



Annual Report **2010**

JPMorgan US Smaller Companies Investment Trust plc

(formerly JPMorgan US Discovery Investment Trust plc)

Annual Report & Accounts for the year ended 31st December 2010

# Features

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### Objective

Capital growth from investing in US smaller companies.

### Investment Policy

The portfolio is a product of the investment team's bottom-up investment approach and disciplined portfolio construction. The investment philosophy is simple and straightforward; to invest in companies that have a sustainable competitive advantage, run by competent management teams who have a track record of success and are good stewards of capital; and to focus on owning equity stakes in businesses that trade at a discount to their intrinsic value.

### Benchmark

The Russell 2000 Index total return with net dividends reinvested, expressed in sterling terms. This index is a smaller companies' index and is rebalanced annually to represent the bottom 10% by market capitalisation of all quoted companies in the US. Comparison of the Company's performance is made with this benchmark.

### Capital Structure

At 31st December 2010, the Company's share capital comprised 5,264,610 Ordinary shares of 25p each.

### Continuation Vote

At the Annual General Meeting held on 21st April 2010 shareholders passed an ordinary resolution, approving the continuation of the Company as an investment trust until 2015.

### Management Company

The Company employs JPMorgan Asset Management (UK) Limited to manage its assets and act as Secretary. The investment team is situated in New York. The portfolio manager, Glenn Gawronski, has been managing JPMAM's US small cap core active strategy since September 2004. He worked on JPMAM's micro cap investment team from 1999 to 2004. Mr Gawronski is supported by three experienced investment professionals dedicated to US micro and small cap strategies as well as the wider JPMAM investment management team.

# Financial Results

Total returns (includes dividends reinvested)

**+32.3%**

Return to shareholders  
(2009: +40.3%)

**+33.2%**

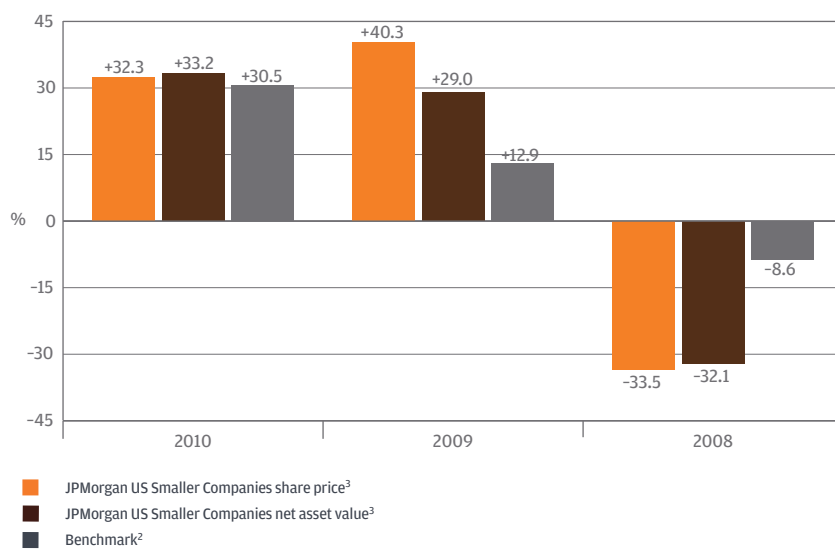
Return on net assets<sup>1</sup>  
(2009: +29.0%)

**+30.5%**

Benchmark return<sup>2</sup>  
(2009: +12.9%)

## Performance

for years ended 31st December



A glossary of terms and definitions is provided on page 54.

<sup>1</sup>Source: J.P.Morgan.

<sup>2</sup>Source: Russell Investments. The Company's benchmark is the Russell 2000 Index total return with net dividends reinvested, expressed in sterling terms.

<sup>3</sup>Source: Morningstar.

# Chairman's Statement



## Performance

2010 has been a particularly rewarding year for investors in US smaller companies and I am pleased to report that your investment manager has had another good year. The Russell 2000 rose by 26.8% whilst UK investors benefited from a slightly stronger dollar which produced an increase of 30.5% in sterling terms. As a result of strong stock selection the Net Asset Value (NAV) of the Trust rose by 33.2% and the return to shareholders (share price) rose by 32.3%.

Looking at these performance figures it is easy to forget quite how poor market sentiment was during much of 2010 as markets absorbed concerns over economic recovery, implications of sovereign debt defaults along with a number of major natural disasters. The main consequence of all these factors was volatile markets as investors responded to the bad news over the short term but then looked at current valuations and saw long term opportunities. The US smaller companies' sector, which has a strong domestic bias, benefited from the signs that the US economy was recovering, albeit at subdued levels, and handsomely outperformed the US large companies, the S&P500 rose by only 15% (in US dollar terms).

## Events during 2010

Two important events occurred during 2010. The first was our name change to 'JPMorgan US Smaller Companies Investment Trust plc' to reflect more accurately the Company's investment objective to achieve long term capital growth through investing in US smaller companies. It was felt that the word 'Discovery' was confusing and implied that the Company was investing in early stage companies and unquoted investments. The other event was that at the Annual General Meeting (AGM) shareholders voted unanimously in favour of the Company continuing in its current form for a further five years, endorsing your Board's view that small cap investing in the US will continue to be a rewarding area.

## Discount Management

Your Board is pleased to report that we were able to maintain a relatively stable share price discount to NAV (see Glossary of Terms on page 54) for the year as a whole by using our share buyback authority. During the latter part of 2010, though, the daily management of the discount proved difficult as markets and currencies were volatile and more importantly our shares lacked liquidity with the result that the discount widened on very low volumes. Your Board remains committed to a stable discount, targeting a figure of around 9% over the long term, but there is a need to balance the short term of buying shares back for cancellation with the long term liquidity implications.

For the past several years, shareholders have given your Board the powers to repurchase the Company's shares for cancellation. Your Board continues to seek this authority so that we can continue to support a stable discount. During the year the Company repurchased 217,500 shares for cancellation, representing 4.0% of the shares in issue at the beginning of the year.

#### **Currency Hedging**

Our underlying assets are denominated in US dollars and through the fact we report all valuations in sterling for calculating the NAV we are exposed to fluctuations in the US dollar/sterling exchange rate. The Board has the authority to reduce or eliminate the exposure to fluctuating currencies through the use of currency hedging. We review our policy on this matter regularly but to date we have not carried out any hedging and have no plans to do so in the immediate future.

#### **Gearing**

In March 2010 an agreement was signed with ING to provide a revolving credit facility of US\$8million. As at 31st December 2010, US\$7million was drawn and since the facility was put in place actual gearing has ranged between 0% and 6.4%. The use of gearing was accretive to performance.

#### **Board of Directors**

The Directors carried out their annual evaluation of the Board, its Committees, the Directors and the Chairman in January. This was considered to be an efficient way to evaluate their continuing effectiveness.

Currently the Company's Articles of Association allow a Director's appointment to run for a maximum three year term before they have to stand for re-election. Your Board has recently reviewed this and decided to adopt the new UK Corporate Governance Code which requires directors of all FTSE 350 companies to stand for annual election. This change will be put into effect immediately and therefore all Directors will seek re-election at the AGM in April. Alan Kemp, who chairs the audit committee, has been a Director more than nine years. The Board does not believe that length of service in itself should disqualify a Director from seeking re-election nor does it believe it compromises his independence. In proposing Alan's re-election the Board has taken into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. Alan is a very experienced investment professional who continues to make a strong contribution to the Board as well as chairing the Audit Committee and the Board recommends to shareholders that he should be re-elected.

# Chairman's Statement continued

## **Manager**

At the end of the year the Management Engagement Committee carried out a formal detailed review of the Manager. This covered investment management, company secretarial, administrative and marketing services provided to the Company by JPMorgan Asset Management (UK) Limited ('JPMAM') and included the investment performance record, fee structure, management processes, investment style, resources and risk control mechanisms. After full consideration, the Board concluded that the continued appointment of the Manager on the terms agreed for provision of those services was in the interests of shareholders as a whole.

## **Annual General Meeting**

This year's AGM will be held at The Library, JPMorgan, 60 Victoria Embankment, London EC4Y 0JP on Wednesday 27th April 2011 at 12.00 noon. The investment manager will give a presentation to shareholders, reviewing the past year and commenting on the outlook for the current year. The meeting will be followed by a buffet lunch, providing shareholders with the opportunity to meet the Directors and the investment manager and ask any questions on the portfolio and performance.

If you have any detailed or technical questions, it would be helpful if you could raise them in advance of the meeting by writing to the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ. Shareholders who are unable to attend the AGM are encouraged to use their proxy votes. Shareholders who hold their shares through CREST are reminded that they are able to lodge their proxy votes electronically.

## **Outlook**

The downside of small cap investing is that it is deemed to be a risky area of investment and therefore highly volatile. The upside of this view is that small cap can be very rewarding for those investors that can take a long term view. By way of illustration much has been written about how disappointing equities have been over the past 10 years, however the Russell 2000 has shown an annualised return of 6.3% (in US dollar terms) over this period, beating all measures of inflation unlike US large caps which have only returned 1.8% (in US dollar terms) annualised. With such a huge economy and large consumer base in the US the small cap sector will continue to create exciting growth opportunities and we believe that Glenn Gawronski and his team will be able to apply their investment process and exploit such opportunities created by volatile markets.

**Davina Walter**  
Chairman

15th March 2011

# Investment Manager's Report



## **Glenn Gawronski**

*Glenn Gawronski has been with J.P. Morgan for 12 years and has been responsible for managing the Company's assets since November 2008. He worked for 5 years as a senior analyst in the US micro cap team until 2004 when he was promoted to be the portfolio manager for JPMorgan Asset Management's US small cap core active strategy. Glenn's investment philosophy was honed during his time as an analyst on the US micro cap team and is consistent with the investment process that had made the strategy successful in prior years.*

*Glenn is supported by a team of three investment professionals:*

## **Don San Jose**

*Don San Jose has been with J.P. Morgan for 10 years, first as a research analyst and for the past 7 years as Glenn's partner on the US small cap core active strategy.*

## **Justin Howell**

*Justin has been with J.P. Morgan since 2003. He aids in the management of the JPMorgan small cap active core strategy and was previously a research associate covering healthcare services, biotech and industrial cyclical companies.*

## **Dan Percella**

*Dan has been with J.P. Morgan since 2008. He was previously a member of institutional investor-ranked equity research teams covering the transportation sector at other investment firms. Prior to equity research, Dan worked as an analyst at an economic consulting firm.*

## **Market Review**

Equity markets were strong out of the gate in 2010, as the Russell 2000 Index surged 15% from January through April, continuing the rally off of the March 2009 bottom. Subsequently, the markets suffered a sizable correction as investor worries regarding the sustainability of the US economic recovery bubbled to the surface. Poor US macroeconomic data, including sluggish GDP growth and stubbornly high unemployment levels inspired little confidence. Meanwhile, by early April the European sovereign debt crisis appeared to be accelerating and fears of contagion weighed on investor sentiment. This period of uncertainty and unease from April through August saw a 16% retreat in the Russell 2000 index. Ultimately, it was Federal Reserve Chairman Ben Bernanke who halted the slide in equity markets during a speech in late August that suggested that the central bank was prepared to act to stimulate further the US economy if signs of weakness emerged. The plan to engage in quantitative easing, buying debt securities to keep interest rates low and reflate the US economy, sparked a very powerful rally in the equity markets. Investors who quickly adapted and embraced a "Don't Fight the Fed" mentality were handsomely rewarded as the Russell 2000 Index advanced a hefty 30% from early September through year end. For the year, the index increased 30.5%, in sterling terms.

