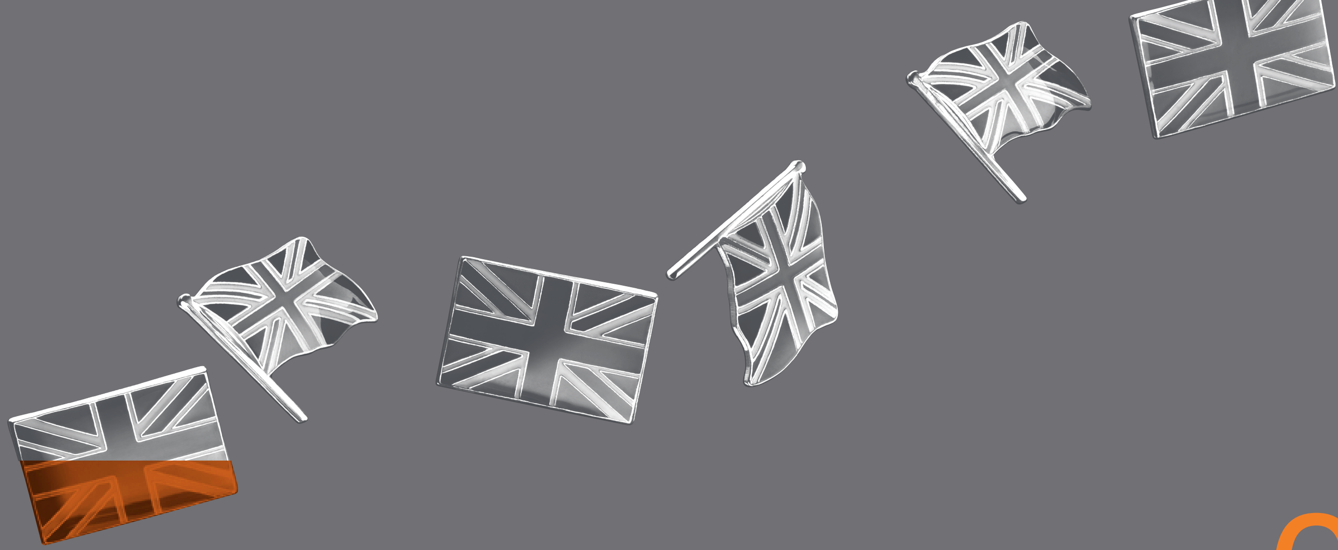


Annual Report 09

JPMorgan Claverhouse Investment Trust plc

Annual Report & Accounts for the year ended 31st December 2009

J.P.Morgan
Asset Management

Features

Contents

Objective

Capital and income growth from UK investments.

Investment Policies

- To invest in a portfolio consisting mostly of leading UK companies.
- To use long-term gearing to increase potential returns to shareholders. The Company's gearing policy is to operate within a range of 95% to 120% invested in normal market conditions.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).
- To invest no more than 15% of gross assets in any individual investment (including unit trusts and open ended investment companies).

Further details on investment policies and risk management are given in the Directors' Report on page 21.

Benchmark

The FTSE All-Share Index.

Capital Structure

The Company has an authorised share capital of 156,000,000 ordinary shares of 25p each, of which 56,765,653 were in issue at the year end, including 408,600 shares held in Treasury.

Management Company

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

AIC

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

Financial Results

Total Returns (capital plus income)

+32.5%
Return to shareholders[1]
(2008: –32.4%)

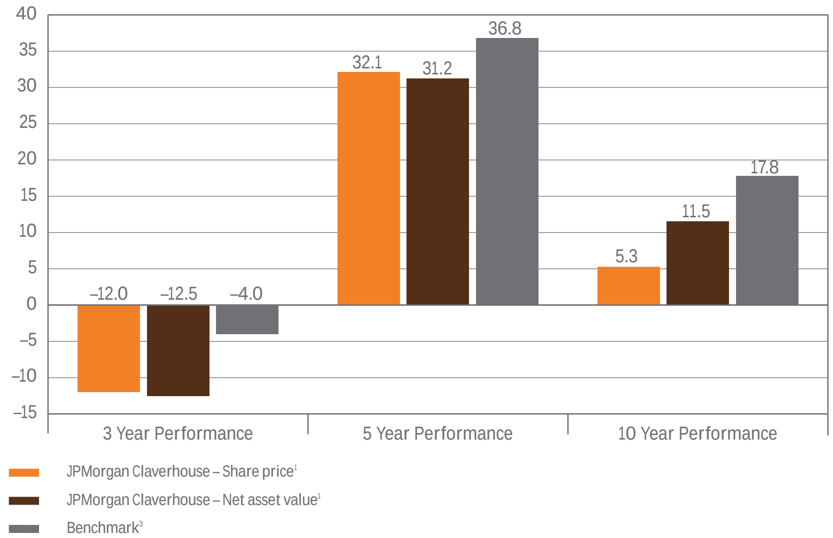
+29.7%
Return on net assets[2]
(2008: –32.7%)

+30.1%
Benchmark return[3]
(2008: –29.9%)

16.9p
Dividend
(2008: 16.4p, plus special dividend of 3.6p)

Long Term Performance

for periods ended 31st December 2009



A glossary of terms and definitions is provided on page 61.

[1]Source: Morningstar.
[2]Source: J.P. Morgan.
[3]Source: Datastream. The Company's benchmark is the FTSE All-Share Index.

Chairman's Statement

Performance and continuing appointment of the Manager

In many ways, 2009 was as extraordinary a year as 2008, albeit with a very different out-turn for equity investors. After losing 29.9% in 2008 our benchmark, the FTSE All-Share Index, recovered by 30.1% in 2009 as measured on a total return basis. It would, of course, have had to recover by 42.7% to end the year back where it started on 1st January 2008. Nevertheless all equity investors will have breathed a huge sigh of relief at the sight of significant positive returns after the traumas of 2008.

However, I do not have to remind shareholders what a volatile year 2009 was. As I wrote in my half year statement last August, I signed out last year's statement on 3rd March, the day the UK stock market had hit its low point for the year. A year ago I wrote that investors in equities could not risk being out of the market when it turned up, although I did not know when that would happen. Well, it transpires that it had started to do so on that very day. By 30th June the market had recovered 24.0% from its low on 3rd March. By 31st December it had powered further ahead, rising no less than 60.1% from the low point. It would have been very easy to lose one's nerve in the first two months of 2009 and history shows that had one done so, the long term returns from an equity portfolio would have been catastrophically reduced.

In the face of this volatility your Company turned in a respectable performance for the year to 31st December 2009. The total return on net assets was +29.7%. Performance was helped by the fact that the Company was geared during the year. A breakdown of contributions to performance is set out on page 8. Including the effect of gearing, the portfolio outperformed the benchmark by 0.9%.

Looking at the change in the share price, and taking account of dividends, the total return was a satisfactory +32.5% as a result of a modest reduction in the discount to net asset value.

Your Board was marginally disappointed that the investment process did not deliver stronger underlying results in 2009, although it was, once again, an exceptionally difficult year for many managers. At Claverhouse both your Board and JPMorgan Asset Management (UK) Limited ('JPMAM') kept their nerve through the black days of the first quarter and shareholders have benefitted from the best stock market performance since 1989.

Your Board has once again had detailed discussions with JPMAM about the effectiveness of the investment process under which the Company's portfolio is managed. More detail on the process is set out in the Investment Managers' Report. Again JPMAM made a detailed submission to the Board which we considered with them and then subsequently in a private meeting. We acknowledge that a great deal of intellectual effort has been put in by JPMAM in designing their Behavioural Finance investment process and every indication from back-testing that process is that, despite the relative underperformance over 2007 to 2009, we can expect material out-performance over a ten-year horizon.

Although investment performance is extremely important the managers provide many other services to the Company, including marketing, accounting and company secretarial services. In every one of these functions the Board is well satisfied with JPMAM's performance. Thus, taking all factors into account, the Board concluded that the continuing appointment of JPMAM as manager for 2010 was in the interests of shareholders.

Revenue and Dividends

For several years past, the Board has indicated that it expected to continue to increase the total dividend ahead of the rate of inflation. I warned in my statement last year that for 2009 company profits were very uncertain and it seemed almost inevitable that your Company's earnings per share, arising as they do from dividends paid by companies that are held in the portfolio, would decline materially. However, I also reiterated that your Board was prepared, if necessary, to use part of the Company's revenue reserve to maintain its progressive dividend policy.

