	(11,157)	1,255	1	(9,901)

Notes to the Accounts continued

18. Contingent assets/liabilities and capital commitments

In 2004 the AIC lodged a joint appeal for the payment of investment trust management fees to be exempt from VAT. In June 2007 the European Court of Justice found in favour of the AIC and in November 2007 HM Revenue and Customs ('HMRC') announced their withdrawal from the case. This means that VAT will no longer be charged on investment management fees and that the Company is entitled to seek reimbursement of VAT paid in the past. The Manager ceased charging VAT on management fees with effect from 1st October 2007 and has filed protective claims for the period subsequent to 1st February 2001 and as a result, based upon current discussions with the Manager, it is presently estimated that approximately £950,000 is potentially recoverable for this period. A decision in the Court of Appeal has opened the possibility for additional VAT recovery from HMRC for the period from 1st January 1990 to 4th December 1996.

In the absence of a definitive agreement with the Manager, there is not yet certainty as to the amount or timing of any recovery. Accordingly no asset has been recognised in the accounts at 31st July 2008.

There were no contingent liabilities or capital commitments at the balance sheet date (2007: nil).

19. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 19. The terms make allowance for the exclusion of management charges on investments held in funds on which JPMorgan Asset Management ('JPMAM') earns a separate management fee. The fee payable to JPMAM for the year was £1,030,000 (2007: £1,186,000) of which £nil (2007: £nil) was outstanding at the year end.

Expenses amounting to £52,000 (2007: £52,000) excluding VAT were payable to JPMAM for the marketing of its savings products of which £nil (2007: £4,000) was outstanding at the year end.

Included in other management expenses in note 5 on page 36 are safe custody fees payable to the JPMorgan Group amounting to £5,000 (2007: £7,000) of which £3,000 (2007: £2,000) was outstanding at the year end.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arms' length. The commission payable to JPMorgan Securities for the year was £13,000 (2007: £10,000) of which £nil (2007: £nil) was outstanding at the year end.

Handling charges incurred on dealing transactions amounting to £22,000 (2007: £12,000) excluding VAT were payable to the JPMorgan Group of which £11,000 (2007: £2,000) was outstanding at the year end.

During the current and prior year, the Company made purchases and sales of units in the JPMorgan Sterling Liquidity Fund which is managed by JPMAM. At the year end, the Company's investment in this fund amounted to £4,535,000 (2007: £nil) and represented 4.3% of the Company's investment portfolio. Income amounting to £195,000 (2007: £93,000) was receivable from this investment for the year.

At the year end, a bank balance of £99,000 (2007: overdraft of £157,000) was held with JPMorgan Chase. Interest amounting to £14,000 (2007: £13,000) was receivable by the Company from JPMorgan Chase for the year. Overdraft interest amounting to £nil (2007: £2,000) was payable to JPMorgan Chase for the year.

20. Financial instruments, exposure to risk and risk management policies

As an investment trust, the Company invests in equities and other securities for the long term to secure its investment objective stated on the inside cover of the report. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends. These risks include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management. The Company has no material exposure to foreign currencies. The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's financial instruments may comprise the following:

- investments in equity shares of UK companies and a sterling liquidity fund. These are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- a sterling bank loan, the purpose of which is to raise finance for the Company's operations and provide leveraged returns for the Company's shareholders.

(a) Market risk

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

(i) Interest rate risk

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

Management of interest rate risk

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

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

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

Interest rate exposure

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

	2008 £'000	2007 £'000
Exposure to floating interest rates:		
JPMorgan Sterling Liquidity Fund	4,535	–
Cash at bank	99	–
Creditors: amounts falling due within one year		
Borrowings on the loan facility	(10,000)	(11,000)
Overdrafts	–	(157)
	(5,366)	(11,157)

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

Interest receivable on cash balances, or paid on overdrafts, is at a margin over the London Interbank Offer Rate (LIBOR).

The Company has a £23.5 million loan facility with The Bank of Ireland which expires in April 2009. Under the terms of this agreement the Company may draw down up to £13.5 million at an interest rate of LIBOR as offered in the market for Sterling deposits in the amount and term of the relevant period, plus a margin of 0.45% per annum plus the Mandatory Cost, which is the cost of complying with certain regulatory requirements. Amounts drawn down in excess of £13.5 million incur interest at LIBOR plus a margin of 0.5% plus the Mandatory Cost. At 31st July 2008, the Company had drawn down £10.0 million on this facility, repayable on 8th August 2008 at an interest rate of 5.90%. At 31st July 2007, the Company had drawn down £11.0 million on this facility, repayable on 10th August 2007 at an interest rate of 6.21%.