## **Investment Performance**

For the year ended 31st December 2010, the total return on net assets was 33.2%, which was 270 basis points better than our benchmark, the Russell 2000 index, which rose 30.5%, both in sterling terms. The Company's outperformance was driven by a combination of stock selection and through financial leverage, as we had a slightly geared portfolio through most of the year.

Though 2010 was the second good year for investors' returns, it proved more difficult for active managers in their quest to achieve excess returns relative to their benchmarks. A combination of high correlations between stocks (attributable to investor preoccupation with macroeconomic events, especially in Europe) and a moderate level of volatility made it somewhat difficult for active managers to outperform their indices through stock selection. Investors who emphasise valuation in their process found 2010 especially trying, while growth and momentum investors were rewarded.

## **Portfolio Positioning**

We assumed responsibility for the portfolio in late 2008 and have reshaped it, while remaining true to our bottom-up, fundamental approach to investing. Since then we have expanded the number of stocks in the portfolio, reducing its concentration, while simultaneously upgrading the portfolio from a quality standpoint. We have vastly reduced our sector weightings in Technology (from 27.0% to 10.7%) and Auto & Transportation (from 6.8% to 2.9%). On the other hand, we have increased our exposure to the Financial Services (from 15.5% to 25.2%) and Utilities (from zero to 2.2%) sectors. Currently, we are materially overweight in Financials and slightly underweight in Utilities. We have found some opportunities in the Energy sector and are now overweight in that sector.

Our sector weights remain a by-product of our bottom-up investment analysis and our disciplined approach to portfolio construction. We adhere to a consistent

# Investment Manager's Report continued

## Performance attribution for the year ended 31st December 2010

	%	%
<b>Contributions to total returns</b>		
<b>Benchmark total return</b>		<b>30.5</b>
Asset allocation	-0.8	
Stock selection	3.8	
Gearing/cash	0.9	
<b>Investment manager contribution</b>		<b>3.9</b>
<b>Portfolio total return</b>		<b>34.4</b>
Management fees/ other expenses	-1.7	
Share buybacks	0.6	
Performance fee	-0.1	
<b>Other effects</b>		<b>-1.2</b>
<b>Net asset value total return</b>		<b>33.2</b>
<b>Share price total return</b>		<b>32.3</b>

Source: Xamin, JPMAM and Morningstar.  
All figures are on a total return basis.

Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark index.

A glossary of terms and definitions is provided on page 54.

investment process which focuses on identifying companies that possess a sustainable competitive advantage, have a durable business model and are overseen by a competent management team with a track record of success. Finally, we seek to acquire equity stakes in these businesses when they trade at a discount to what we would deem to be their intrinsic value.

Since November 2008, our strategy has outperformed the Russell 2000 Index. The majority of the out-performance has resulted from superior stock selection, though sector weights have contributed positively as well. As we sold out of some holdings and added new positions, we shifted the portfolio away from companies that possessed severe enterprise risk due to impaired balance sheets and/or inconsistent cash flows. Investments were made in companies that generate sustainable earnings and more consistent cash flows as a result of our investment process. This is illustrated by the change in the risk profile since 2008 (as measured by Barra), as the portfolio has lower earnings variation, lower leverage, lower volatility and a higher earnings yield.

### Market Outlook

Since early 2009, we have witnessed a spectacular rally in equities. After back to back annual gains in 2009 and 2010, the Russell 2000 Index is up a staggering 130%, in US Dollar terms, from the March 2009 lows. With the Russell Index currently hovering around 800, the index remains less than 7% below the all time highs reached in July 2007. At this point in the cycle, it is fair to say that the easy money has been made. As we reflect on the current environment, we have concerns about the strength of the US recovery and are painfully aware of the structural challenges that the US must overcome, namely persistently high unemployment levels, rising budget deficits and a lack of political will to reduce government spending and/or increase taxes. However, we still favour equities as an asset class over bonds in this environment. Equities have an earnings yield of 6% to 7% (depending on the index) versus the US 10 year Treasury rate of roughly 3.6%. Furthermore, given that the Federal Reserve continues to demonstrate that it stands ready to stimulate the economy and support the stock market at the first sign of weakness, the potential for inflation is real and perhaps even desired. Equities are a better hedge against rising inflation than bonds and thus are the more appropriate asset class for the current environment, in our view.

Looking ahead, we expect the market to grind higher from these levels, but future gains will likely be more muted relative to the past two years. As the economy continues to recover and with stock valuations relatively reasonable, we suspect stock selection will be more critical. We plan to remain disciplined with regards to our investment strategy: identifying companies with a sustainable competitive advantage, durable business models and solid management teams who have a track record of value creation. We will continue to buy stakes in these companies at valuations that we believe are below their intrinsic value. Our sector weights will continue to reflect our bottom-up investment analysis and disciplined approach to portfolio construction.

**Glenn Gawronski**  
Investment Manager

15th March 2011

# Summary of Results

	2010	2009	
<b>Total returns</b> for the year ended 31st December			
Return to shareholders	<b>+32.3%</b>	+40.3%	
Return on net assets <sup>1</sup>	<b>+33.2%</b>	+29.0%	
Benchmark return <sup>2</sup>	<b>+30.5%</b>	+12.9%	
			% change
<b>Net asset value, share price and discount</b> at 31st December			
Net asset value per share	<b>1,005.8p</b>	755.2p	+33.2
Share price	<b>939.0p</b>	710.0p	+32.3
Share price discount to net asset value per share	<b>6.6%</b>	6.0%	
Shareholders' funds (£'000)	<b>52,950</b>	41,399	+27.9
<b>Revenue</b> for the year ended 31st December			
Net revenue return/(loss) attributable to shareholders (£'000)	<b>383</b>	(35)	
Return/(loss) per share	<b>7.09p</b>	(0.62)p	
Shares in issue	<b>5,264,610</b>	5,482,110	
<b>Actual Gearing Factor</b>	<b>100.9%</b>	98.7%	
<b>Total Expense Ratio</b> <sup>3</sup>	<b>1.9%</b>	1.9%	

A glossary of terms and definitions is provided on page 54.

<sup>1</sup>Source: J.P. Morgan.

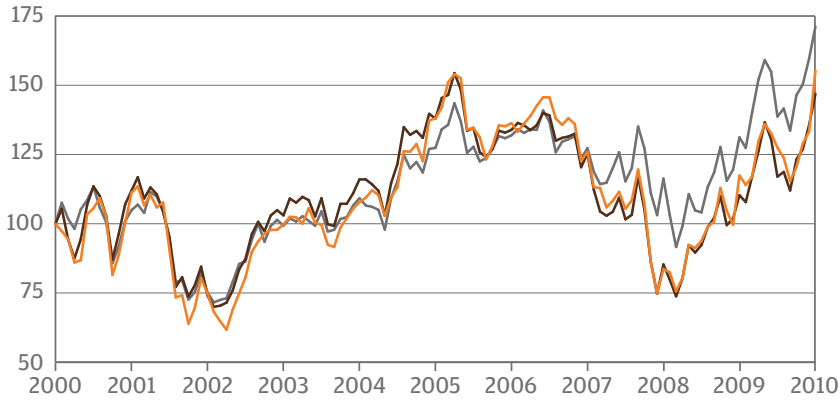
<sup>2</sup>Source: Russell Investments. The Company's benchmark is the Russell 2000 Index total return with net dividends reinvested, expressed in sterling terms.

<sup>3</sup>Management fees, performance fees payable and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year.

# Performance

## Ten Year Performance

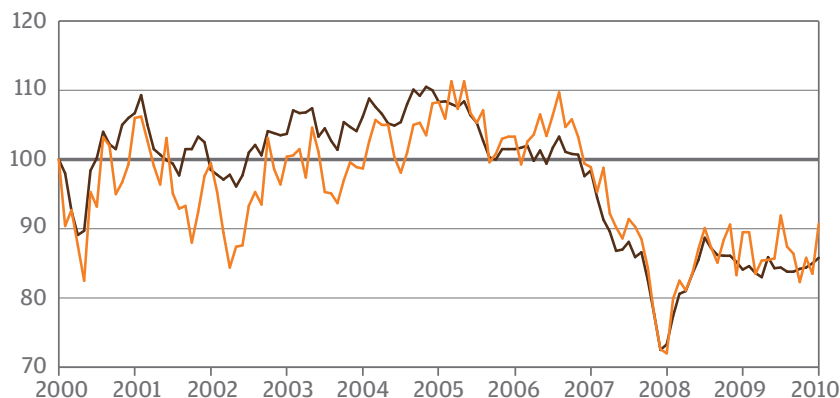
Figures have been rebased to 100 at 31st December 2000



Source: Morningstar/Russell.  
 — JPMorgan US Smaller Companies - share price.  
 — JPMorgan US Smaller Companies - net asset value.  
 — Benchmark.

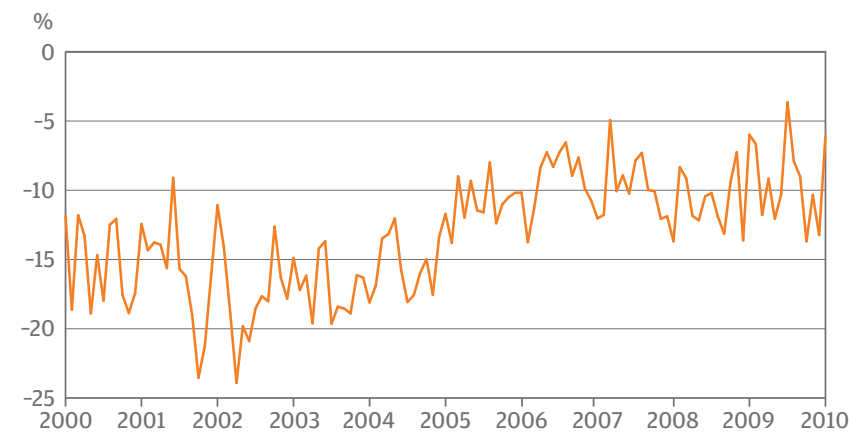
## Performance Relative to Benchmark

Figures have been rebased to 100 at 31st December 2000



Source: Morningstar/Russell.  
 — JPMorgan US Smaller Companies - share price.  
 — JPMorgan US Smaller Companies - net asset value.  
 — The benchmark is represented by the grey horizontal line.

## Discount Performance



Source: Datastream (using monthly data).

■ JPMorgan US Smaller Companies - discount.