In 2009 the revenue per share (excluding the impact of the VAT recovery on the 2008 figure), fell by 25.7%. However, despite that your Board decided that the total dividend for the year should be increased from 16.4p to 16.9p, a rise of 3.0%. Once again this was ahead of the rate of inflation for the 37th successive year. Over the last ten years the dividend per share has more than doubled, being a compound rate of increase of over 8.7% per annum.

As expected, the total dividend necessitated a transfer from the revenue reserve for the first year since 1998. Unlike unit trusts and other open-ended investment vehicles, an investment trust can build up a revenue reserve in good years to help with the lean years. Your Board is keenly aware of the importance of dividends to shareholders, especially in these unprecedented times of next to no return on money deposited in the bank. We are also strongly of the view that having built up a revenue reserve equivalent to 1.3 years' dividends, it is wholly appropriate to draw down on that reserve to support our policy of increasing the dividend by greater than the rate of inflation. Even after the transfer, the Company still has a revenue reserve of 20.8 pence per share.

Of course we cannot go on doing this indefinitely if our own earnings do not cover our own dividends. However, JPMAM's latest estimate indicates that there may be some modest dividend growth in 2010 and whilst this will not of itself ensure a covered dividend, it should go some way towards reducing the gap. To this, though, I must add a note of caution. Some 48% of our current dividend stream is either declared in, or effectively earned in, US dollars. Thus our sterling receipts would be reduced if sterling were to appreciate materially against the dollar. Both currencies have serious problems as a result of their governments' financial deficits. But my own view is that sterling has more serious problems than the dollar and consequently that a major appreciation of sterling is relatively unlikely.

It remains your Board's intention for 2010 to maintain the total of the dividends payable at 16.9p per share and, if possible, to increase the total at least in line with the rate of inflation as long as inflation remains at or close to the Bank of England's target rate of 2%.

VAT Case

For some years now I have been writing about the VAT case where your Company was the plaintiff in a successful action against HMRC which resulted in a recovery of in excess of £4 million of VAT, including simple interest, that should never have been paid had HMRC correctly applied the relevant European Law. During 2009 there have been two further developments. A landmark case, VIC GLO, was decided in the High Court where the Court found that interest on incorrectly paid VAT should have been paid on a compound, rather than a simple basis, although in that particular case the taxpayer did not benefit owing to Limitation issues. Given that some of your

Company's refunds stretch back to 1990, the effect of compounding over such a long period, if the principles in the VIC GLO case are confirmed by higher courts, will add materially to the sums already recovered.

The second development has been the launch of an action against HMRC to recover the VAT that should never have been paid for the years 1997 to 2000 but which, so far, HMRC has refused to repay. Together with a number of other investment trusts, we are party to and are helping fund the action, but are not otherwise directly involved. As with the earlier case, it could well be five years or more before the matter is finally decided. Our costs are capped at a relatively modest fee, whilst the possible recovery could materially exceed £1 million plus interest. Although there is no guarantee of success, your Board decided that the risk/reward ratio was such that it was in the interests of shareholders to participate.

Gearing

The Company ended the year 10% geared. During the year the gearing varied between 10% and 16%. As stated in previous years, it is the Board's intention to keep gearing within the range of 0-15% under normal market conditions, whilst reserving the right to allow gearing to increase after a serious setback in markets.

Share Repurchases and Discount

During the year the Company repurchased 432,100 shares at an average discount to net asset value (with debt at par value) of 6.6%. Of this total 23,500 were cancelled and 408,600 are held in Treasury. The Board's objective remains to use the share repurchase authority to assist in managing any imbalance between supply and demand for the Company's shares, thereby reducing the volatility of the discount. Shares held in Treasury will only be re-issued at a premium to net asset value ('NAV') unless shareholders were to grant authority for them to be re-issued at less than NAV. No such authority exists and the Board does not intend to seek such authority at the present time.

Should it not prove possible to re-issue shares held in Treasury at a premium to NAV then a sufficient number of shares so held will be cancelled so as to keep the Treasury holding at or below 5% of the issued share capital.

The discount of the share price to NAV narrowed from 5.2%, as at the previous year end, to 4.9% and remained within a narrow range during the year, averaging 6.4% over the twelve months.

Board of Directors

Directors conduct a self-assessment of their performance each year and this is followed up by a conversation with me as Chairman. My own performance is assessed by the Senior Independent Director after he has consulted with all other Directors. A report is made to the Nomination Committee which meets annually to evaluate the performance of the Board, its Committees and the individual Directors.

I became Chairman of your Company in April 2005. In my absence, the members of the Nomination Committee considered my service and confirmed that they recommend that I should continue as Chairman. As I have served as a Director for more than nine years, I am required to seek re-election on an annual basis and a resolution to that effect will be put to the AGM. The Company's Articles require that each Director must retire by rotation at least every three years. As each of the other Directors has sought re-election at one of the past two AGMs, there is no requirement for them to seek re-election at the forthcoming AGM.

Annual General Meeting

The Board has decided that once again this year's AGM will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday 14th April 2010 at 12.00 noon. The Investment Managers 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 Managers. We look forward to seeing as many shareholders as possible at the AGM which we consider to be a very important annual event which allows the Board and the Manager to interact directly with shareholders and to receive their feed-back.

You will see in the Notice of the Meeting on page 56 that the Company intends to adopt new Articles to conform with the provisions of the Companies Act 2006 which is now fully in force. Full details are given in the Notice and the Appendix on pages 58 to 60 and include a new Article on Directors' remuneration. The Company has hitherto retained the Article requiring shareholders to approve the detail of any changes in Directors' fees. A number of other investment trusts have an aggregate limit on fees and shareholders are being asked to approve similar provisions for the Company. The limit proposed is an aggregate total for all Directors of £175,000 per annum. The Directors' Remuneration Report will continue to be the subject of a specific advisory vote at each AGM.

The proposed aggregate limit compares with the present aggregate annual fees of £106,000, a total that includes a proposed increase in the Chairman's fee by £3,000 to £30,000. This increase was proposed in my absence by the rest of the Board who are of the opinion that the time commitment and responsibility of the Chairman continues to expand and should be recognised. Obviously it is difficult for me to comment further; but my fellow directors, led by the Senior Independent Director, will be happy to take questions at the AGM. No change is proposed in any other Director's fee.

Please would you submit in writing, or via the Company's website (www.jpmclaverhouse.co.uk) by clicking on the Investment Trust Information link, any detailed questions that you wish to raise at the AGM to the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ so we may have the answer ready. 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.

The Future

A year ago the economic future looked very bleak. But as so many times in the past, it is in the darkest of moments that stock markets begin to look forward and anticipate recovery. That certainly was the order of the day for ten months of 2009.

Today the world economy has begun to recover led by emerging markets and fuelled by the unprecedented stimulus provided by Quantitative Easing ('QE') in the United Kingdom and similar policy responses in other countries. One of the objectives of QE

Chairman's Statement continued

was to stabilise, and indeed increase, asset prices as a precursor to bringing to an end the deepest recession that the UK has experienced since the 1930s. In that QE has succeeded. But the recovery in the UK economy remains very fragile and the economic and political uncertainties are legion. How will the authorities manage monetary policy as the economy recovers? How will the Government deficit be financed and will that require materially higher interest rates? How hard and how quickly should Government expenditure be cut and, importantly for the future, will such cuts force more efficient use of money and resources in the public sector in the same way that the recession has brought about in the private sector? There are so many questions that could be asked and a range of answers that could be put forward. What is certain, though, is that the debt fuelled growth in many developed economies will have to be reined in to avoid further unsustainable expansion of both fiscal and trade deficits.

Fortunately for Claverhouse shareholders, many of the UK's largest companies have a global business and with growth prospects looking stronger in emerging markets and the USA, many companies' earnings should be able to progress forward in 2010. The UK stock market is no longer as obviously cheap as it was a year ago. But equally it is not over-expensive by many historical standards. It is almost impossible to believe that 2010 will prove as strong a year for markets as did 2009. But after the events of 2008 and 2009 I venture to suggest that many shareholders could live with a more boring year in markets. Meanwhile Claverhouse will continue to be positioned as a long-term savings vehicle for equity investors with the potential to continue to pay a rising dividend. As I have written before, if investors are to reap the benefits that history suggests will accrue to holders of equities, they need to keep faith with the asset class.

I look forward to meeting shareholders at the AGM and discussing the prospects further at that time.

Michael Bunbury
Chairman

9th March 2010

Investment Managers' Report

James Illsley

Sarah Emly

Market review

After suffering its worst year since 1974 in 2008, the FTSE All-Share Index began 2009 on a similarly bleak note. A second consecutive quarter of negative GDP growth in the fourth quarter of 2008 meant that the UK was officially in recession, while concern for banks mounted on the news that many faced large losses. Equities fell through most of the first quarter of 2009 as credit conditions remained tight and economic data deteriorated rapidly. Persistent housing market weakness took its toll on consumer confidence, which was further undermined by rising unemployment.