The exposure to floating interest rates, comprising net loan balances, has fluctuated during the year as follows:

	2008 £'000	2007 £'000
Maximum interest rate exposure to floating rates – net loan balances	(11,157)	(11,485)
Minimum interest rate exposure to floating rates – net loan balances	(2,986)	(5,865)

Interest rate sensitivity

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

Notes to the Accounts continued

	2008		2007	
	Increase in rate £'000	Decrease in rate £'000	Increase in rate £'000	Decrease in rate £'000
Income statement – return after taxation				
Revenue return (decrease)/increase	(4)	4	(56)	56
Capital return (decrease)/increase	(50)	50	(56)	56
Total (decrease)/increase in return after taxation for the year	(54)	54	(112)	112
Net assets (decrease)/increase	(54)	54	(112)	112

In the opinion of the Directors, the above sensitivity analysis is not representative of the whole year as the level of exposure has changed due to fluctuations in cash balances, investment in the JPMorgan Sterling Liquidity Fund and amounts drawn down on the loan facility. The maximum and minimum exposure to floating interest rates, comprising net loan balances, is shown above. Investment in the Liquidity Fund has fluctuated between £nil and £8.1 million during the year (2007: £nil and £4.2 million). During the year, the amount drawn down on the loan facility fluctuated between £7.0 million and £11.0 million and the interest rate on the drawings fluctuated between 5.9% and 7.1%.

(ii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of investments.

Management of other price risk

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

Other price risk exposure

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

	2008 £'000	2007 £'000
Equity investments at fair value through profit or loss	101,394	154,170

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

Concentration of exposure to other price risk

An analysis of the Company's investments by industry sector is given on pages 13 and 14. All of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment's country of domicile does not necessarily equate to its exposure to the economic conditions in that country.

Other price risk sensitivity

The following table illustrates the sensitivity of net assets to an increase or decrease of 10% in the fair value of the Company's equities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2008		2007	
	Increase in value £'000	Decrease in value £'000	Increase in value £'000	Decrease in value £'000
Income statement – return after taxation				
Revenue return (decrease)/increase	(41)	41	(62)	62
Capital return increase/(decrease)	10,099	(10,099)	15,355	(15,355)
Total increase/(decrease) in return after taxation	10,058	(10,058)	15,293	(15,293)
Net assets increase/(decrease)	10,058	(10,058)	15,293	(15,293)

(b) Liquidity risk

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

Management of the risk

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

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a) (i) to this note on page 43.

Liquidity risk exposure

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

	2008		2007	
	Three months or less £'000	Total £'000	Three months or less £'000	Total £'000
Creditors: amounts falling due within one year				
Purchases of investments for future settlement	12	12	77	77
Loans	10,000	10,000	11,000	11,000
Overdrafts	—	—	157	157
Other creditors	218	218	263	263
	10,230	10,230	11,497	11,497

(c) Credit risk

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

Management of credit risk

This risk is not significant and is managed by:

- only dealing with brokers which have been approved by JPMAM and banks with high credit ratings assigned by international credit rating agencies; and
- setting limits to the maximum exposure to any one counterparty at any time.

Credit risk exposure

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

Cash at bank comprises balances held at banks with an AA credit rating or higher (2007: same).

(d) Fair values of financial assets and financial liabilities

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

Notes to the Accounts continued

21. Capital management policies and procedures

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

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

	2008 £'000	2007 £'000
Investments excluding liquidity fund holdings	101,394	154,170
Net assets	96,035	143,657
Gearing	105.6%	107.3%

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

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

Information about the Company

Financial Calendar

Financial year end	31st July
Final results announced	October
Half year end	31st January
Half year results announced	March
Interim Management Statements	April and October
Dividends on ordinary shares paid	Annually in December
Annual General Meeting	November

History

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

Company Numbers

Company registration number 2515996
 London Stock Exchange number: 0741600
 ISIN: GB0007416000
 Bloomberg Code: JMI LN

Market Information

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

Website

www.jpmsmallercompanies.co.uk

Share Transactions

The 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 Investment Trust Share Plan and the Individual Savings Account (ISA).

Manager and Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

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

For Company secretarial and administrative matters please contact Divya Amin.