# Ten Year Financial Record

At 31st December	2000	2001	2002	2003 <sup>1</sup>	2004 <sup>1</sup>	2005	2006	2007	2008	2009	2010
Shareholders' funds (£'000)	80,787	90,403	59,879	78,826	81,454	96,028	93,192	67,911	34,475	41,399	<b>52,950</b>
Net asset value per share (p)	685.8	767.5	508.3	706.0	795.5	945.2	917.3	865.1	586.2	755.2	<b>1,005.8</b>
Share price (p)	604.5	672.0	452.0	603.0	651.5	834.5	824.0	761.0	506.0	710.0	<b>939.0</b>
Shares in issue <sup>2</sup>	11,779,480	11,779,480	11,779,480	11,164,480	10,239,480	10,159,480	10,159,480	7,850,480	5,881,367	5,482,110	<b>5,264,610</b>
Year ended 31st December	2000	2001	2002	2003 <sup>1</sup>	2004 <sup>1</sup>	2005	2006	2007	2008	2009	2010
Gross revenue (£'000)	815	334	270	250	318	385	300	285	297	322	<b>853</b>
(Loss)/return per share (p)	(4.71)	(12.01)	(10.89)	(1.33)	(1.35)	(0.97)	(1.49)	(1.72)	2.53	(0.62)	<b>7.09</b>
Dividends per share (p)	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	<b>nil</b>
Discount (%) <sup>3</sup>	11.9	12.4	11.1	14.6	18.1	11.7	10.2	11.3	13.6	6.0	<b>6.6</b>
Actual gearing (%)	112.0	104.2	106.0	108.3	101.2	104.8	112.5	103.2	93.2	98.7	<b>100.9</b>
Total expense ratio (%) <sup>4</sup>	1.9	2.3	1.9	2.7	2.4	2.6	2.0	1.4	1.5	1.9	<b>1.9</b>
US dollar/sterling exchange rate	1.50	1.46	1.61	1.79	1.92	1.73	1.96	1.99	1.44	1.61	<b>1.57</b>

## Annual returns to 31st December

	2000	2001	2002	2003 <sup>1</sup>	2004 <sup>1</sup>	2005	2006	2007	2008	2009	2010
Return to shareholders (%) <sup>5</sup>	+48.3	+11.2	-32.7	+33.4	+8.0	+28.1	-1.3	-7.6	-33.5	+40.3	<b>+32.3</b>
Return on net assets (%) <sup>3,5</sup>	+37.6	+11.9	-33.8	+38.9	+12.7	+19.0	-3.0	-6.4	-32.1	+29.0	<b>+33.2</b>
Benchmark return (%) <sup>6</sup>	+4.4	+4.9	-28.3	+32.1	+10.0	+16.6	+3.5	-3.5	-8.6	+12.9	<b>+30.5</b>

A glossary of terms and definitions is provided on page 54.

<sup>1</sup>With effect from 1st January 2004, 90% of management fees and finance costs have been charged to capital. Figures prior to 2003 have not been restated.

<sup>2</sup>Excludes any shares held in Treasury.

<sup>3</sup>Calculated on the assumption that any shares held in Treasury have been reissued in accordance with the Board's policy on the reissuance of Treasury shares.

<sup>4</sup>Management fees, performance fees payable and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

<sup>5</sup>Source: J.P.Morgan.

<sup>6</sup>Source: Russell Investments.

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

Company <sup>2</sup>	Sector	At 31st December 2010		At 31st December 2009	
		Valuation £'000	Portfolio % <sup>3</sup>	Valuation £'000	Portfolio % <sup>3</sup>
<b>Calamos Asset Management</b> Calamos Asset Management provides investment advisory services to institutions and individuals primarily in the United States. The company applies an investment process centred on risk management across investment strategies within the equity, balanced, convertible, high yield, and alternative asset classes.	Financial Services	1,431	2.7	750	1.8
<b>Iberiabank<sup>4</sup></b> Iberiabank is a commercial bank conducting business from a network of offices located throughout Louisiana. The bank attracts deposits from the general public and uses those funds to originate consumer and commercial loans. The bank also offers discount brokerage services through a wholly owned subsidiary.	Financial Services	1,246	2.3	343	0.8
<b>ProAssurance</b> ProAssurance is a risk management and claims defence company with a licence to write business across the United States. The company provides medical professional liability insurance to policy holders throughout the United States.	Financial Services	1,208	2.3	1,024	2.5
<b>Jarden</b> Jarden provides a broad range of consumer products. The company's product segments include Outdoor Solutions, Consumer Solutions and Branded Consumables. Jarden sells branded products through a variety of distribution channels, including club, department store, drug, grocery, mass merchant, sporting goods and speciality retailers, as well as direct to consumers.	Consumer Discretionary	1,116	2.1	683	1.6
<b>Coventry Healthcare<sup>5</sup></b> Coventry Healthcare is a managed health care company operating health plans and insurance companies under a variety of names. The company provides health maintenance organisation, preferred provider organisation, point of service, Medicare and Medicaid and Network Rental to members in markets throughout the Midwest, Mid-Atlantic, and Southeast United States.	Healthcare	1,115	2.1	–	–
<b>Altra<sup>4</sup></b> Altra designs, produces, and markets a wide range of mechanical power transmission, or MPT and motion control products. The company's product portfolio includes industrial clutches and brakes, enclosed gear drives, open gearing, couplings, engineered bearing assemblies, linear components and other related products.	Industrials	969	1.8	583	1.4
<b>Silgan<sup>4</sup></b> Silgan manufactures consumer goods packaging products. The company produces steel and aluminium containers for human and pet food, custom designed plastic containers for various markets, plastic closures and caps, thermoformed plastic tubs and speciality packaging items. Silgan markets its products in North America.	Materials & Processing	947	1.8	556	1.3
<b>Team Industrial Services<sup>4</sup></b> Team Industrial Services provides specialised industrial services, including leak repair, hot tapping, emissions control, concrete repair, energy management and mechanical inspection services. The company has 40 customer service locations throughout the United States and subsidiaries in the UK, Trinidad and Singapore. The company also manufactures industrial equipment.	Industrials	931	1.8	341	0.8
<b>J &amp; J Snack Foods<sup>4</sup></b> J & J Snack Foods manufactures, markets and distributes a variety of snack foods and beverages for the food service and retail supermarket industries. The company's products include soft pretzels, frozen carbonated beverages, frozen juice bars and desserts, churros, funnel cakes, cookies, and beverages, frozen juice bars and desserts, churros, funnel cakes, cookies and bakery products.	Consumer Staples	922	1.7	625	1.5
<b>RBC Bearings<sup>4</sup></b> RBC Bearings designs, manufactures and markets a broad portfolio of bearing products including precision plain, roller, and ball bearings.	Industrials	920	1.7	329	0.8
<b>Total</b>		<b>10,805</b>	<b>20.3</b>		

<sup>1</sup>Excludes the holding in the JPMorgan US Dollar Liquidity Fund.

<sup>2</sup>All companies shown are listed in the USA.

<sup>3</sup>Based on total assets less current liabilities of £53.1m (2009: £41.5m).

<sup>4</sup>Not Included in the ten largest investments at 31st December 2009.

<sup>5</sup>Not held in the portfolio at 31st December 2009.

At 31st December 2009, the value of the ten largest investments amounted to £7.8m representing 18.7% of total assets less current liabilities.

# Investment Activity

	Value at 31st December 2009 £'000	Purchases £'000	Sales £'000	Net changes in value £'000	Value at 31st December 2010 £'000
<b>Total Equity Portfolio (all USA)<sup>1</sup></b>	40,860	25,989	26,600	13,195	<b>53,444</b>

<sup>1</sup>Excludes investment in JPMorgan US Dollar Liquidity Fund.

## Sector Analysis

	31st December 2010			31st December 2009		
	Portfolio <sup>1</sup> %	Benchmark %	Active Position* %	Portfolio <sup>1</sup> %	Benchmark %	Active Position* %
Financial Services	25.2	20.5	4.7	22.0	20.2	8.2
Consumer Discretionary	20.4	13.7	6.7	15.6	13.8	(4.6)
Industrials	18.2	16.2	2.0	13.2	16.3	(3.1)
Technology	10.7	18.5	(7.8)	19.1	18.2	0.9
Healthcare	8.7	12.4	(3.7)	13.5	14.2	(0.7)
Oils and Other Energy	7.2	6.0	1.2	4.5	4.7	(0.2)
Consumer Staples	3.3	2.9	0.4	3.5	3.5	–
Telecommunication Services	2.3	1.0	1.3	4.1	1.0	3.1
Utilities	2.2	3.1	(0.9)	2.6	3.3	(0.7)
Materials & Processing	1.8	5.7	(3.9)	1.9	4.8	(2.9)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		100.0	100.0	

<sup>1</sup>Based on investments, excluding liquidity funds, at fair value of £53.4m (2009: £40.9m).

\*A glossary of terms and definitions is provided on page 54.

# List of Investments

at 31st December 2010

Company	Valuation £'000	Company	Valuation £'000
<b>Financial Services</b>		<b>Industrials</b>	
Calamos Asset Management	1,431	Altra	969
Iberiabank	1,246	Team Industrial Services	931
ProAssurance	1,208	RBC Bearings	920
Umpqua	846	Douglas Dynamics	912
FirstService Corp	754	Acco Brands	861
HFF	703	Herman Miller	714
optionsXpress	679	CoStar	662
JMP	659	Kaydon	655
Epoch	650	KAR Auction Services	634
First Financial	640	Waste Connections	625
First Niagara Financial	629	Comfort Systems	616
Greenhill	626	Interline Brands	529
KBW	617	Forward Air	408
First of Long Island	584	Knight Transportation	322
Morningstar	494		
Associated Banc-Corp	431	<b>Total Industrials</b>	<b>9,758</b>
Western Alliance Bancorp	364		
RLI	341	<b>Technology</b>	
E-Health	321	Vocus	758
Glacier Bancorp	254	MICROS Systems	644
		NetSuite	626
<b>Total Financial Services</b>	<b>13,477</b>	SuccessFactors	603
		Dice	592
<b>Consumer Discretionary</b>		Monotype Imaging	563
Jarden	1,116	Blackboard	433
Papa John's International	896	SolarWinds	341
Penn National Gaming	891	DemandTec	335
Dicks Sporting Goods	702	Deltek	334
Chico's FAS	665	NCI	313
Drew Industries	656	Soundbite Communications	187
Monarch Casino & Resort	647		
Williams-Sonoma	631	<b>Total Technology</b>	<b>5,729</b>
Einstein Noah Restaurant	600		
Pool	549	<b>Healthcare</b>	
Brinker International	548	Coventry Healthcare	1,115
PetMed Express	531	PSS World Medical	690
Brunswick	452	Catalyst Health Solutions	688
Cracker Barrel	430	MWI Veterinary Supply	637
Shuffle Master	405	Myriad Genetics	541
Archipelago Learning	384	Omnicell	417
NutriSystem	382	VCA Antech	434
Toll Bros	335	Cumberland Pharmaceuticals	144
Hot Topic	66		
Caliber Learning Network	–	<b>Total Healthcare</b>	<b>4,666</b>
<b>Total Consumer Discretionary</b>	<b>10,866</b>		

# List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
<b>Oils and Other Energy</b>		<b>Utilities</b>	
Tidewater	770	Northwestern	622
Patterson-Uti Energy	764	Northwest Natural Gas	553
Approach Resources	648		
Exterran	601	<b>Total Utilities</b>	<b>1,175</b>
Resolute Energy	588		
Cimarex Energy	492	<b>Materials &amp; Processing</b>	
<b>Total Oils and Other Energy</b>	<b>3,863</b>	Silgan	947
		<b>Total Materials &amp; Processing</b>	<b>947</b>
<b>Liquidity Funds</b>		<b>Total Portfolio<sup>1</sup></b>	
JPMorgan US Dollar Liquidity Fund	2,911		<b>56,355</b>
<b>Total Liquidity Funds</b>	<b>2,911</b>	<sup>1</sup> Includes preference shares. Comprises the following:	
<b>Consumer Staples</b>			£'000
J & J Snack Foods	922	Equity shares	53,444
Hansen Natural	818	Liquidity fund	2,911
<b>Total Consumer Staples</b>	<b>1,740</b>		<b>56,335</b>
<b>Telecommunication Services</b>			
Cbeyond	530		
nTelos	673		
<b>Total Telecommunication Services</b>	<b>1,203</b>		

# Board of Directors



## **Davina Walter (Chairman since 2008)**

A Director since 2002.