A turning point finally came in early March, when investor sentiment was boosted by improvements in the financial sector, as well as by signs that global authorities would do whatever was necessary to shore up the global financial system and stimulate economic growth. Record-low interest rates around the world provided support, with the Bank of England lowering the base rate to just 0.5%, as did an announcement that it would begin a programme of Quantitative Easing (effectively printing money to buy Government bonds in an attempt to raise asset prices).

As a result, equities rallied sharply from their March lows, with investors also drawing comfort from possible 'green shoots' among economic data releases, notably signs that manufacturing and the housing market were possibly beginning to recover, albeit from very low levels. However, concerns mounted over the UK's growing national deficit as Standard & Poor's, the credit rating agency, cut its outlook for UK creditworthiness to 'negative' from 'stable.'

UK consumer confidence rose to a fourteen month high in June, while the pace of deterioration in employment data slowed. In August, Purchasing Managers' Indices suggested that both the manufacturing and services sectors had returned to growth. Nonetheless, despite expectations of a recovery, the UK economy continued to contract through the second and third quarters, marking the longest recession since records began in 1950. Meanwhile, many UK companies were reporting significant declines in revenues and profits, with some major quoted UK corporates also cutting their dividends and embarking on major cost cutting exercises to try to protect their earnings during this economic downturn.

Against this continued weak economic backdrop, the Bank of England announced a £50 billion extension to its Quantitative Easing programme in August and a further £25 billion in November, in addition to the £125 billion initially pledged.

Equities showed signs of exuberance over the third quarter, supported by evidence that the global recession was reaching the bottom. The return of high-profile merger and acquisition activity also provided support to the UK stock market, with the US's Kraft taking advantage of the weak pound to launch a takeover bid for UK chocolate maker Cadbury.

At the end of the year, concerns that Dubai could default on its debt sent a shiver of risk aversion through markets. However, this was quickly shrugged off as Abu Dhabi stepped in to support its neighbouring Emirate and positive economic data from around the globe suggested the recovery remained on track. The FTSE All-Share Index ended the year 30.1% higher.

Investment Managers' Report continued

Performance attribution for the year ended 31st December 2009

	%	%
Contributions to total returns		
Benchmark total return		30.1
Stock selection	–0.2	
Asset allocation	–1.6	
Gearing/cash	2.7	
Investment manager contribution		0.9
Portfolio total return		31.0
Management fees/ other expenses	–0.8	
Use of prior year reserve	–0.6	
Share repurchases	0.1	
Other effects		–1.3
Net asset value total return		29.7
Share price total return		32.5

Source: FactSet, 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.

In previous years, this analysis has included a 'residual' item. Back-testing has shown that this item is almost entirely as a result of the timing of dividend income flows and has therefore been allocated to stock selection.

A glossary of terms and definitions is provided on page 61.

Performance Review

In the year to 31st December 2009 the Company delivered a total return on net assets (capital plus dividends re-invested) of +29.7% against the total return of the benchmark, the FTSE All Share Index, of +30.1%. A detailed breakdown of the performance is given in the accompanying table, which shows that the portfolio total return was 31.0%. The Company's gearing was the main contributor to relative performance during 2009, as it benefited from being geared into a strongly rising equity market over the twelve months as a whole. Clearly, the UK equity market experienced significant volatility through 2009, with the first quarter seeing substantial declines in value up until early March, before recovering thereafter. For the first six months of the year, the market delivered a return of +0.8%, whilst in the second half of the year, the recovery was substantial, with the benchmark rising 29.1%.

In terms of the underlying performance of the equity portfolio, there were mixed returns from the two styles that we focus on to deliver out-performance (being overweight in both value and growth). In the 2008 annual report we wrote *"Whilst the returns to value stocks have been poor for the last two years, history would indicate that value, as an investment style, will recover."* In fact, since the market low on 3rd March, we have now seen the start of the recovery in cheaply rated value stocks. The value style contributed positively in 2009, however this was offset by the underperformance of the growth/momentum style.

At a stock level, the most significant contributor to performance over the year was the overweight position in Kazakhmys, the international copper mining group with its key operations in Kazakhstan and central Asia, which rose by over 450% during 2009. This mining stock was held predominantly for its very low valuation, having underperformed the market during the second half of 2008, but as 2009 progressed its momentum characteristics also improved, whilst its valuation remained attractive. Other mining stocks which contributed significantly to performance were the two more diversified global miners, Rio Tinto and BHP Billiton, both of which performed strongly during the year, rising by 175% and 54% respectively. The overweight position in Petrofac, the international oil equipment and services stock that provides facilities solutions to the oil and gas production and processing industries, also contributed strongly to performance, particularly during the first half of the year, its earnings forecasts enjoying upgrades as company newsflow remained positive. The Company benefited from its overweight position in Next which was initially held due to its attractive valuation, but as the year progressed this clothing retailer delivered results and trading updates which consistently beat the market's expectations, generating earnings upgrades and a favourable share price reaction.

By contrast, the Company's holdings in some of the less cyclical stocks such as the major pharmaceutical companies, AstraZeneca and GlaxoSmithKline, detracted from performance. Although the two share prices rose in absolute terms (+3.7% and +2.7% respectively), they underperformed the strongly rising UK equity market, particularly following the market's turning point in early March. These stocks were held due to their earnings resilience which generated favourable momentum attractions, with both their earnings and their dividend outlooks proving resilient through the earlier market turmoil. However, as the equity market began to rally strongly after the introduction of Quantitative Easing by the Bank of England, such stocks trailed the wider market as the rally was led by strong cyclical stocks. Hence, the pharmaceutical stocks and other more defensive stocks such as the major oil companies (for example, Royal Dutch Shell) were de-rated through the market rally, with their share prices rising significantly less than those of some of the recruitment companies, the indebted pub companies and selected retailers, despite having much more stable earnings profiles. Other negative stock contributors included the Company's overweight positions in the non-life insurers Hiscox and Amlin, both of which underperformed the rising market, initially due to fears over the financial sectors in general. They subsequently underperformed the rising market despite their lowly valuations. Overall in 2009, the Company benefited from remaining geared into the strong equity market rally.

Portfolio Review

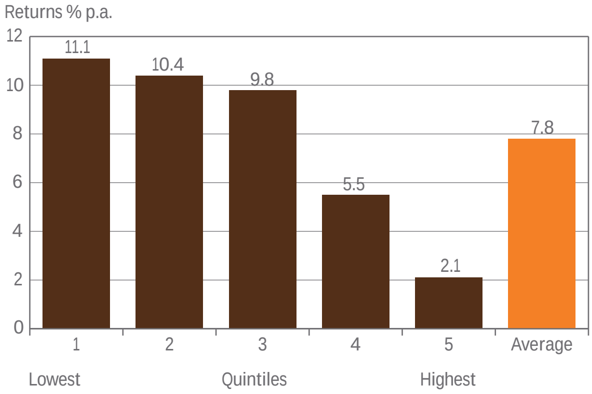
As long term shareholders will be aware, the Company's portfolio continues to be a balance between attractive value stocks and those stocks with strong growth and momentum credentials. The investment philosophy we follow is summarised as:

On average, fast growing, cheap companies with good newsflow will outperform slow growing expensive stocks with bad newsflow.

There is substantial academic evidence to support our investment style and below we show two charts demonstrating the opportunities offered.

UK Value strategy

Returns for value stocks*

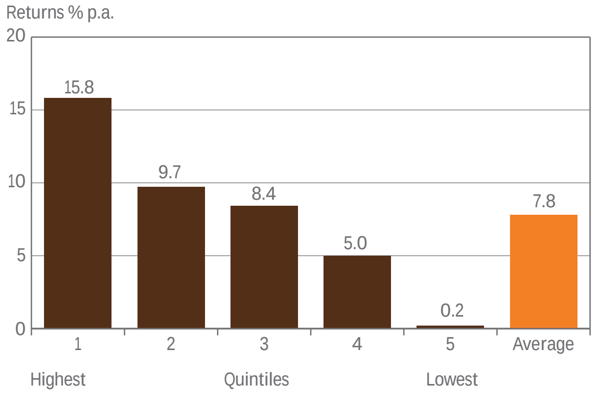


*Returns based on 12 month forward price earnings ratio.

Source: JPMAM – Returns since January 1990, to 31st December 2009.