Registrars

Equiniti
 Reference 1139
 Aspect House
 Spencer Road
 Lancing
 West Sussex
 BN99 6DA
 Telephone number: 0871 384 2341

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

Independent Auditors

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

Brokers

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

Savings Products Administrators

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

aic

The Association of
 Investment Companies A member of the AIC

Shareholder Analysis

at 31st July 2008

		2008	2007
	Number of shares	% holding	% holding
Unit Trusts	3,585,005	34.9	17.2
Other Institutions	2,500,335	24.4	11.6
Investment Trusts ¹	2,011,974	19.6	9.5
Pension Funds	1,975,941	19.3	10.6
Insurance Companies	189,931	1.9	0.6
Total Institutions	10,263,186	51.3	49.5
Private Client Brokers	3,983,522	40.8	21.7
Retail Investors holding shares directly or through nominee accounts ²	2,786,447	28.5	13.9
Individuals in the Investment Trust Individual Savings Account ³	1,513,192	15.5	2.3
Individuals in the Investment Trust Share Plan ³	1,026,930	10.5	4.9
Individuals in the Investment Trust Pension Account ³	452,045	4.6	2.4
Total Retail Holdings	9,762,136	48.7	50.5
Total Shares in Issue	20,025,322	100.0	100.0

Nominee accounts have been allocated to their appropriate category.

¹Includes 710,000 shares held by JPMorgan Elect plc.

²Includes shares below the threshold of 10,000 shares.

³Savings product managed by JPMorgan.

Source: Thomson Financial.

Notice of Meeting

Notice is hereby given that the eighteenth Annual General Meeting of JPMorgan Smaller Companies Investment Trust plc will be held at The Library, JPMorgan, 60 Victoria Embankment, London EC4Y 0JP at 12.00 noon. on Friday 28th November 2008 for the following purposes.

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st July 2008.
- 2 To approve the Directors' Remuneration Report for the year ended 31st July 2008.
- 3 To approve a final dividend of 7p per ordinary share.
- 4 To re-elect Mr Richard Fitzalan Howard a Director of the Company.
- 5 To re-elect Mr Michael Quicke a Director of the Company.
- 6 To re-elect Mr Strone Macpherson a Director of the Company
- 7 To re-appoint Deloitte & Touche LLP as Auditors to the Company and to authorise the Directors to agree their remuneration.

Special Business:

To consider the following resolutions:

Authority to repurchase the Company's shares

- 8 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 Shares of 25p each in the capital of the Company.

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 3,001,795 or, if less, that number of shares which is equal to 14.99% of the Company's ordinary issued share capital as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for an ordinary share shall be 25p;
- (iii) the maximum price which may be paid for a Share shall be an amount equal to the highest of (a) 105 per cent of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;
- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 27th May 2010 unless the authority is renewed at the Company's Annual General Meeting in 2009 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract notwithstanding such expiry.

Authority to increase the maximum aggregate Directors fees - Ordinary Resolution

- 9 THAT in accordance with Article 86 of the Company's Articles of Association, the maximum aggregate Director's fees payable be increased from £125,000 to £150,000 per annum with immediate effect.

Continuation Vote - Ordinary Resolution

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

Notice of Meeting continued

Authority to allot new shares – Ordinary Resolution

11 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to Section 80 of the Companies Act 1985 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £250,054, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

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

12 THAT subject to the passing of Resolution 11 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 11 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £250,054, representing approximately 5% of the total ordinary share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Adoption of new Articles of Association

13 THAT the Articles of Association, contained in the document produced to the meeting and signed by the Chairman for the purposes of identification, be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2008 Annual General Meeting.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
17th October 2008

Notes

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

- 1 A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
- 2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will automatically be terminated.
- 3 A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
- 4 Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.

- 5 You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last sent shall be treated as replacing and revoking the other or others.
- 6 To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.
- 7 Entry to the Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.
- 8 A corporation, which is a shareholder, may appoint individuals to act as its representatives and to vote in person at the Meeting (see instructions given on the proxy form). In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above. Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
- 9 The register of interests of the Directors and connected persons in the share capital of the Company is available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting.
- 10 No Director has any contract of service with the Company.
- 11 As at 15th October 2008 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 20,004,322 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 20,004,322.

Electronic appointment – CREST members

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

Appendix

Explanatory Notes to Resolution 13

The Companies Act 2006 (the '2006 Act'), which is replacing the Companies Act 1985 (the '1985 Act') is being implemented in stages and will be fully in force by 1st October 2009. Under resolution 13, the Company is proposing to adopt new Articles of Association (the 'new Articles') which will reflect the changes in company law brought about by the 2006 Act which are already in force or which are to come into effect on 1st October 2008, as well as some minor technical or clarifying changes. The new Articles will also generally update the Articles of Association for current law regulation and market practice.