She has been employed in the investment business in the City of London since 1974, having spent over 11 years involved in US equity research at Cazenove & Co. and more than 16 years as an investment manager of US equity portfolios. Most recently she was a Managing Director at Deutsche Asset Management Limited, and has been involved in investment trusts since 1985. She was a Director of Henderson Strata Investment Trust plc and is currently employed as an Investment Consultant.



## **Mark Ansell**

A Director since 2005.

He is Chief Executive of the Flow Group Limited, which manufactures specialist flow control equipment for the global energy industry. He has wide experience of negotiating and completing acquisitions and disposals and improving performance in engineering businesses, including in the USA.



## **Christopher Galleymore**

A Director since 2004.

He is a board level investment professional with 30 years experience of managing US equity portfolios, including several years working in New York. He has worked for a variety of major international investment companies, most recently as senior portfolio manager and Head of the North American Desk at Henderson Global Investors from 1991 to 2002 where he was actively involved in running investment trusts.



## **Alan Kemp**

(Chairman of the Audit Committee)

A Director since 1995.

He has been involved in investment management since 1970 and with investment trusts since 1972. During his career as Deputy Manager of the Edinburgh Investment Trust plc he was responsible for the management of its US portfolio for a number of years. He was subsequently Deputy Chief Executive of Dunedin Fund Managers Limited and is a Director of Aberdeen Asian Smaller Companies Investment Trust plc.

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

# Directors' Report

The Directors present their report for the year ended 31st December 2010.

## Business Review

### Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 (formerly Section 842 of the Income and Corporation Taxes Act 1988) for the year ended 31st December 2009. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 1158 of the Corporation Tax Act 2010 each year.

Approval for the year ended 31st December 2009 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 Manager's Report on pages 5 and 6.

### Objective

The Company's objective is to achieve capital growth from investing in US smaller companies.

### Investment Policies and Risk Management

In order to achieve its objective, the Company invests in a diversified portfolio and employs a manager with a strong focus on research and company visits in order to identify the most attractive stocks in the US smaller companies universe.

The Board has sought to manage the Company's risk by imposing various investment restrictions and guidelines. These restrictions and guidelines may be varied at any time by the Board at its discretion.

### Investment Restrictions and Guidelines

- No individual investment in the portfolio will be greater than 15% of the Company's gross assets at the time of investment.

- The Company will invest no more than 5% of the Company's gross assets in JPMorgan liquidity funds.
- The Company will invest no more than 5% of the Company's gross assets at the time of investment in unquoted investments.
- The Company will not normally invest in derivative instruments, although it can undertake derivative actions to hedge against risk exposure of existing holdings in the portfolio subject to Board approval.
- The Company will utilise liquidity and borrowings to remain invested within the range 95%-115% (+/-2.5%).
- The Company will not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts).
- The Company will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of their gross assets in UK listed investment companies.

### Performance

In the year to 31st December 2010, the Company's return to shareholders was 32.3% and the return on net assets was 33.2%. This compares with the Company's benchmark which rose by 30.5%. As at 31st December 2010, the value of the Company's investment portfolio was £56.4 million. The Investment Manager's Report on pages 5 and 6 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

### Total Return, Revenue and Dividends

Gross total return for the year amounted to £14,257,000 (2009: £10,054,000). Net total return after a performance fee provision and deducting the management fee, administrative expenses, finance costs and taxation, amounted to £13,180,000 (2009: £9,165,000). The return after taxation in the revenue column of the Income Statement amounted to £383,000 (2009: £35,000 loss). No dividend has been declared in respect of the financial year or is intended to be declared (2009: nil).

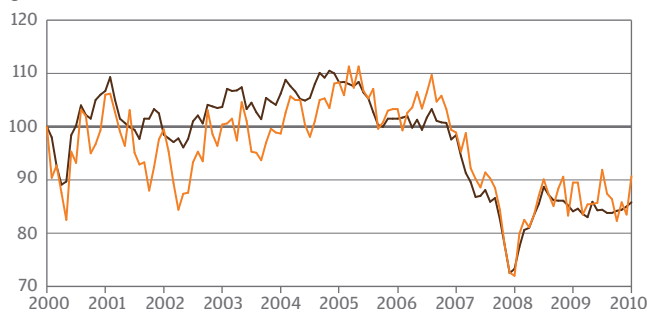
### Key Performance Indicators ('KPIs')

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**  
This is the most important KPI by which performance is judged.

### Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st December 2000

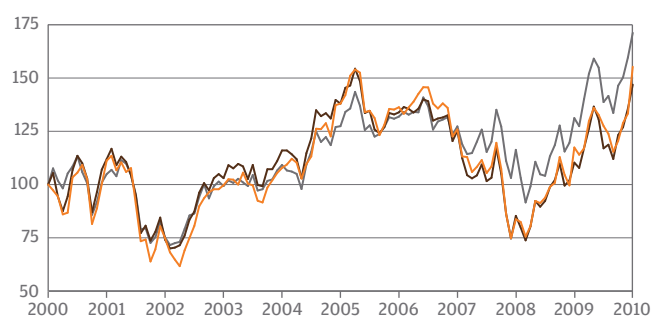


Source: Morningstar/Russell.

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

### Ten Year Performance

Figures have been rebased to 100 at 31st December 2000



Source: Morningstar/Russell.

- JPMorgan US Smaller Companies - share price.
- JPMorgan US Smaller Companies - net asset value.
- Benchmark.

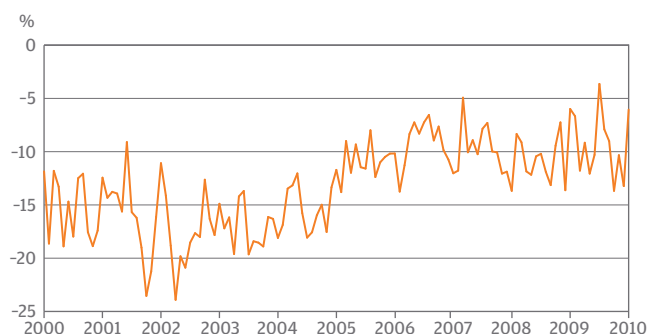
- **Performance against the Company's peers**  
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
- **Performance attribution**  
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative

to its benchmark, i.e. to understand the impact on the Company's relative performance of the various components such as sector selection and stock selection. Details of the attribution analysis for the year ended 31st December 2010 are given in the Investment Manager's Report on page 6.

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

The Board has a share repurchase and re-issue policy which seeks to address imbalances in supply of and demand for the Company's shares within the market. This aims to minimise the volatility and absolute level of the discount to NAV at which the Company's shares trade in relation to its peers in the sector. In the year to 31st December 2010, the shares traded between a discount of 3.6% and 13.7% and averaged 9.2% using monthly data.

### Discount Performance



Source: Datastream (using monthly data).

- JPMorgan US Smaller Companies discount.

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

The TER represents management fees, performance fees payable and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year. The TER for the year ended 31st December 2010 was 1.9% (2009: 1.9%). The Board reviews the TER of the Company regularly and on an annual basis compares its TER against other companies with similar investment objectives and policies.

### Share Capital

The Company has authority to repurchase shares in the market for cancellation. The Company repurchased 217,500 (2009: 399,257) shares for cancellation during the year for a total consideration of £1,629,000. The Company has not held any shares in Treasury during the year.

The Company has not issued or repurchased any shares since the year end.

# Directors' Report continued

## Principal Risks

With the assistance of the Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'), 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 excessive concentration of sector selection or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, which may result 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. 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 Manager, who attends all Board meetings, and reviews data which show 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. In addition to regular Board reviews of investment strategy, the Board holds a separate meeting devoted to strategy each year.
- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss 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 implementation and results of the investment process with the Manager.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' above. Should the Company breach Section 1158, it may lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also

comply with the provisions of the Companies Act 2006 and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure and Transparency Rules ('DTRs'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Act 2006 and the UKLA Listing Rules and DTRs.

- **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 26.
- **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.
- **Foreign currency:** The Company has exposure to foreign currency as part of the risk reward inherent in a company that invests overseas. The income and capital value of the Company's investments can be affected by exchange rate movements as the majority of the Company's assets and income are denominated in currencies other than sterling which is the reporting currency.

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

The Board has the authority to reduce or eliminate the exposure to fluctuating currencies through the use of currency hedging. It reviews its policy on this matter regularly; to date no hedging has been carried out and there are no plans to do so in the immediate future.
- **Financial:** The financial risks faced by the Company include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. Further details are disclosed in note 21 to the accounts on pages 43 to 48.

## Performance Fee Payments

Year ended	31/12/06	31/12/07	31/12/08	31/12/09	31/12/10
	£	£	£	£	£
Performance fee	(902,604)	(472,074)	(1,237,672)	1,006,706	94,792
<b>Phased payments</b>					
Payments relating to year ended 31st December 2004	78,968	–	–	–	–
Year ended 31st December 2005	220,180	220,179	–	–	–
Adjustment re cap of assets <sup>1</sup>	1,286,418	–	–	–	–
Year ended 31st December 2006	(902,604)	–	–	–	–
Adjustment re negative movement in net asset value per share <sup>2</sup>	(682,962)	682,962	–	–	–
Year ended 31st December 2007	–	(472,074)	–	–	–
Adjustment re negative movement in net asset value per share <sup>2</sup>	–	(431,067)	431,067	–	–
Year ended 31st December 2008	–	–	(431,067)	–	–
Year ended 31st December 2009	–	–	–	66,701	66,701
Year ended 31st December 2010	–	–	–	–	31,597
<b>Total</b>	–	–	–	66,701	98,298
<b>Carry forward at the year end</b>	903,141	431,067	(806,605)	133,400	129,894

<sup>1</sup>The total amount of any performance fee and management fee paid in any one year will be capped at 2% of the total net assets of the Company at the end of that year.

<sup>2</sup>No payment is made in any year unless the net asset value per share has risen during the year.

### Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Manager discusses the outlook in his report on page 6.

### Management

The Manager and Secretary is JPMorgan Asset Management (UK) Limited. JPMAM is employed under a contract terminable on six months' 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, marketing 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 on the terms agreed is in the best interests of shareholders as a whole. In arriving at this view, the Board

considered the investment strategy, process and performance of the Investment Manager and the support that the Company receives from JPMAM. Such a review is carried out on an annual basis.