UK Growth strategy

Returns for growth stocks*



*Returns based on relative price strength over 12 months, forecast 12 month EPS growth and historic 3 month earnings revisions.

Source: JPMAM – Returns since January 1990, to 31st December 2009.

Investment Managers' Report continued

The value strategy chart shows that the cheapest 20% of UK companies have delivered an annualised return of 11.1% since 1990 against the market return of 7.8% per annum. In the growth strategy chart, the stocks with the best growth characteristics have delivered annualised return of 15.8% against the same market return of 7.8% per annum.

Against a backdrop in the first two months of the year of fears that large swathes of the UK banking sector would go bankrupt with forced nationalisations, it was perhaps difficult to believe that the global economy would recover. However, as the year progressed it became possible to discern that a recovery was starting to build, and as confidence grew, so those cheaply rated cyclical stocks that the Company held started to outperform after two difficult years for value. It is because it is so difficult to predict accurately the turning points in markets and returns to the style factors that we target, that we ensure the Company's portfolio is consistently overweight both in value and growth at all times.

Through the latter half of 2008 and into 2009 'defensive' stocks such as utilities, tobacco and spirits companies had performed well, as investors sought out their perceived safe haven status. In a number of cases this meant that valuations had become demanding and as evidence grew that the economy would recover, it meant that their earnings growth profile looked less appealing than more economically sensitive stocks and sectors. Significant sales were made of the coal fired electricity generator Drax, which had performed well for the Company. Looking forward however, rising coal costs will cause its profitability to be squeezed, as electricity prices have not risen sufficiently to offset this input cost pressure. Within the same sector Scottish & Southern Energy was sold as the valuation had become extended. Elsewhere within the utility sector, sales were made of the energy company Centrica and the electricity and water company, United Utilities. Other sales included the spirits company Diageo and the tobacco company British American Tobacco.

The housebuilding sector started the year with extremely attractive valuations, with the majority of companies trading significantly below the value of their land and housing assets, despite the value of those assets being written down in the company balance sheets to reflect the difficult economic conditions. For the Company this sector represented one of the largest additions to the portfolio over the year with purchases of Bellway and Barratt Developments. The general retailing sector also traded at very depressed valuations and purchases were made of two leading clothing retailers, Next and Marks & Spencer, which both performed strongly as investor confidence grew over the course of the year.

Financial stocks, and banks in particular, had suffered dramatic falls in value through 2008, leaving valuations in many cases at extremely depressed levels. Barclays Bank managed to trade through the credit crunch without any recourse to UK tax payer funded support, yet still traded at a significant discount to its book value. During 2009 the Company rebuilt its position in Barclays in anticipation of that valuation discount being closed and profitability recovering. Elsewhere in the financial sector purchases were made of Standard Chartered Bank and the insurance companies Admiral and Old Mutual.

Market outlook

In 2010, one of the key drivers of investor sentiment will be positive or negative surprises to consensus growth forecasts. According to Bloomberg, the consensus for

UK GDP growth is a lacklustre 1.2%, which seems cautious and makes very conservative assumptions for the recovery in global demand. It appears therefore that there is upside potential to this forecast.

The key risk is that UK firms see profits growth curbed due to a mixture of weak consumption, higher taxes and Government spending cuts at home. Solving the UK's budget deficit problems will be both urgent and painful and may curb the extent of a recovery in GDP growth in 2010 and 2011. So too will the consumer debt mountain, which has been estimated (including mortgages) at £30,450 per capita. This represents more than twelve months of aggregate wages, which will be a very significant headwind for retail sales over the coming months.

Offsetting these risks are that up to 70% of the UK stock market's revenues are sourced from overseas, so that the performance of the UK stock market is more exposed to recovering global growth than it is directly to the domestic UK economy, with overseas earnings being boosted further by the weakness of sterling. Secondly, the valuation of the UK market remains supportive, trading below the long term average price earnings ratio, as shown below.

Long term PE of UK market (x)

Source: Datastream. As at 31st December 2009.

A key challenge for the UK stock market in 2010 will be the transition from a recovery driven by unprecedented monetary and fiscal stimulus, to an environment where Quantitative Easing is gradually reduced and eventually withdrawn. It is likely that investors will at times be unsettled as this transition process unfolds, but it is our expectation that as the underlying economic recovery develops, the UK stock market should deliver attractive returns, given the valuation opportunities on offer. Whilst there are always uncertainties, for the patient investor it is worth remembering that equities have delivered long term real returns through previous crises and economic turmoil.

James Illsley
Sarah Emly
Investment Managers

9th March 2010

Summary of Results

	2009	2008	
Total Returns for the year ended 31st December			
Return to shareholders[1]	**+32.5%**	–32.4%	
Return on net assets[2]	**+29.7%**	–32.7%	
Benchmark return[3]	**+30.1%**	–29.9%	
Net Asset Value, Share Price and Discount at 31st December			% change
Shareholders' funds (£'000)	**254,330**	211,087	+20.5
Net asset value per share with debt at par value	**451.3p**	371.7p	+21.4
Net asset value per share with debt at fair value[4]	**444.1p**	360.4p	+23.2
Share price	**425.0p**	340.0p	+25.0
Share price discount to net asset value with debt at par value[5]	**4.9%**	5.2%	
Shares in issue, excluding shares held in Treasury	**56,357,053**	56,789,153	
Revenue for the year ended 31st December			
Gross revenue return (£'000)	**10,325**	14,107	–26.8
Net revenue attributable to shareholders (£'000)[6]	**8,377**	13,426	–37.6
Return per share	**14.8p**	23.4p	–36.8
Dividend per share	**16.9p**	16.4p	+3.0
Special dividend per share	**–**	3.6p	–
Actual Gearing Factor as at 31st December[7]	**110.3%**	109.7%	
Total Expense Ratio[8]	**0.78%**	0.75%	

A glossary of terms and definitions is provided on page 61.

[1]Source: Morningstar.

[2]Source: J.P. Morgan.

[3]Source: Datastream. The Company's benchmark is the FTSE All-Share Index.

[4]The fair value of the £30m (2008: £30m) debenture issued by the Company has been calculated with reference to a similar dated gilt yield plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

[5]Source: Bloomberg. The discount is calculated using the net asset value as at 31st December 2009, excluding current year income.

[6]Net revenue attributable to shareholders for the year ended 31st December 2008 includes £2,011,000 in respect of VAT recovered on management fees allocated to revenue plus the associated interest. Further details are given in notes 3 and 4 on pages 40 and 41.

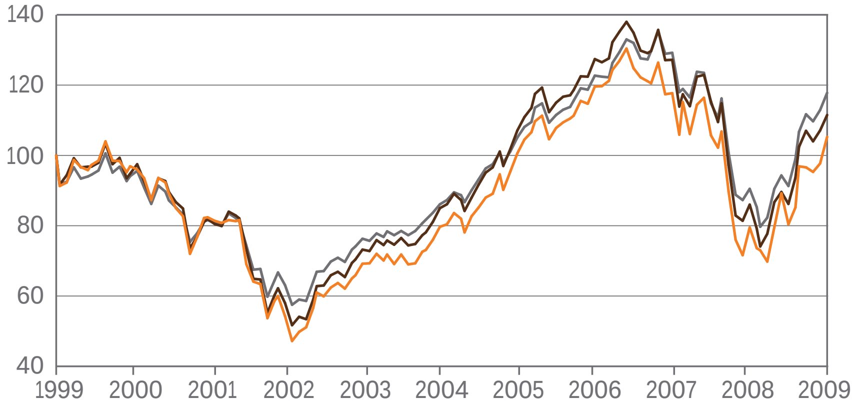
[7]Actual gearing represents investments, excluding holdings in liquidity funds, expressed as a percentage of shareholders' funds.

[8]Management fees and all other operating expenses, excluding interest, performance fee payments and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

Performance

Ten Year Performance

Figures have been rebased to 100 as at 31st December 1999



Source: Morningstar/Datastream (Total return).

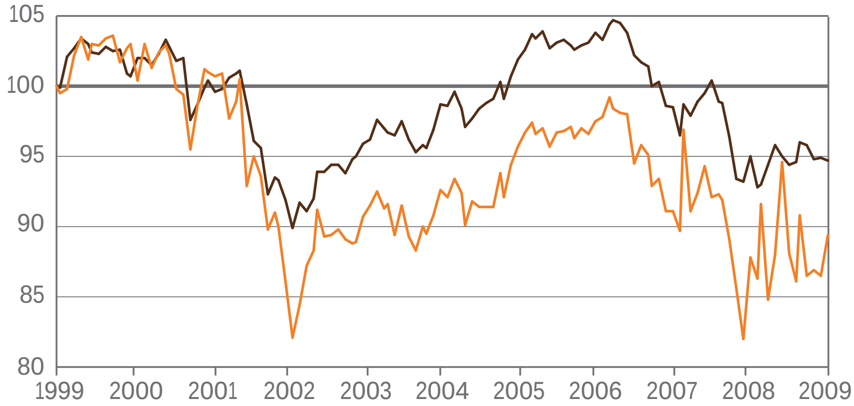
JPMorgan Claverhouse – Share price.