1. Transfer of shares (Articles 37 and 38)

Under the 2006 Act, a company must either register a transfer or give the transferee notice of, and reasons for, its refusal to register the transfer. Any registration of a transfer or notice of refusal must be made or given as soon as practicable and in any event within two months from the date that the transfer is lodged with the company. The new Articles reflect these requirements.

2. Disclosure of interests (Article 46)

The provisions relating to the disclosure of interests in shares contained in the 1985 Act, including Section 212 on company investigation powers, were repealed in January 2007. Section 793 and related sections in Part 22 of the 2006 Act, which contain the corresponding company investigation powers previously contained in Section 212, were brought into force simultaneously. Article 46 reflects the replacement of Section 212 of the 1985 Act with Section 793 of the 2006 Act.

3. Notice of general meetings (Articles 5, 54 and 55)

The provisions in the new Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are in line with the relevant provisions of the 2006 Act. In particular, a general meeting (other than the annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

Article 55 deals with situations where, because of a postal strike or similar situation beyond the control of the Company, a notice of meeting is not received by a shareholder. The amendment will ensure that such failure does not invalidate proceedings at the meeting in question.

4. Quorum (Article 56)

Article 56 makes it clear that two persons who are proxies for the same member or representatives of the same body corporate can constitute a quorum.

5. Power to convert into stock

Provisions within the articles of association concerning the conversion of shares into stock have been deleted as such conversion is no longer possible under the Companies Act 2006.

6. Attending and speaking at meetings (Article 62)

Article 62 of the new Articles provides that the Chairman of the meeting may permit non-members or persons who are not entitled to exercise the rights of members to attend and, at the Chairman's discretion, speak at a general meeting.

7. Polls (Article 68)

Article 68 clarifies that a poll may be demanded before a show of hands, as well as immediately after the result of a show of hands, and to give the directors the right to demand a poll as well as the Chairman of the meeting.

8. Votes of members, proxies and corporate representatives (Articles 75, 81 and 88)

Under the 2006 Act, proxies are entitled to vote on a show of hands as well as on a poll, and members may appoint a proxy to exercise all or any of their rights to attend, speak and vote at meetings. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares. The new Articles reflect these new proxy rights. The 2006 Act also provides for multiple corporate representatives to be appointed and the Articles therefore refer to the right to appoint multiple corporate representatives.

9. Receipt of appointments of proxy and termination of proxy authority (Articles 85 and 86)

Article 85 provides that proxies for a poll to be taken after the date of a meeting or adjourned meeting must be received not less than 24 hours, or such shorter time as the directors may determine, before the time of the poll. The deadlines for receipt of termination of proxy authority have been brought into line with the deadlines for receipt of proxies. Article 85 also permits the directors to specify, in a notice of meeting, that in determining the time for delivery of proxies, no account shall be taken of non-working days.

10. Directors' appointments, interests and conflicts of interest (Articles 110 and 111)

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1st October 2008 a director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, if the

articles of association contain a provision to this effect. The 2006 Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

Article 110, which is the provision for dealing with conflicts, allowing directors to be interested in transactions and to be an officer of or employed by or interested in a body corporate in which the company is interested. It confirms that such interests, offices or employment will not infringe the conflicts duty as codified in the 2006 Act.

Article 111 gives the directors authority to approve conflict situations including other directorships held by the company's directors and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The proposed Article 111 also contains provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

11. Permitted interests and voting (Article 120)

The provisions which previously deemed certain interests of a director's connected persons to be the interests of the director himself for the purposes of this article have been deleted. There is no requirement in the 2006 Act to include such a provision and the 2006 Act contains a much wider definition of 'connected person' of a director. The director and the Company must still take a view each time a matter is being considered as to whether the interests of the director's connected persons mean that the director should be treated as interested for the purposes of this article.

12. Making and retention of minutes (Article 123)

Article 123 contains a new provision to the effect that minutes must be retained for at least 10 years, reflecting the relevant provision of the 2006 Act. (No minimum retention time was previously specified.)

13 The seal (Articles 125 and 126)

Article 125 provides that instruments (other than share certificates) to which the seal is affixed shall be signed by two authorised persons or by a director in the presence of a witness, whereas previously the requirement was for signature by either the director and secretary or two directors.

14. Notices and other communications (Articles 84, 140-149)

The 2006 Act enables companies to communicate with their members by electronic communication to a greater extent than previously permitted. Article 141 will provide the Company with a general power to send or supply any notice, document or information to any member by a variety of methods – in person, by post or in electronic form (such as by email), or by making it available on the Company's website. In addition to any notice, document or information which is specifically required to be sent or supplied under the 2006 Act, the Company will also be able to send any other document or information to members using this variety of methods.