### Management and Performance Fees

For the year ended 31st December 2010, the management fee was charged at 1% per annum of net assets, calculated and paid monthly, excluding investments in any funds on which JPMAM earns a management fee. In addition to the basic annual management fee, a performance fee is payable to JPMAM. This is calculated at 15% of the amount by which the change in the capital net asset value over the relevant period exceeds that of the change in the value of the capital only Russell 2000 Index (expressed in sterling terms), increased by a 2% hurdle. Payment of any amount earned under the performance fee in any relevant period will be spread equally over three years. No payment is made in any year unless the net asset value per share has risen during the year.

Any performance fee accrued but not paid will be reduced by the extent of any underperformance in subsequent years. Any

# Directors' Report continued

adjustment in respect of underperformance will be deducted at the first opportunity from any amount payable in respect of previous years' outperformance. The total amount of any performance and management fee paid in any one year will be capped at 2.0% of the total net assets of the Company at the end of the relevant period.

The results for the year give rise to an entitlement of £95,000 which, when added to the balance brought forward of £133,000, gives a provision of £228,000. Of this amount, £98,000 becomes immediately payable and the balance of £130,000 is carried forward to be paid or reduced by future underperformance.

## Going Concern

The Directors believe that having considered the Company's investment objective (see page 16), risk management policies (see pages 43 to 48), capital management policies and procedures (see page 49), the nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

## 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 December 2010, the Company had no outstanding trade creditors (2009: none).

## 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:

	31st December 2010 Number of shares	1st January 2010 Number of shares
M Ansell	4,452	4,452
CJ Galleymore	5,000	5,000
AS Kemp	6,000	6,000
DJ Walter	4,210	4,210

There have been no changes in the Directors' shareholdings in the Company since the year end.

In accordance with corporate governance best practice, all Directors will retire at the forthcoming Annual General Meeting and being eligible, will offer themselves for 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 and dishonest actions.

## Disclosure of information to Auditors

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

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's Auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of 418(2) of the Companies Act 2006.

## Section 992 Companies Act 2006

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

## Capital Structure

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

## Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in Note 16 to the Notice of AGM on page 53.

## Environmental Matters, Social and Community Issues

Information on environmental matters, social and community issues is set out in page 26. The Company has no employees.

### 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	%
Chase Nominees <sup>1,2</sup>	985,416	18.7
JPMorgan Chase & Co <sup>1</sup>	752,988	14.3
F&C Asset Management Limited	467,978	8.9
West Yorkshire Pension Fund	420,000	8.0
Rensburg Sheppards Investment Management Limited	378,585	7.2
Legal & General	362,885	6.9
Lazard Asset Management LLC	320,000	6.1
Prudential plc	290,000	5.5
Rathbone Investment Management	240,436	4.6

<sup>1</sup>Non-beneficial.

<sup>2</sup>Held on behalf of JPMAM Investment Account, ISA and SIPP participants.

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

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

### Independent Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors to the Company and resolutions proposing their re-appointment and authorising 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 adviser authorised under the Financial Services and Markets Act 2000.

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

#### (i) Authority to issue new shares/disapplication of pre-emption rights (resolutions 8 and 9)

The Directors will seek authority at the Annual General Meeting to issue up to 526,461 new ordinary shares for cash up to an aggregate nominal amount of £131,615, such amount being equivalent to 10% of the present issued share capital. This authority will expire at the Annual General Meeting in 2012. The full text of Resolutions 8 and 9 is set out in the Notice of Meeting on page 51.

It is advantageous for the Company to be able to issue new shares (or to sell Treasury shares) to participants purchasing shares through the JPMorgan savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues are only made at prices greater than the net asset value, they increase the assets underlying each share and spread the Company's administrative expenses, other than the management fee which is charged on the value of the Company's assets, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies.

#### (ii) Authority to repurchase the Company's shares (resolution 10)

At the Annual General Meeting held on 21st April 2010, shareholders gave authority to the Company to purchase up to 14.99% of its then issued share capital. At that time shareholders were informed that this authority would expire on 20th October 2011 and could be renewed by shareholders at any time at a General Meeting of the Company. The Board will seek shareholder approval to renew the authority at the forthcoming Annual General Meeting.

The full text of the resolution (to be proposed as a special resolution) to renew the share repurchase authority is set out as Resolution number 10 in the Notice of Meeting on pages 51 and 52.

#### Recommendation (resolutions 8 to 10)

The Board considers that resolutions 8 to 10 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 recommended 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 19,662 shares representing approximately 0.37% of the existing issued ordinary share capital of the Company.

# Directors' Report continued

## Corporate Governance

### Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 28, indicates how the Company has applied the principles of good governance of the Financial Reporting Council Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of Corporate Governance and considers that the Company has complied with the best practice provisions of the Combined Code and the AIC Code, insofar as they are relevant to the Company's business, 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 services 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 on at least six occasions 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 applicable rules and regulations are complied with and that Board procedures are followed.

### Board Composition

The Board consists of four non-executive Directors, chaired by Davina Walter, all of whom are regarded by the Board as independent of the Company's Manager. The Chairman's independence was assessed upon her appointment and annually thereafter.

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.

The Board does not feel that it would be appropriate to adopt a policy whereby Directors serve for a limited period of time, given the specialist nature of the Company's investment universe. However, in order to provide a balance of skills, experience, length of service and ages, it is the Board's policy to introduce new Directors to provide an orderly succession over time.

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 non-executive directors, this is unnecessary. 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. A Director's continuing appointment is subject to re-election by shareholders on retirement by rotation in accordance with the Company's Articles of Association, which require that each Director must retire by rotation every three years. However, the Board has agreed that, in accordance with corporate governance best practice, henceforth all Directors will seek annual re-election.

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 Board recommends the re-election of each of the Directors, following a performance review conducted by the Nomination Committee which concluded that they continue to be effective and demonstrate commitment to their roles.

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 Annual General Meeting.

### 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 meetings attended by each Director. During the financial year there were six Board meetings, including a private meeting of the Directors to evaluate the Manager and a separate meeting devoted to strategy, three Audit Committee meetings, one Nomination Committee meeting and one Management Engagement Committee meeting.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended	Management Engagement Committee Meeting Attended
M Ansell	6	3	1	1
CJ Galleymore	6	3	1	1
AS Kemp	6	3	1	1
DJ Walter	6	3	1	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. A written appraisal is produced by the Board 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 has established a Management Engagement Committee to evaluate the Manager. The Board as a whole evaluates its own performance and that of its committees.

### Board Committees

#### Nomination Committee

The Nomination Committee, chaired by Davina Walter, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills to carry out its fiduciary duties and to select and propose suitable candidates when necessary for appointment. A variety of sources are used to ensure that a wide range of candidates are considered.

The Committee undertakes an annual performance evaluation, as described above, to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the Board. The Committee reviews and makes recommendations to the Board concerning the re-election by shareholders of any Director under the 'retirement by rotation' provisions in the Company's Articles of Association. The Committee also reviews Directors' fees and makes recommendations to the Board as and when required.

On an annual basis each Director submits a list of potential conflicts of interest for approval. These are considered carefully, taking into account the circumstances surrounding them and, if considered appropriate, are approved for a period of one year. During the year the potential conflicts of interest were received and considered by the Nomination Committee and a recommendation was made to the Board. The Board authorised the potential conflicts of each Director.

#### Management Engagement Committee

The Management Engagement Committee, chaired by Davina Walter, consists of all the Directors, and meets at

# Directors' Report continued

least annually to review the performance of, and the contractual arrangements with, the Manager, JPMAM.

## **Audit Committee**

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

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the Combined Code. It examines the effectiveness of the Company's internal control systems, receives information from the Manager's Compliance department and reviews the scope and results of the external audit, its cost effectiveness, the balance of audit and non-audit services and the independence and objectivity of the external auditors. No non-audit work was undertaken by the auditors in the year under review. In the opinion of the Directors the auditors are considered independent. Representatives of the Company's auditors attend the Committee meeting at which the draft Annual Report and Accounts is considered. The Directors' statement on the Company's system of internal control is set out overleaf.

## **Terms of Reference**

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

## **Relations with Shareholders**

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders four times a year by way of the Annual Report and Accounts, 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 Manager are available in person to meet with shareholders and answer questions.

In addition, a presentation is given by the Investment Manager who reviews the Company's performance. During the year the Company's brokers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 57.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 57.

Details of the proxy voting position on each resolution will be published on the Company 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 mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. Whilst the Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of JPMAM. This arrangement is reviewed on an annual basis.

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 and reports to the Board.

**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 Manager and its associates as follows:

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

By the means of the procedures set out above, which accord with the Turnbull Guidance on internal controls, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st December 2010, 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.

## Corporate Governance and Voting Policy

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

### Corporate Governance

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

### Proxy Voting

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

### Stewardship/Engagement

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

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

# Directors' Report continued

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

## **Social & Environmental**

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

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their

processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request. JPMAM is also a signatory to Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

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

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
15th March 2011

# Directors' Remuneration Report

The Board presents this report, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting.

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

With effect from 1st January 2011 the Directors' fees were increased to a fixed rate of £28,000 (previously £25,000) per annum for the Chairman, £23,000 (previously £20,000) for the Audit Committee Chairman and £20,000 (previously £18,000) for the other Directors.

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

Directors' Name	2010 £	2009 £
DJ Walter	25,000	23,000
M Ansell	18,000	16,000
CJ Galleymore	18,000	16,000
AS Kemp	20,000	18,000
<b>Total</b>	<b>81,000</b>	<b>73,000</b>

<sup>1</sup>Audited information.

The total Directors' fees of £81,000 (2009: £73,000) were all paid to Directors and £nil (2009: £nil) paid to third parties.

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

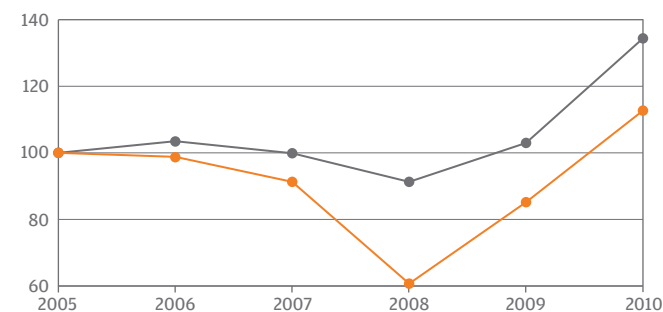
As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM, and relevant third parties on the level of fees

paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. The Company's Articles currently stipulate that aggregate fees must not exceed £150,000 per annum. Directors' fees are reviewed regularly and any increase in the maximum aggregate amount requires both Board and shareholder approval.

The 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 to the Company's business.

A graph showing the Company's share price compared with its benchmark, the Russell 2000 Index in sterling terms, over the last five years is shown below.

## Five Year Share Price and Benchmark Total Return Performance to 31st December 2010



Source: Morningstar/Russell Investments.

— Share price total return.  
— Benchmark total return.

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
15th March 2011

# Directors' Responsibilities in Respect of the Accounts

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

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

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

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

The accounts are published on the [www.jp mussmallercompanies.co.uk](http://www.jp mussmallercompanies.co.uk) website, which is

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

## Statement under the Disclosure & Transparency Rules 4.1.12

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

- (a) the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and Applicable Law), 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  
Davina Walter  
Chairman  
15th March 2011

# Independent Auditors' Report

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

We have audited the financial statements of JPMorgan US Smaller Companies Investment Trust plc (the 'Company') for the year ended 31st December 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31st December 2010 and of its return for the year then ended;

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

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

## Under the Listing Rules we are required to review:

- The directors' statement, set out on page 20, in relation to going concern;
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to the shareholders by the Board on Directors' remuneration.