JPMorgan Claverhouse – Net asset value.

Benchmark.

Relative to Benchmark

Figures have been rebased to 100 as at 31st December 1999



Source: Morningstar/Datastream (Total return).

JPMorgan Claverhouse – Share price.

JPMorgan Claverhouse – Net asset value.

The benchmark index is represented by the grey horizontal line.

Ten Year Financial Record

As at 31st December	1999	2000	2001	2002	2003	2004[1]	2005	2006	2007	2008	**2009**
Total assets less current liabilities (£'000)	367,905	411,421	410,691	302,398	316,198	302,024	350,200	384,505	357,562	240,764	**284,034**
Net asset value per share (p)[2]	533.5	498.6	422.7	291.4	355.8	403.8	495.9	577.6	562.1	371.7	**451.3**
Share price (p)	542.5	518.0	432.5	277.5	342.0	381.8	469.0	544.5	521.5	340.0	**425.0**
Share price premium/(discount) (%)[2]	1.7	3.9	2.3	(4.8)	(3.9)	(5.4)	(5.4)	(6.3)	(6.3)	(5.2)	**(4.9)**
Actual gearing factor (%)	110.4	115.9	119.9	122.8	117.4	112.8	113.4	112.2	107.7	109.7	**110.3**
Total expense ratio (%)[3]	0.80	0.88	0.99	1.01	0.92	0.90	0.84	0.75	0.79	0.75	**0.78**
Year ended 31st December											
Revenue attributable to shareholders (£'000)	4,990	5,934	8,070	8,938	8,721	7,653	8,359	9,256	9,714	13,426	**8,377**
Revenue per share (p)	7.96	8.75	9.83	10.73	11.25	10.59	12.76	14.84	16.28	23.38	**14.77**
Dividend per share (p)	7.30	7.80	8.50	9.65	10.20	10.65	11.50	13.50	15.30	20.00[4]	**16.90**
Rebased to 100 at 31st December 1999											
Share price – total return[5]	100.0	96.9	82.4	54.3	69.2	79.7	100.6	119.6	117.7	79.5	**105.3**
Net asset value per share – total return[5]	100.0	94.8	81.9	58.0	73.2	85.0	107.1	127.4	127.2	86.0	**111.5**
FTSE All-Share Index – total return[6]	100.0	94.1	81.6	63.1	76.3	86.1	105.1	122.7	129.2	90.5	**117.8**
Retail Price Index[6]	100.0	102.9	103.6	106.7	109.7	113.5	116.0	121.2	126.1	127.3	**128.2**

A glossary of terms and definitions is provided on page 61.

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

[2]With debt at par value. From 2006 onwards premium/(discount) figures have been sourced from Bloomberg and are calculated using the net asset value as at the year end excluding current year income. Prior year figures have not been restated.

[3]Management fees and all other operating expenses excluding interest, performance fee payments and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

[4]Includes a special dividend of 3.60p.

[5]Source: Morningstar.

[6]Source: Datastream.

Ten Largest Equity Investments

at 31st December 2009

Company	Sector	2009 Valuation £'000	2009 Valuation %[1]	2008 Valuation £'000	2008 Valuation %[1]
BP A major oil and petrochemicals company, operating in all aspects of the oil, natural gas and petrochemical businesses worldwide.	Oil & Gas Producers	**24,882**	**8.8**	20,067	8.3
Royal Dutch Shell A major global oil company involved in the exploration, production and refining of petroleum. The company produces fuels, chemicals and lubricants and has gasoline filling stations worldwide.	Oil & Gas Producers	**23,546**	**8.3**	24,820	10.3
HSBC Provides a comprehensive range of banking and related financial services throughout the world.	Banks	**19,912**	**7.0**	14,089	5.9
Vodafone A leading mobile telecommunications company, with a significant presence in Europe, the Middle East, Africa, Asia Pacific and the United States.	Mobile Telecommunications	**13,921**	**4.9**	11,267	4.7
GlaxoSmithKline A global pharmaceutical company.	Pharmaceuticals & Biotechnology	**13,095**	**4.6**	13,858	5.8
AstraZeneca Researches, manufactures and sells pharmaceutical and medical products.	Pharmaceuticals & Biotechnology	**12,759**	**4.5**	12,209	5.1
Unilever Manufactures branded and packaged consumer goods, including food, detergents, fragrances, home and personal care products.	Food Producers	**8,512**	**3.0**	8,410	3.5
Barclays[2] Offers commercial and investment banking, insurance, financial, asset management and related services. The company's banking subsidiaries operate branches in the United Kingdom and overseas.	Banks	**7,771**	**2.7**	2,012	0.8
Rio Tinto[2] An international mining company. The company has interests in mining for aluminum, borax, coal, copper, gold, iron ore, lead, silver, tin, uranium, zinc, titanium dioxide feedstock, diamonds, talc and zircon.	Mining	**6,857**	**2.4**	3,808	1.6
Anglo American[2] A global mining and natural resources company, which has interest in platinum, gold, diamonds, coal, base metals, ferrous metals and industrial minerals.	Mining	**6,466**	**2.3**	3,920	1.6
Total[3]		**137,721**	**48.5**		

[1]Based on total assets less current liabilities of £284.0m (2008: £240.8m).

[2]Not Included in the ten largest investments at 31st December 2008.

[3]At 31st December 2008, the value of the ten largest equity investments amounted to £127.4m representing 52.9% of total assets less current liabilities.

Sector Analysis

	31st December 2009 Portfolio %	31st December 2009 Benchmark %	31st December 2008 Portfolio %	31st December 2008 Benchmark %
Financials[1]	23.9	22.8	20.8	19.9
Oil & Gas	20.7	18.2	22.5	21.1
Basic Materials	13.1	12.0	7.0	6.8
Consumer Goods	10.6	11.9	9.8	12.4
Health Care	9.1	8.0	10.8	9.8
Consumer Services	7.5	9.7	5.8	9.7
Industrials	6.2	6.8	6.6	6.8
Telecommunications	5.5	5.8	6.3	7.3
Technology	1.6	1.4	0.4	1.0
Utilities	0.6	3.4	6.2	5.2
Net Current Assets[2]	1.2	–	3.8	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £284.0m (2008: £240.8m).

[1]Includes investments in the JPMorgan UK Smaller Companies Fund and JPMorgan Smaller Companies Investment Trust of 1.8% and 1.7% of the portfolio respectively.

[2]Includes the Company's investment in the JPMorgan Sterling Liquidity Fund.

List of Investments
at 31st December 2009

Company	Valuation £'000
Financials	
Banks	
HSBC	19,912
Barclays	7,771
Standard Chartered	5,358
Lloyds Banking Group	2,323
	35,364
Non-Life Insurance	
Amlin	2,679
Hiscox	1,912
Admiral	1,262
Lancashire	967
Beazley	383
	7,203
Life Insurance	
Prudential	3,482
Old Mutual	3,401
Aviva	2,017
Legal & General	813
	9,713
Real Estate	
Big Yellow	572
	572
General Financial	
Investec	1,378
Tullett Prebon	1,278
Provident Financial	1,188
Hargreaves Lansdown	823
Ashmore	335
	5,002
Equity Investment Instruments	
JPMorgan UK Smaller Companies Fund	5,171
JPMorgan Smaller Companies Investment Trust	4,776
	9,947
Total Financials	**67,801**

Company	Valuation £'000
Oil & Gas	
Oil & Gas Producers	
BP	24,882
Royal Dutch Shell	23,546
BG	4,341
Premier Oil	864
JKX Oil & Gas	442
	54,075
Oil Equipment, Services & Distribution	
Petrofac	3,174
Amec	1,589
	4,763
Total Oil & Gas	**58,838**
Basic Materials	
Chemicals	
Croda International	561
	561
Forestry & Paper	
Mondi	538
	538
Industrial Metals	
Ferrexpo	809
	809
Mining	
Rio Tinto	6,857
Anglo American	6,466
BHP Billiton	6,028
Eurasian Natural Resources	4,555
Xstrata	4,519
Antofagasta	3,938
Kazakhmys	2,888
	35,251
Total Basic Materials	**37,159**