Article 84 allows proxies to be sent or supplied in electronic form and, where the Company gives an electronic address in a form of proxy, shareholders may send the appointment of proxy to that electronic address, subject to any conditions or limitations specified in the relevant notice of meeting.

The Company may ask each member for his or her consent to receive communications from the Company via its website. If the member does not respond to the request for consent within 28 days, the Company may take that as consent by the member to receive communications in this way. If the Company sends or supplies any notice, document or information to members by making it available on the Company's website, it must notify each member who has consented (or is deemed to have consented) to receive documents via the website, either by post or by email (if the member has specifically agreed to receive communications in electronic form), that the notice, document or information has been placed on the website. A member who has consented or is deemed to have consented to receive communications via the website can request a hard copy of any document at any time. Members can also revoke their consent to receive electronic communications at any time by giving notice in writing to the Company.

Appendix continued

In relation to joint holders of shares, Article 141(3) provides that the agreement of the first-named holder on the register of members to accept notices, documents or information electronically or via a website shall be binding on the other joint holders. Article 141(4) permits the Company not to send or supply any notice, document or information to a member whose registered address is not in the United Kingdom unless that member gives a non-electronic address in the United Kingdom.

Articles 141(5) and (6) cater for situations where the provision of corporate information in electronic form or via a website may amount to a breach of securities laws of another jurisdiction. The Company may send hard copies if it needs to restrict the circulation of information in certain circumstances, such as for US securities law reasons.

Article 148 deals with notices, documents or information sent by the Company to a member which have been returned undelivered on three consecutive occasions. The member will only be entitled to be sent further communications upon provision of a new postal or electronic address to the Company.

Article 149 is included to deal with the validation of documents in electronic form by members where required by the Articles. In the case of notices of meetings or proxies, any validation requirements must be specified in the notice.

15. Power to indemnify directors (Article 152)

The law governing the giving by a company of indemnities to directors of that company or an associated company was amended in 2005 and further amended by the 2006 Act. In particular, a company may now, inter alia, do the following: (i) in the case of liabilities arising from actions brought by third parties (other than regulatory authorities or criminal prosecutors), both the costs (of the director and of the third party) and any damages may be paid by the company even if the judgement goes against the director; (ii) in the case of liabilities arising from actions brought by the company or an associated company, the company will not be able to indemnify a director against damages awarded to the company itself but may pay the directors' defence costs as they are incurred (although a director would be liable to repay his defence costs if his defence was to be unsuccessful); (iii) the company will not be permitted to indemnify directors against criminal fines, fines by regulators or the legal costs of successful criminal proceedings against directors; and (iv) a company may, subject to the provisions of the 2006 Act, indemnify a director of an associated company that is the trustee of an occupational pension scheme, taking advantage of the qualifying pension scheme indemnity provision in the 2006 Act.

As a result of the above, the directors' indemnity provisions of the Articles of Association have been amended. Article 152 has now been drafted as a permissive provision that gives the Company a broad power to indemnify a director, subject to the provisions of the 2006 Act. Article 152 also permits the maintenance by the Company of liability insurance for directors and it specifically makes it clear that the Company may, subject to the provisions of the 2006 Act, indemnify a director of an associated company that is the trustee of an occupational pension scheme, taking advantage of the qualifying pension scheme indemnity provision in the 2006 Act.

Glossary of Terms and Definitions

Return to shareholders

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

Return on net assets

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

Benchmark Return

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

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

Actual Gearing Factor

Investments excluding holdings in liquidity funds, expressed as a percentage of shareholders' funds. This shows the effect of gearing on the NAV if the market value of the portfolio was to increase by 100%.

Total Expense Ratio

Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. In prior years the TER was management fees and all other operating expenses (including tax relief where applicable but excluding interest) expressed as a percentage of the average month end net assets over the year. The reason for the change is to bring the method into line with industry practice and to make the calculation more transparent, as all the numbers now used in the calculation are extracted from the audited accounts.

Discount/Premium

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

Performance Attribution

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

Performance Attribution Definitions:

Asset Allocation

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

Stock Selection

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

Gearing/Cash

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

Management Fees/Other Expenses

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

Residual

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

Share Buyback/Issuance

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

Notes

Notes

JPMorgan Helpline

Freephone 0800 20 40 20 or 0207 742 9999

9.00 am to 5.30 pm Monday to Friday

JPMorgan Pension Helpline

Freephone 0800 41 31 76 or 0172 241 4888

9.00 am to 5.00 pm Monday to Friday

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

Your telephone call may be recorded for your security

www.jpmsmallercompanies.co.uk