**Caroline Gulliver** (Senior statutory auditor)  
for and on behalf of  
Ernst & Young LLP, Statutory Auditors  
London

15th March 2011

# Income Statement

for the year ended 31st December 2010

	Notes	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
<b>Gains on investments held at fair value through profit or loss</b>							
	2	–	13,106	13,106	–	9,970	9,970
Net foreign currency gains/(losses)		–	298	298	–	(238)	(238)
Income from investments	3	847	–	847	259	–	259
Other interest receivable and similar income	3	6	–	6	63	–	63
<b>Gross return</b>		<b>853</b>	<b>13,404</b>	<b>14,257</b>	322	9,732	10,054
Management fee	4	(48)	(429)	(477)	(36)	(325)	(361)
Performance fee	4	–	(95)	(95)	–	(200)	(200)
Other administrative expenses	5	(286)	–	(286)	(279)	–	(279)
<b>Net return on ordinary activities before finance costs and taxation</b>		<b>519</b>	<b>12,880</b>	<b>13,399</b>	7	9,207	9,214
Finance costs	6	(9)	(83)	(92)	(1)	(7)	(8)
<b>Net return on ordinary activities before taxation</b>		<b>510</b>	<b>12,797</b>	<b>13,307</b>	6	9,200	9,206
Taxation	7	(127)	–	(127)	(41)	–	(41)
<b>Net return/(loss) on ordinary activities after taxation</b>		<b>383</b>	<b>12,797</b>	<b>13,180</b>	(35)	9,200	9,165
<b>Return/(loss) per share</b>	8	<b>7.09p</b>	<b>236.89p</b>	<b>243.98p</b>	(0.62)p	161.82p	161.20p

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 49 form an integral part of these accounts.

# Reconciliation of Movements in Shareholders' Funds

	Called up share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 31 December 2008</b>	1,508	1,634	36,028	(4,695)	<b>34,475</b>
Repurchase and cancellation of the Company's own shares	(23)	23	(614)	–	<b>(614)</b>
Repurchase of shares into Treasury	–	–	(1,627)	–	<b>(1,627)</b>
Cancellation of shares held in Treasury	(114)	114	–	–	<b>–</b>
Total return/(loss) on ordinary activities	–	–	9,200	(35)	<b>9,165</b>
<b>At 31 December 2009</b>	1,371	1,771	42,987	(4,730)	<b>41,399</b>
Repurchase and cancellation of the Company's own shares	(55)	55	(1,629)	–	<b>(1,629)</b>
Net return on ordinary activities	–	–	12,797	383	<b>13,180</b>
<b>At 31 December 2010</b>	1,316	1,826	54,155	(4,347)	<b>52,950</b>

The notes on pages 34 to 49 form an integral part of these accounts.

# Balance Sheet

at 31st December 2010

	Notes	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	9	53,444	40,860
Investments in liquidity funds held at fair value through profit or loss	9	2,911	1,148
		56,355	42,008
<b>Current assets</b>			
Debtors	10	181	59
Cash and short term deposits		1,225	43
		1,406	102
<b>Creditors:</b> amounts falling due within one year	11	(4,681)	(578)
<b>Net current liabilities</b>		(3,275)	(476)
<b>Total assets less current liabilities</b>		53,080	41,532
<b>Provision for liabilities and charges</b>	12	(130)	(133)
<b>Net assets</b>		52,950	41,399
<b>Capital and reserves</b>			
Called up share capital	13	1,316	1,371
Capital redemption reserve	14	1,826	1,771
Capital reserves	14	54,155	42,987
Revenue reserve	14	(4,347)	(4,730)
<b>Shareholders' funds</b>		52,950	41,399
<b>Net asset value per share</b>	15	1,005.8p	755.2p

The accounts on pages 30 to 49 were approved and authorised for issue by the Directors on 15th March 2011 and were signed on their behalf by:

**Davina Walter**  
Director

The notes on pages 34 to 49 form an integral part of these accounts.

The Company's registration number is 552775.

# Cash Flow Statement

for the year ended 31st December 2010

	Notes	2010 £'000	2009 £'000
<b>Net cash outflow from operating activities</b>	16	(117)	(110)
<b>Returns on investments and servicing of finance</b>			
Interest paid		(82)	(8)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(82)	(8)
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(43,042)	(29,863)
Sales of investments		41,692	29,975
Other capital charges - handling fees		(5)	(8)
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>		(1,355)	104
<b>Net cash outflow before financing</b>		(1,554)	(14)
<b>Financing</b>			
Draw down of short term bank loan		4,779	–
Repurchase of shares into Treasury		–	(1,627)
Repurchase and cancellation of the Company's own shares		(2,031)	(212)
<b>Net cash inflow/(outflow) from financing activity</b>		2,748	(1,839)
<b>Increase/(decrease) in cash and cash equivalents</b>	17	1,194	(1,853)

The notes on pages 34 to 49 form an integral part of these accounts.

# Notes to the Accounts

for the year ended 31st December 2010

## 1. Accounting policies

### (a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009. All of the Company's operations are of a continuing nature.

The disclosures on going concern on page 20 of the Directors' Report form part of these accounts.

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

### (b) Valuation of investments

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

Gains and losses on sales of investments represent the excess of sales proceeds over brought forward fair value and are included in the Income Statement and dealt with in capital reserves within 'Gains and losses on sales of investments'.

Increases and decreases in the valuation of investments held at the year end are included in the Income Statement and dealt with in capital reserves within 'Holding gains and losses on investments'. Gains and Losses on sales of investments and movements in the valuation of investments held at the year end, include the related foreign exchange gains and losses.

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

### (c) Income

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

Overseas dividends are included gross of any withholding tax.

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

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

### (d) Expenses

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

- performance fees are allocated 100% to capital.
- management fees are allocated 10% to revenue and 90% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise mainly brokerage commission. Details of transaction costs are given in note 9 on page 38.

**(e) Finance 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.

Finance costs are allocated 10% to revenue and 90% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

**(f) Financial instruments**

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

The performance fee provision is not discounted.

Interest bearing bank loans and overdrafts are classified as loans and receivables and measured at amortised cost. They are recorded at the proceeds received net of direct issue costs. Finance costs, are accounted for using the effective interest rate method.

Derivative financial instruments are classified as held for trading and measured at fair value with changes in fair value recognised in capital.

**(g) Foreign currency**

In accordance with FRS 23: 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the accounts are presented.

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

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

**(h) Taxation**

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

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is more likely than not 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 entirely offset by revenue expenses, then no tax relief is transferred to capital.

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

**(i) VAT**

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

# Notes to the Accounts continued

	2010 £'000	2009 £'000
<b>2. Gains on investments held at fair value through profit or loss</b>		
Gains/(losses) on sales of investments held at fair value through profit or loss based on historical cost	7,698	(2,426)
Amounts recognised as investment holding gains in the previous year in respect of investments sold during the year	(3,194)	6,797
Gains on sales of investments based on the carrying value at the previous balance sheet date	4,504	4,371
Net movement in investment holding gains and losses	8,607	5,607
Other capital charges - handling fees	(5)	(8)
<b>Total capital gains on investments held at fair value through profit or loss</b>	<b>13,106</b>	<b>9,970</b>

	2010 £'000	2009 £'000
<b>3. Income</b>		
Income from investments:		
Dividends	847	259
Other interest receivable and similar income:		
Deposit interest	6	63
<b>Total income</b>	<b>853</b>	<b>322</b>

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>4. Management and performance fee<sup>1</sup></b>						
Management fee	48	429	477	36	325	361
Performance fee	–	95	95	–	200	200
	<b>48</b>	<b>524</b>	<b>572</b>	<b>36</b>	<b>525</b>	<b>561</b>

<sup>1</sup>Details of the management fee and performance fee are given in the Directors' Report on pages 19 and 20.

	2010 £'000	2009 £'000
<b>5. Other administrative expenses</b>		
Administration expenses	147	147
Directors' fees <sup>1</sup>	81	73
Savings scheme costs <sup>2</sup>	35	36
Auditors' remuneration for audit services	23	23
<b>Total administrative expenses</b>	<b>286</b>	<b>279</b>

<sup>1</sup>Full disclosure is given in the Directors' Remuneration Report on page 27.

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

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>6. Finance costs</b>						
Interest on bank loans and overdrafts	9	83	92	1	7	8

## 7. Taxation

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

	2010 £'000	2009 £'000
Overseas withholding tax	127	41
Current tax charge for the year	127	41

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

The tax assessed for the year is lower (2009: lower) than the standard rate of corporation tax in the UK of 28% (2009: 28%). The factors affecting the current tax charge for the year are as follows:

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return on ordinary activities before taxation	510	12,797	13,307	6	9,200	9,206
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 28% (2009: 28%)	143	3,583	3,726	2	2,576	2,578
Effects of:						
Non taxable capital gains	–	(3,753)	(3,753)	–	(2,725)	(2,725)
Non taxable overseas dividends	(237)	–	(237)	(42)	–	(42)
Unrelieved expenses	94	170	264	40	149	189
Overseas withholding tax	127	–	127	41	–	41
Current tax charge for the year	127	–	127	41	–	41

### (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £3,946,000 (2009: £3,828,000) based on a prospective corporation tax rate of 27%. The Finance Act 2010, which provides for a reduction in the main rate of corporation tax from 28% to 27% effective from 1st April 2011, was substantively enacted on 21st July 2010. The Government has also indicated that it intends to enact future reductions in the main rate of corporation tax of 1% each year down to 24% by 1st April 2014. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future.

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

## 8. Return/(loss) per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £383,000 (2009: £35,000 loss) and on the weighted average number of shares in issue during the year of 5,402,148 (2009: 5,685,496).

The capital return per share is based on the capital return attributable to the ordinary shares of £12,797,000 (2009: £9,200,000) and on the weighted average number of shares in issue during the year of 5,402,148 (2009: 5,685,496).

The total return per share is based on the total return attributable to the ordinary shares of £13,180,000 (2008: £9,165,000) and on the weighted average number of shares in issue during the year of 5,402,148 (2009: 5,685,496).

	2010 £'000
<b>9. Investments</b>	
Investments listed on a recognised stock exchange	53,444
Investments in liquidity funds	2,911
Total investments held at fair value	56,355
Opening book cost	34,881
Opening investment holding gains	7,127
Opening valuation	42,008
Movements in the year:	
Purchases at cost	43,036
Sales – proceeds	(41,800)
Gains on sales of investments based on the carrying value at the previous balance sheet date	4,504
Net movement in investment holding gains and losses	8,607
Closing valuation	56,355
Closing book cost	43,815
Closing investment holding gains	12,540
Closing valuation	56,355

During the year, prior year investment holding losses amounting to £3,194,000 have been transferred to gains on sales of investments as disclosed in note 14.

Transaction costs on purchases during the year amounted to £40,000 (2009: £48,000) and on sales during the year amounted to £45,000 (2009: £88,000). These costs comprise mainly brokerage commission.