List of Investments continued

Company	Valuation £'000
Consumer Goods	
Automobiles & Parts	
GKN	1,499
	1,499
Beverages	
Britvic	1,379
SABMiller	1,007
Diageo	790
	3,176
Food Producers	
Unilever	8,512
Associated British Foods	673
Dairy Crest	644
Premier Foods	567
Robert Wiseman Dairies	306
	10,702
Household Goods	
Reckitt Benckiser	4,586
Bellway	1,642
Barratt Developments	1,564
McBride	432
	8,224
Tobacco	
British American Tobacco	6,340
	6,340
Total Consumer Goods	**29,941**
Health Care	
Pharmaceuticals & Biotechnology	
GlaxoSmithKline	13,095
AstraZeneca	12,759
	25,854
Total Health Care	**25,854**

Company	Valuation £'000
Consumer Services	
Food & Drug Retailers	
Tesco	3,823
W Morrison	1,242
Greggs	341
	5,406
General Retailers	
Next	5,580
Marks & Spencer	1,724
Halfords	844
Kingfisher	536
Dunelm	450
Home Retail	336
N Brown	299
	9,769
Media	
Daily Mail & General Trust	872
ITV	811
	1,683
Travel & Leisure	
Ladbrokes	1,517
Carnival	893
Whitbread	691
William Hill	572
Restaurant	361
Thomas Cook	349
	4,383
Total Consumer Services	**21,241**

Company	Valuation £'000
Industrials	
Construction & Materials	
Keller	1,188
Morgan Sindall	492
Kier	359
	2,039
Aerospace & Defence	
Rolls Royce	2,170
BAE Systems	2,132
	4,302
General Industrials	
Smith (DS)	269
	269
Industrial Engineering	
Charter International	2,255
IMI	1,180
	3,435
Industrial Transportation	
BBA Aviation	738
	738
Support Services	
Travis Perkins	2,122
Rentokil Initial	894
Galiform	704
Experian	703
Davis Service	682
WSP	626
Mitie	468
eaga	415
Interserve	251
	6,865
Total Industrials	**17,648**

Company	Valuation £'000
Telecommunications	
Fixed Line Telecommunications	
BT	1,763
	1,763
Mobile Telecommunications	
Vodafone	13,921
	13,921
Total Telecommunications	**15,684**
Technology	
Software & Computer Services	
Micro Focus International	1,334
Invensys	804
Computacenter	551
Aveva	412
	3,101
Technology Hardware & Equipment	
Pace	840
Spirent Communications	698
	1,538
Total Technology	**4,639**
Utilities	
Electricity	
Drax	467
	467
Gas, Water & Multiutilities	
National Grid	1,259
	1,259
Total Utilities	**1,726**
Liquidity Funds	
JPMorgan Sterling Liquidity Fund	3,571
Total Liquidity Funds	**3,571**
Total Portfolio	**284,102**

The portfolio consists entirely of equity shares, equity investment instruments and liquidity funds.

Board of Directors

Sir Michael Bunbury Bt., KCVO, DL‡†
(Chairman of the Board and Nomination Committee)

Age 63

Appointed a Director in December 1996 and Chairman in April 2005.

A consultant at Smith & Williamson, a director of Foreign & Colonial Investment Trust plc, Invesco Perpetual Select Trust plc and Chairman of HarbourVest Global Private Equity Limited. Formerly Chairman of the Council of the Duchy of Lancaster and Chairman of the Fleming High Income Investment Trust plc.

John Scott*‡†

Age 57

Appointed a Director in October 2004 and Senior Independent Director in January 2006.

Chairman of Scottish Mortgage Investment Trust plc and of Dunedin Income Growth Investment Trust plc and Deputy Chairman of Endace Ltd. A Director of Martin Currie Pacific Trust plc, Schroder Japan Growth Fund plc, Xaar plc, Alternative Asset Opportunities PCC Limited and Miller Insurance Services Limited. Formerly an executive Director of Lazard Brothers & Co., Limited.

Virginia Holmes*‡†
(Chairman of the Audit Committee)

Age 49

Appointed a Director in March 2004 and Chairman of the Audit Committee on 1st July 2005.

Non-Executive director and chair of the investment committee of Universities Superannuation Scheme, director of Alberta Investment Management Corporation and director of Standard Life Investments Limited and Standard Life (Holdings) Limited. Formerly Chief Executive of AXA Investment Managers in the UK and Managing Director of Barclays Bank Trust Company.

Anne McMeehan*‡†

Age 55

Appointed a Director in January 2006.

A founder director of Cauldron Consulting, a City-based communications consultancy specialising in the provision of marketing and PR services to organisations operating in the financial arena. Formerly Director of Communications at AUTIF (now the Investment Management Association), the trade association for the UK Investment funds industry, she was previously a director of Framlington Group plc and Managing Director of its unit trust subsidiary.

Humphrey van der Klugt*‡†

Age 56

Appointed a Director in September 2008.

A director of Murray Income Trust plc, BlackRock Commodities Income Investment Trust plc and Fidelity European Values plc. Previously a director of Schroder Investment Management Limited, where he was a member of the group investment and asset allocation committees and a UK equity portfolio manager. Chartered Accountant.

* Member of the Audit Committee

‡ Member of the Nomination Committee

† Considered independent by the Board

Directors' Report

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

Business Review

Business of the Company

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

Approval in previous years 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 6 and in the Investment Managers' Report on pages 7 to 11.

Objective

The Company's objective is to achieve capital and income growth from UK investments.

Investment Policies and Risk Management

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio consisting mostly of leading UK companies. It uses long-term gearing to increase potential returns to shareholders. The number of investments in the portfolio will normally range between 60 to 100.

The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to individual stocks and sectors. The maximum exposure to an investment will normally range between +/–3% relative to its weight in the FTSE 100 or FTSE 250 indices and normally between +/–1% in the FTSE Small Cap index. The maximum exposure to a sector will normally range between +/–5% relative to the benchmark index. Total exposure to small cap companies will normally range between +/–5% of the FTSE Small Cap Index weighting within the FTSE All-Share Index. These limits and restrictions may be varied by the Board at any time at its discretion. To gain the appropriate exposure, the Investment Managers are permitted to invest in pooled funds. The Company's assets are managed by two Investment Managers based in London, supported by a 40 strong European equity team.

Investment Restrictions and Guidelines

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

- The Company will not invest more than 15% of its assets in other UK listed investment companies.
- The Company will not invest more than 10% of assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.
- The Company will not invest more than 15% of its assets in any one individual stock at the time of acquisition.
- The Company's gearing policy is to operate within a range of 95% to 120% invested in normal market conditions.
- Any derivative transactions are subject to the prior approval of the Board.

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

Performance

In the year to 31st December 2009, the Company produced a total return to shareholders of +32.5% and a total return on net assets of +29.7% . This compares with the return on the Company's benchmark index of +30.1%. At 31st December 2009, the value of the Company's investment portfolio was £284.1 million. The Investment Managers' Report on pages 7 to 11 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 return for the year amounted to £60,413,000 (2008: £99,783,000 loss) and net return after deducting the management fee, other administrative expenses, finance costs and taxation amounted to £56,339,000 (2008: £100,701,000 loss). Distributable income for the year totalled £8,377,000 (2008: £13,426,000). The Directors declared a fourth quarterly interim dividend of 6.4 pence per share which was paid on 1st March 2010 to shareholders on the register at the close of business on 5th February 2010. This, when added to the three quarterly interim dividends paid during 2009, made a total dividend for the year of 16.9 pence (2008: 16.4 pence, plus a 3.6 pence special dividend), costing £9.6 million (2008: £11.4 million). Following payment of the fourth quarterly interim dividend, the revenue reserve amounts to £11.7 million.

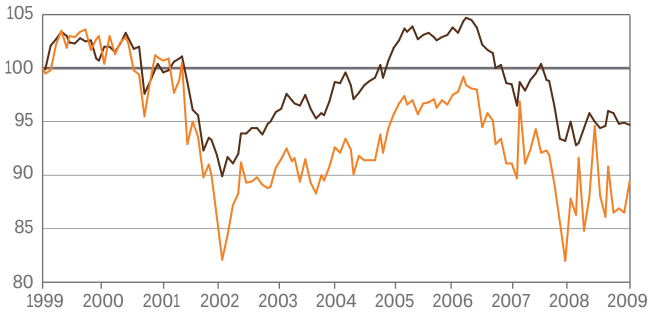
Directors’ Report continued

Key Performance Indicators (‘KPIs’)
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

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

Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st December 1999



Source: Morningstar/Datastream.