	2010 £'000	2009 £'000
<b>10. Current assets</b>		
<b>Debtors</b>		
Securities sold for awaiting settlement	112	4
Dividends and interest receivable	32	20
Other debtors	37	35
	<b>181</b>	<b>59</b>

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

#### Cash and short term deposits

Cash and short term deposits comprises bank balances and cash held by the Company, including short term 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.

	2010 £'000	2009 £'000
<b>11. Creditors: amounts falling due within one year</b>		
Bank loan	4,471	–
Securities purchased awaiting settlement	–	6
Repurchase of the Company's own shares awaiting settlement	–	402
Performance fee payable	98	67
Derivative: forward foreign currency contract	–	2
Other creditors and accruals	112	101
	<b>4,681</b>	<b>578</b>

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 ING Bank. Details of the facility are given in note 21(a)(ii) on page 45.

	2010 £'000	2009 £'000
<b>12. Provisions for liabilities and charges</b>		
Performance fee:		
Provision brought forward at the beginning of the year	133	–
Performance fee provision for the year	95	200
Amount realised in the year	(98)	(67)
Provision carried forward at the end of the year	<b>130</b>	<b>133</b>

Details of the performance fee are given in the Directors' Report on pages 19 and 20.

# Notes to the Accounts continued

	2010 £'000	2009 £'000
<b>13. Called up share capital</b>		
<b>Allotted and fully paid</b>		
Opening balance of 5,482,110 (2009: 6,031,367) shares of 25p each	1,371	1,470
Repurchase of 217,500 (2009: 91,800) shares for cancellation	(55)	(23)
Purchase of nil (2009: 307,457) shares Into Treasury	–	(76)
Closing balance of 5,264,610 (2009: 5,482,110) shares of 25p each	1,316	1,371

During the year, the Company repurchased 217,500 shares, nominal value £55,000, for cancellation, representing 4.0% of the shares outstanding at the beginning of the year. The total consideration paid for these shares was £1,629,000 and the reason for the purchases was to seek to manage the volatility and absolute level of the share price discount to net asset value per share.

No shares were held in Treasury at the current and comparative year end. During the comparative year, 457,457 shares held in Treasury were cancelled.

	Capital reserves			Revenue reserve £'000
	Capital redemption reserve £'000	Gains and losses on sales of investments £'000	Holding gains and losses on investments £'000	
<b>14. Reserves</b>				
Opening balance	1,771	35,995	6,992	(4,730)
Repurchase and cancellation of the Company's own shares	55	(1,629)	–	–
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	4,504	–	–
Foreign currency losses on cash and short term deposits	–	(10)	–	–
Unrealised losses on foreign currency contracts - now realised	–	(2)	2	–
Performance fee provision for the year	–	–	(95)	–
Performance fee payable	–	(98)	98	–
Net movement in investment holding gains and losses	–	–	8,607	–
Transfer on disposal of investments	–	3,194	(3,194)	–
Unrealised foreign currency gains on loans	–	–	308	–
Management fee and finance cost charged to capital	–	(512)	–	–
Other capital charges - handling fees	–	(5)	–	–
Retained revenue for the year	–	–	–	383
Closing balance	1,826	41,437	12,718	(4,347)

	Net asset value per share		Net assets attributable	
	2010 pence	2009 pence	2010 £'000	2009 £'000
<b>15. Net asset value per share</b>				
Ordinary shares	1,005.8	755.2	52,950	41,399

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £52,950,000 (2009: £41,399,000) and on the 5,264,610 (2009: 5,482,110) shares in issue at the year end.

	2010 £'000	2009 £'000
<b>16. Reconciliation of total net return on ordinary activities before finance costs and taxation to net cash outflow from operating activities</b>		
Total return on ordinary activities before finance costs and taxation	13,399	9,214
Add back capital return before finance costs and taxation	(12,880)	(9,207)
Increase in accrued income	(12)	(16)
(Increase)/decrease in other debtors	(2)	271
Increase/(decrease) in accrued expenses	1	(6)
Expenses charged to capital	(429)	(325)
Overseas withholding tax	(127)	(41)
Performance fee paid	(67)	–
Net cash outflow from operating activities	(117)	(110)

	At 31st December 2009 £'000	Cash flow £'000	Exchange movements £'000	At 31st December 2010 £'000
<b>17. Analysis of changes in net funds/debt</b>				
Cash and short term deposits	43	1,194	(12)	1,225
Bank loans falling due within one year	–	(4,779)	308	(4,471)
Closing net funds/(debt)	43	(3,585)	296	(3,246)

#### 18. Contingent liabilities and capital commitments

At the balance sheet date there were no capital commitments or contingent liabilities (2009: none).

#### 19. Transactions with the Manager

Details of the management and performance fee agreements are set out in the Directors' Report on pages 19 and 20. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £477,000 (2009: £361,000), none of which was outstanding at the year end (2009: £nil). A performance fee amounting to £98,000 (2009: £67,000) is payable for the year, all of which is outstanding at the year end.

During the year, £35,000 (2009: £36,000) was payable to JPMAM for the administration and marketing of savings products, of which £3,000 (2009: £nil) was outstanding at the year end.

Included in administration expenses in note 5 on page 36 are safe custody fees amounting to £454 (2009: £330) payable to JPMorgan Chase of which £115 (2009: £nil) was outstanding at the year end.

Handling fees on dealing transactions amounting to £5,000 (2009: £8,000) were payable to JPMorgan Chase during the year of which £1,000 (2009: £2,000) was outstanding at the year end.

The Company holds an investment in the JPMorgan US Dollar Liquidity Fund which is managed by JPMAM. At 31st December 2010 this investment was valued at £2.9 million (2009: £1.1 million). During the year the Company made purchases of this investment amounting to £17.0 million (2009: £7.0 million) and sales amounting to £15.2 million (2009: £5.9 million). Income amounting to £5,000 (2009: £2,000) was receivable from this investment during the year and was reinvested in the fund.

At the year end, a bank balance of £1,225,000 (2009: £43,000) was held with JPMorgan Chase. A net amount of interest of £175 (2009: £2,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2009: £nil) was outstanding at the year end.

# Notes to the Accounts continued

## 20. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments that are held at fair value comprise its investment portfolio and derivative financial instruments. The Company's liabilities are not held at fair value.

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

Level 1 - valued using quoted prices in active markets.

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

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

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. Details of the valuation techniques used by the Company are given in note 1(b) on page 34.

The following table sets out the fair value hierarchy at 31st December:

	2010			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial assets held at fair value through profit or loss at 31st December 2010</b>				
Equity investments	53,444	–	–	53,444
Liquidity funds	2,911	–	–	2,911
<b>Total</b>	<b>56,355</b>	<b>–</b>	<b>–</b>	<b>56,355</b>

	2009			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial assets held at fair value through profit or loss at 31st December 2009</b>				
Equity investments	40,433	–	–	40,433
Fixed interest investments	–	427	–	427
Liquidity funds	1,148	–	–	1,148
Derivative: forward foreign currency contract	–	(2)	–	(2)
<b>Total</b>	<b>41,581</b>	<b>425</b>	<b>–</b>	<b>42,006</b>

There have been no transfers into or out of Level 3 during the year.

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

As an investment trust the Company invests in equities and other securities for the long term so as to secure its investment objective stated on the 'Features' page. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These risks include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management strategy.

The 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:

- investments in the shares of US companies and a US Dollar liquidity fund, which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations;
- short term forward currency contracts for the purpose of settling short term liabilities; and
- bank loans and overdrafts, the purpose of which is to finance the Company's operations.

### (a) Market risk

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

#### (i) Currency risk

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

##### Management of currency risk

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

##### Foreign currency exposure

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

# Notes to the Accounts continued

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

### (a) Market risk continued

#### (i) Currency risk continued

##### Foreign currency exposure continued

	2010 US\$ £'000	2009 US\$ £'000
Investments held at fair value through profit and loss that are monetary items	2,911	1,575
Debtors - securities sold awaiting settlement, dividends and interest receivable	144	24
Cash and short term deposits	1,219	11
Creditors - securities purchased awaiting settlement	-	(6)
Bank loans	(4,471)	-
Foreign currency exposure on net monetary items	(197)	1,604
Investments held at fair value through profit or loss that are equities	53,444	40,433
Total net foreign currency exposure	53,247	42,037

The above year end amounts are broadly representative of the exposure to foreign currency risk during the year.

#### Foreign currency sensitivity

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

The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and the income receivable in foreign currency, and assumes a 10% (2009: 10%) appreciation or depreciation of sterling against the US dollar which is deemed a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had weakened by 10% (2009: 10%) this would have had the following effect:

	2010 £'000	2009 £'000
Income statement - return after taxation:		
Revenue return	85	26
Capital return	(20)	160
Total return after taxation for the year	65	186
Net assets	65	186

Conversely if sterling had strengthened by 10% (2009: 10%) this would have had the following effect:

	2010 £'000	2009 £'000
Income statement - return after taxation		
Revenue return	(85)	(26)
Capital return	20	(160)
Total return after taxation for the year	(65)	(186)
Net assets	(65)	(186)

In the opinion of the Directors, the above sensitivity analysis with respect to monetary financial assets and liabilities is broadly representative of the whole year. The sensitivity with regard to the Company's investments and foreign currency is subsumed into other price risk sensitivity on page 46.

**(ii) Interest rate risk**

Interest rate movements may affect the level of income receivable on cash deposits and the liquidity fund, and the interest payable on the Company's variable rate cash borrowings. The Company has no exposure to fair value interest rate risk as it has no fixed interest investments or borrowings.

**Management of interest rate risk**

The Company does not normally hold significant cash balances. The Company may finance part of its activities through borrowings at levels approved and monitored by the Board. The Board's policy is to limit gearing within the range 95% to 115% (+/-2.5%).

Derivatives are not used to hedge against the exposure to interest rate risk.

**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.

	2010 £'000	2009 £'000
Exposure to floating interest rates:		
Cash and short term deposits	1,225	43
JPMorgan US Dollar Liquidity Fund	2,911	1,148
Creditors: amounts falling due within one year		
Bank loan	(4,471)	–
<b>Total exposure</b>	<b>(335)</b>	<b>1,191</b>

Interest receivable is at the following rates:

- Interest receivable on cash balances is at a margin below LIBOR.
- The target interest earned on the JPMorgan US Dollar Liquidity Fund is the 7 day US\$ London Interbank Bid Rate.

During the year, the Company arranged a US\$8.0 million one year floating rate loan facility with ING Bank, which is renewable in March 2011. Interest is payable at a 2.10% margin over LIBOR as offered in the market for the loan period plus the 'mandatory costs' rate, which is the lender's cost of complying with certain regulatory requirements. At the year end, the Company had drawn down two tranches on this facility totalling US\$7.0 million (£4.5 million) at a weighted average interest rate of 2.49% per annum. There was no loan facility in place at the comparative year end.

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

	2010 £'000	2009 £'000
Maximum credit interest rate exposure to floating rates - net cash and liquidity fund balances	1,842	2,047
Maximum debit/minimum credit interest rate exposure to floating rates - net (loan)/cash and liquidity fund balances	(2,527)	486

# Notes to the Accounts continued

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

### (a) Market risk continued

#### (ii) Interest rate risk continued

##### Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2009: 0.5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2010		2009	
	0.5% increase in rate £'000	0.5% decrease in rate £'000	0.5% increase in rate £'000	0.5% decrease in rate £'000
Income statement - return after taxation				
Revenue return	18	(18)	6	(6)
Capital return	(20)	20	–	–
Total return after taxation for the year and net assets	(2)	2	6	(6)

In the opinion of the Directors, the above sensitivity may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances, investments in liquidity funds and borrowings.

#### (iii) Other price risk

Other price risks include changes in market prices, other than those arising from interest rate risk or currency risk, which may affect the value of equity investments.

##### Management of other price risk

The Board meets on at least six 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 total exposure to other changes in market prices at 31st December comprises its holdings in equity investments as follows:

	2010 £'000	2009 £'000
Equity investments held at fair value through profit or loss	53,444	40,433

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

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

A list of the Company's investments is given on pages 13 and 14. This shows that all of the investments are listed in the USA. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of listing.

### Other price risk sensitivity

The following table illustrates the sensitivity of the return after tax and net assets to an increase or decrease of 10% (2009: 10%) in the fair value of equity investments. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2010		2009	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement - return after taxation:				
Revenue return	(5)	5	(4)	4
Capital return	5,296	(5,296)	4,007	(4,007)
Total return after taxation for the year	5,291	(5,291)	4,003	(4,003)
Net assets	5,291	(5,291)	4,003	(4,003)

### (b) Liquidity risk

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

#### Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly 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 and working capital and to gear the Company as appropriate.

#### 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:

	2010				2009		
	Three months or less £'000	Not more than one year £'000	More than one year £'000	Total £'000	Three months or less £'000	More than one year £'000	Total £'000
Provisions for liabilities and charges:							
Performance fee	–	–	130	130	–	133	133
Creditors: amounts falling due within one year:							
Bank loan	–	4,471	–	4,471	–	–	–
Securities purchased awaiting settlement	–	–	–	–	6	–	6
Repurchase of the Company's own shares awaiting settlement	–	–	–	–	402	–	402
Performance fee payable	98	–	–	98	67	–	67
Derivative: forward foreign currency contract	–	–	–	–	2	–	2
Other creditors and accruals	112	–	–	112	101	–	101
	210	4,471	130	4,811	578	133	711

# Notes to the Accounts continued

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

### (c) Credit risk

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

#### Management of credit risk

##### Portfolio dealing

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

##### Cash

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

##### Exposure to JPMorgan Chase

The Company's assets are ring-fenced in client designated accounts. Therefore, these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading. However, no absolute guarantee can be given on the protection of all the assets of the Company.

#### Credit risk exposure

The following amounts shown in the Balance Sheet represent the maximum exposure to credit risk at the current and comparative year end.

	2010		2009	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets - investments held at fair value through profit or loss	56,355	2,911	42,008	1,148
Current assets				
Debtors - amount due from brokers, dividends and interest receivable	181	181	59	59
Cash and short term deposits	1,225	1,225	43	43
	54,850	4,317	42,110	1,250

The fixed asset exposure to credit risk comprises the Company's investment in the JPMorgan US Dollar Liquidity Fund. This fund has been given an AAA credit rating by Standard & Poor's. The fund's investments comprise mainly certificates of deposit, commercial paper and floating rate notes with a weighted average maturity of 45 days.

Cash and short term deposits comprises balances held at banks with an AA credit rating or higher (2009: 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.

## 22. Capital management policies and procedures

### Composition of the Company's capital

	2010 £'000	2009 £'000
<b>Debt</b>		
Short term bank loan	4,471	–
<b>Equity</b>		
Share capital	1,316	1,371
Reserves	51,634	40,028
Total equity	52,950	41,399
Total capital	57,421	41,399

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 95% to 115% (+/- 2.5%). Gearing for this purpose is defined as investments, excluding holdings in liquidity funds, expressed as a percentage of total net assets.

	2010 £'000	2009 £'000
Investments	53,444	40,860
Total net assets	52,950	41,399
Gearing	100.9%	98.7%

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

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

# Shareholder Analysis

at 31st December 2010

	Number of shares	% Holding
Individuals in the Investment Trust ISA <sup>1</sup>	231,416	4.4
Individuals in the Investment Trust Investment Account <sup>1</sup>	659,521	12.5
Retail investors <sup>2</sup>	1,479,783	28.1
JPMorgan Elect	349,687	6.6
Individuals in the Investment Trust SIPP <sup>1</sup>	93,257	1.8
<b>Total Individuals</b>	<b>2,813,664</b>	<b>53.4</b>
Other Institutions	488,532	9.3
Insurance Companies	671,113	12.7
Pensions Funds	851,000	16.2
Unit Trusts	440,301	8.4
<b>Total Institutions</b>	<b>2,450,946</b>	<b>46.6</b>
<b>Total Shares in issue</b>	<b>5,264,610</b>	<b>100.0</b>

<sup>1</sup>Includes shares below 10,000 threshold.

<sup>2</sup>Savings product managed by JPMAM.

Source: Thomson Financial.

Nominee accounts have been allocated to their appropriate category.

# Notice of Meeting

Notice is hereby given that the fifty fourth Annual General Meeting of JPMorgan US Smaller Companies Investment Trust plc will be held at The Library, JPMorgan, 60 Victoria Embankment, London EC4Y 0JP on Wednesday, 27th April 2011 at 12.00 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st December 2010.
2. To approve the Directors' Remuneration Report for the year ended 31st December 2010.
3. To re-elect Mark Ansell as a Director of the Company.
4. To re-elect Chris Galley more as a Director of the Company.
5. To re-elect Alan Kemp as a Director of the Company.
6. To re-elect Davina Walter as a Director of the Company.
7. To re-appoint Ernst & Young LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.

## Special Business

To consider the following resolutions:

### Authority to allot new ordinary shares – Ordinary Resolution

8. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Act to exercise all the powers for the Company to allot shares in the Company and to grant rights to subscribe for, or convert any security into, shares in the Company ('Rights') up to an aggregate nominal amount of £131,615, representing approximately 10% of the Company's issued ordinary share capital as at the date of the passing of this Resolution, provided that this authority shall expire at the Annual General Meeting of the Company to be held in 2012, unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

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

9. THAT, subject to the passing of Resolution 8 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 8 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £131,615, representing approximately 10% of the issued 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 upon the expiry of the general authority conferred by Resolution 8 above, save that the Company may before such expiry make offers or agreements 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 or agreements as if the power conferred hereby had not expired.

### Authority to repurchase the Company's shares – Special Resolution

10. THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693 of the Act) of its issued ordinary shares on such terms and in such manner as the Directors may from time to time determine

#### PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 789,165 or, if less, that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for an ordinary share shall be 25p;
- (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to: (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the

# Notice of Meeting continued

five business days immediately preceding the day on which the ordinary share is purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

- (iv) any purchase of 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 shall expire on 26th October 2012 unless the Authority is renewed at the Company's Annual General Meeting in 2012 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract notwithstanding such expiry.

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
15th March 2011

## Notes

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

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will automatically be terminated.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments 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 received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.
6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative. Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website [www.jp muss smaller companies.co.uk](http://www.jp muss smaller companies.co.uk).
13. The register of interests of the Directors and connected persons in the share capita of the Company and the Directors' letters of appointment are 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. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hardcopy Form of Proxy/Voting Direction Form, you can appoint a proxy or proxies electronically by visiting [www.sharevote.co.uk](http://www.sharevote.co.uk). You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/ Voting Direction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at [www.shareview.co.uk](http://www.shareview.co.uk). Full instructions are given on both websites.
16. As at 14th March 2011 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 5,264,610 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 5,264,610.

**Electronic appointment CREST members**

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

# Glossary of Terms and Definitions

## **Return to Shareholders**

Share price return, on a mid-market price to mid-market price basis.

## **Return on Net Assets**

Return on net asset value per share, on a bid value to bid value basis.

## **Benchmark Return**

Total return on the benchmark 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 benchmark.

## **Actual Gearing Factor**

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

## **Total Expense Ratio**

Management fees, performance fees payable and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year.

## **Active Position**

The active position shows the difference between the Company's holding of an individual stock or sector compared with that stock or sector's weighting in the Company's benchmark index. A positive number indicates an active decision by the manager to own more of (i.e. be overweight) a particular stock or sector versus the benchmark and a negative number indicates a decision to hold less of (i.e. be underweight) a particular stock or sector versus the benchmark.

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

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

## **Performance Attribution**

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

### **Performance Attribution Definitions:**

#### **Asset Allocation**

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**

The effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities excluded from the benchmark.

#### **Gearing/Cash**

The impact of borrowings or cash balances on the Company's performance relative to the benchmark, which includes no such balances.

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

The negative effect on performance relative to the benchmark arising from other payment of fees and expenses.

#### **Share Buybacks**

The enhancement to net asset value ('NAV') per share arising from the repurchase and cancellation of the Company's own shares at a share price discount to NAV.

#### **Performance Fee**

Measures the effect of a performance fee charge or writeback.

# Information about the Company

## Financial Calendar

Financial year end	31st December
Half year results announced	August
Full year results announced	March
Interim Management Statements	April and October
Annual General Meeting	April

### History

JPMorgan US Smaller Companies Investment Trust plc was incorporated in 1955 as Atomic Securities Trust Limited. It was dormant until 1962 when it changed its name to Fledgeling Investments Limited and began operations as an unquoted investment company.

The trust was wholly owned by a number of JPMorgan investment trusts and invested in listed and unlisted companies in the UK and US which for reasons of small size, illiquidity or risk, were unsuitable for direct investment. In 1982, with assets of £9.2 million, it obtained a listing on the London Stock Exchange and gained investment trust status. At that time it changed its name to The Fleming Fledgeling Investment Trust plc and gradually broadened its investment scope into Europe and the Asian markets. In April 1998, the Company changed its name to The Fleming US Discovery Investment Trust plc and then again to JPMorgan Fleming US Discovery Investment Trust plc in May 2002. The Company adopted its present name in April 2010.

### Continuation Vote

At the Annual General Meeting of the Company held in April 2010 a resolution of the shareholders approved the continuation of the Company until the Annual General Meeting to be held in 2015.

### Company Numbers

Company registration number: 552775  
London Stock Exchange Code: JUSC LN  
ISIN: GB0003417101  
Bloomberg: JUSC  
Reuters: JUSC

### Market Information

The shares are listed on the London Stock Exchange and are quoted daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman, The Independent and The Herald and on the JPMorgan internet site at [www.jpumussmallercompanies.co.uk](http://www.jpumussmallercompanies.co.uk), where the share price is updated every 15 minutes during trading hours.

### Website

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

### Share Transactions

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

### Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

### Company's Registered Office

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

For company secretarial and administrative matters, please contact Jonathan Latter.

### Registrars

Equiniti  
Reference 1084  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone: 0871 384 2326

Calls to this number cost 8p per minute from a BT landline. Other providers' costs may vary. Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday. The overseas helpline number is +44 (0)121 415 7047.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1084.

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

### Independent Auditors

Ernst & Young LLP  
Chartered Accountants and Statutory Auditors  
1 More London Place  
London SE1 2AF

### Brokers

Cenkos Securities plc  
6, 7, 8 Tokenhouse Yard  
London EC2R 7AS

### Savings Product Administrators

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



The Association of  
Investment Companies

A member of the AIC

J.P. Morgan Helpline  
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

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