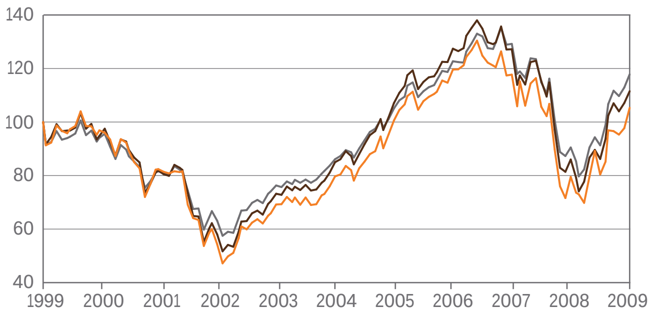
JPMorgan Claverhouse – Share price.

JPMorgan Claverhouse – Net asset value.

The benchmark index is represented by the grey horizontal line.

Ten Year Performance

Figures have been rebased to 100 at 31st December 1999



Source: Morningstar/Datastream.

JPMorgan Claverhouse – Share price.

JPMorgan Claverhouse – Net asset value.

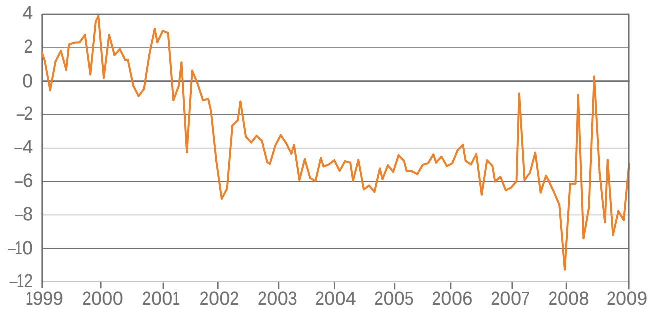
Benchmark.

- **Performance against the Company’s peers**
  The principal objective is to achieve capital growth and out-performance relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.

- **Performance Attribution**
  The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company’s relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 31st December 2009 are given in the Investment Managers’ Report on page 8.

- **Discount to net asset value (‘NAV’)**
  The Board has for several years operated a share repurchase programme that seeks to address imbalances in supply and demand for the Company’s shares within the market and thereby limit the volatility and absolute level of the discount to NAV at which the Company’s shares trade. In the year to 31st December 2009, the Company’s shares traded between a discount of 9.4% and a premium of 0.3%.

Premium/(Discount)



Source: Datastream (month end data).

JPMorgan Claverhouse – Premium/(Discount) (with debt at par value).

- **Total expense ratio (‘TER’)**
  The TER is calculated on a similar basis to the industry standard methodology known as ‘Fitzrovia’. It is an expression of the Company’s management fees and all other operating expenses, excluding interest, performance fee payments and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 31st December 2009 was 0.78% (2008: 0.75%). The Board reviews each year an analysis which shows a comparison of the Company’s TER and its main expenses with those of its peers.

Share Capital
The Company has authority both to repurchase shares in the market (for cancellation or to be held in Treasury) and to issue new shares for cash.

During the year, the Company repurchased a total of 432,000 ordinary shares. Of these 23,500 were repurchased for cancellation, for a total consideration of £83,000 and 408,600 were repurchased into Treasury for a total consideration of £1,666,000. Since the end of the financial year the Company has not repurchased any ordinary shares for cancellation.

At the year end, 408,600 shares were held in Treasury, representing 0.7% of the issued share capital. The Company will reissue shares held in Treasury only at a premium to NAV. Since the end of the financial year, the Company has repurchased a further 13,000 shares into Treasury at a total cost of £51,000.

Resolutions to renew the authorities to repurchase shares and to issue new shares will be put to shareholders at the forthcoming Annual General Meeting.

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

Principal Risks

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

- Investment and Strategy: An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported by the Manager. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
- Market: Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss 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 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under 'Business of the Company' above. Were the Company to breach Section 842, it might lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 842 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Acts and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Acts could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules could result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with The Companies Acts and the UKLA Listing Rules.
- Corporate Governance and Shareholder Relations: Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 27 to 30.
- Operational: Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on page 29.
- Financial: The financial risks arising from the Company's financial instruments include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 22 on pages 48 to 53.

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

Directors' Report continued

developments. The Investment Managers discuss the outlook in their report on pages 10 to 11.

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract which can be terminated on six months' notice in the event of the Board giving notice as a result of poor investment performance; the notice period is 12 months for all other circumstances, in both cases without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

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

The Board has evaluated the performance of the Manager and confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. In arriving at this view, the Board considered the investment strategy and process of the Manager, noting performance against the benchmark over the long term and the support that the Company receives from JPMAM. Further details are given in the Chairman's Statement on page 2.

Management and Performance Fees

The management fee is charged at the rate of 0.55% of the value of the Company's market capitalisation which is proportionately reduced by the value of any investments on which JPMAM earns a management fee. The fee is calculated and paid monthly in arrears. In addition, the Company reimburses JPMAM for the costs of administering its shareholders who hold their shares through the JPMAM savings products.

A performance fee is calculated at 15% of the difference between the movement of the Company's total return compared to the total return of the Company's benchmark, the FTSE All-Share Index, plus a hurdle rate of 0.5%. The fee is calculated annually, with any underperformance carried forward and offset against any future out-performance. Any fee payable is charged to capital and spread evenly over three years. The actual amount paid in respect of performance fees in any one year is subject to a cap of 0.4% of total assets.

The results for the year to 31st December 2009 generated a negative performance fee for the year of £1.0 million. The cumulative performance fee is negative £3.5 million. No fee is payable in the current year. This negative balance will be carried forward and offset by future out-performance.

Going Concern

The Directors believe that having considered the Company's investment objective (see page 21), risk management policies (see pages 48 to 52), capital management policies and procedures (see page 53), 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 those terms. As at 31st December 2009, the Company had no outstanding trade creditors (2008: 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 shares, are shown below:

	31st December 2009	1st January 2009
Michael Bunbury[1]	9,250	9,250
Virginia Holmes	4,575	4,575
Anne McMeehan	5,189	3,716
John Scott	10,148	10,148
Humphrey van der Klugt	5,000	5,000

[1]Michael Bunbury also has a non-beneficial interest in 14,500 (2008: 14,500) of the Company's shares.

Since the year end, Mrs McMeehan's beneficial holding has increased by 327 ordinary shares.

No Director reported an interest in the Company's debenture during the year.

Sir Michael Bunbury, having served as a Director for more than nine years, will retire at the Company's forthcoming Annual General Meeting and, being eligible, will offer himself for re-election by shareholders.

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

Disclosure of information to Auditors

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

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

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

The above confirmation is given and should be interpreted in accordance with the provision of 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 15 to the Notice of AGM on page 57.

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 Limited[1,2]	26,383,125	46.8
JPMorgan Chase & Co.[2]	3,621,141	6.4
Included within this is the following:		
JPMorgan Elect plc	3,621,141	6.4
Legal & General	2,234,949	4.0

[1]Held on behalf of JPMAM ISA and Investment Account participants.

[2]Non-beneficial.

Independent Auditors

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

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial 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 ('AGM'):

(i) Authority to increase the Chairman's fees (resolution 5)
Your Directors recommend that shareholders approve an increase in the Chairman's annual fee from £27,000 to £30,000 per annum with effect from 1st January 2010.

(ii) Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 6 and 7)
The Directors will seek renewal of the authority at the AGM to issue up to 2,838,282 new ordinary shares for cash up to an aggregate nominal amount of £709,571 such amount being equivalent to 5% of the present issued ordinary share capital (excluding Treasury shares) as at the last practicable date before the publication of this document. The full text of the resolutions is set out in the Notice of Meeting on page 55. This authority will expire at the conclusion of the AGM of the Company in 2011 unless renewed at a prior general meeting.

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 (the 'NAV'), they increase the NAV per share and spread the Company's administrative expenses, other than the management fee which is charged on the Company's market capitalisation, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies.

Directors' Report continued

(iii) Authority to repurchase the Company's shares for cancellation (resolution 8)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2009 AGM, will expire on 7th October 2010 unless renewed at the forthcoming AGM. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares.

Resolution 8 gives the Company authority to buy back its own issued ordinary shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum of 8,445,973 ordinary shares, representing approximately 14.99% of the Company's issued Ordinary shares as at 8th March 2010 (being the latest practicable date prior to the publication of this document). The authority also sets minimum and maximum prices.

If resolution 8 is passed at the AGM it is the Board's current intention to hold in Treasury any shares it may repurchase pursuant to the authority granted to it for possible re-issue at a premium to NAV.

The full text of the resolution is set out in the Notice of Meeting on pages 55 and 56. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares as and when market conditions are appropriate. This authority will expire on 13th October 2011, but is the Board's intention to seek renewal of the authority at the 2011 AGM.

(iv) Adoption of New Articles of Association (resolution 9)

The Company proposes to adopt new articles of association. These incorporate amendments to the current articles of association to reflect the changes in company law brought about by the Act which came into effect on 1st October 2009 and changes made to the Act in August 2009 to implement the EU Shareholder Rights Directive in the UK, as well as some minor technical or clarifying changes.

The principal changes in the new articles of association proposed to be adopted at the 2010 AGM relate to shareholder meetings and resolutions, the Company's constitution and share capital.

In August 2009, changes were made to the provisions in the Act on company meetings by The Companies (Shareholders' Rights) Regulations 2009 ('Shareholders' Rights Regulations') to implement the EU Shareholder Rights Directive in the UK.

The new articles incorporate amendments in relation to meetings to ensure consistency with the Act (as amended by the Shareholders' Rights Regulations).

Under the Act all provisions of the Company's memorandum, but most significantly the objects clause, are deemed to form part of the Company's articles from 1st October 2009. It is possible for the objects clause to be removed or amended by amending the articles by special resolution. It is not necessary under the Act for a company to set out its objects. The Act provides that, unless the articles state otherwise, a company's objects will be unrestricted. However, shareholders should note that the Board has no intention of changing the business of the Company set out on page 21.

One of the other key provisions of the memorandum which is deemed to form part of the Company's articles from 1st October 2009 is the restriction created by the existing authorised share capital statement. The Act removes the requirement for a company to place limits on its authorised share capital.

By adopting the new articles of association which do not contain the objects clause or the authorised share capital statement, the Company will remove these provisions, which would otherwise be deemed to form part of the Company's articles under section 28 of the Act, from its articles.

For a more detailed explanation of these and other amendments please refer to the Appendix to this document on pages 58 to 60.

A copy of the current articles of association and the proposed new articles of association that reflect these amendments will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMAM, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ up until the close of the AGM. Copies will also be available at Trinity House, Tower Hill, London EC3N 4DH, being the place of the AGM, for 15 minutes prior to, and during, the AGM.

Recommendation

The Board considers that resolutions 5 to 9 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 34,489 shares representing approximately 0.06% of the existing issued ordinary share capital of the Company.

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 32, indicates how the Company has applied the principles of good governance of the Financial Reporting Council Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

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

Role of the Board

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

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

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

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

Board Composition

The Board, chaired by Sir Michael Bunbury, consists of five non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. The Directors have a breadth of investment knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 20.

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. John Scott, as Senior Independent Director, leads the evaluation of the performance of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

Tenure

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

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

The Board recommends the re-election of Sir Michael Bunbury, who will retire at this year's Annual General Meeting. In accordance with the Company's Articles of Association, Sir Michael Bunbury stands for re-election annually, having served as a Director for more than nine years.

Directors' Report continued

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 20. Directors who are not members of Committees may attend at the invitation of the Chairman of the relevant Committee.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were seven Board meetings, including two private meetings of the Directors, one of which was to evaluate the Manager, and a separate meeting devoted to strategy, two Audit Committee meetings and one meeting of the Nomination Committee.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Sir Michael Bunbury	7	n/a	1
Virginia Holmes	7	2	1
Anne McMeehan	7	2	1
John Scott	6	1	1
Humphrey van der Klugt	7	2	1

Training and Appraisal

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

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

Board Committees

Nomination Committee

The Nomination Committee, chaired by Sir Michael Bunbury, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary.

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

On an annual basis each Director submits a list of potential conflicts of interest for approval at the Nomination Committee meeting. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved for a period of one year.

Audit Committee

The Audit Committee, chaired by Virginia Holmes and whose membership is set out on page 20, meets on at least two occasions each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

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

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

Relations with Shareholders

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

All shareholders are encouraged to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available to meet shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 62.

The Company's Annual Report and Accounts are published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 62.

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

Internal Control

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

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

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

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

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

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

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

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

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

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

Directors' Report continued

Corporate Governance and Voting Policy

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

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

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

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

Corporate Social Responsibility

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

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

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
9th March 2010

Directors' Remuneration Report

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

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on page 33.

Directors' Remuneration[1]

Directors Name	2009 £	2008 £
Sir Michael Bunbury (Chairman)	**32,000[2]**	29,000[2]
Virginia Holmes	**27,000[2]**	23,000[2]
Rt. Hon. Peter Lilley MP[3]	**–**	4,492
Anne McMeehan	**18,000**	16,000
John Scott	**18,000**	16,000
Humphrey Van Der Klugt[4]	**18,000**	5,333
Total	**113,000**	93,825

[1]Audited information.

[2]Includes additional £5,000 (2008: £5,000) paid in recognition of work on the recovery of VAT on management fees.

[3]Retired 10th April 2008.

[4]Appointed 1st September 2008.

The Directors' fees were last increased with effect from 1st January 2009.

A resolution to increase the Chairman's annual fee from £27,000 to £30,000 is included in the notice of the forthcoming AGM.

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

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews 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 industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance related.

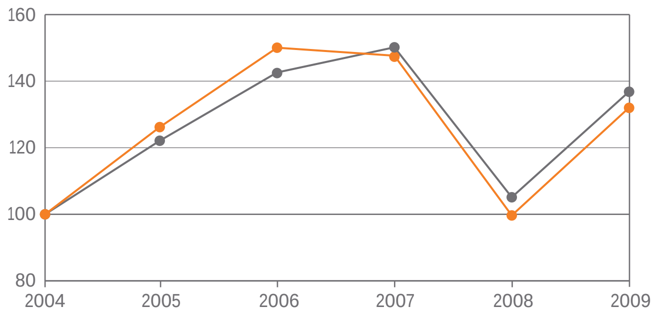
The Company's existing articles of association provide that any increase in Directors' fees requires both Board and shareholder approval. At the forthcoming Annual General Meeting, the Company proposes to adopt new articles of association. Article 96 of the new articles will replace the separate limits with an aggregate annual limit on Directors' fees of £175,000, or such larger amount as the Company may decide by ordinary resolution.

The terms and conditions of Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on page 27.

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

A graph showing the Company's share price total return compared with its benchmark, the FTSE All-Share Index, is shown below.

Five Year Share Price and Benchmark Total Return Performance to 31st December 2009



Source: Morningstar/Datastream.

Share Price Total Return.

Benchmark Total Return.

The Company's benchmark is the FTSE All-Share Index. Comparison of the Company's performance is made with this benchmark. The benchmark should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not track this benchmark and therefore there may be a degree of divergence between its performance and that of the Company.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
9th March 2010

Directors' Responsibilities in Respect of the Accounts

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

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

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

The Directors are responsible for keeping 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 financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the www.jpmclaverhouse.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 accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Michael Bunbury
Chairman
9th March 2010

Independent Auditors' Report

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

We have audited the financial statements of JPMorgan Claverhouse Investment Trust plc (the 'Company') for the year ended 31st December 2009 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 32, 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 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 (APB'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 2009 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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 24, in relation to going concern; and
- 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.

Caroline Gulliver (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
London
9th March 2010

Income Statement

for the year ended 31st December 2009

	Notes	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Gains/(losses) on investments held at fair value through profit or loss	2	–	50,088	50,088	–	(113,890)	(113,890)
Income from investments	3	10,228	–	10,228	13,335	–	13,335
Other interest receivable and similar income	3	97	–	97	772	–	772
Gross return/(loss)		10,325	50,088	60,413	14,107	(113,890)	(99,783)
Management fee	4	(369)	(685)	(1,054)	(475)	(881)	(1,356)
VAT recoverable	4	–	–	–	1,267	2,067	3,334
Other administrative expenses	5	(759)	–	(759)	(658)	–	(658)
Net return/(loss) on ordinary activities before finance costs and taxation		9,197	49,403	58,600	14,241	(112,704)	(98,463)
Finance costs	6	(776)	(1,441)	(2,217)	(766)	(1,423)	(2,189)
Net return/(loss) on ordinary activities before taxation		8,421	47,962	56,383	13,475	(114,127)	(100,652)
Taxation	7	(44)	–	(44)	(49)	–	(49)
Net return/(loss) on ordinary activities after taxation		8,377	47,962	56,339	13,426	(114,127)	(100,701)
Return/(loss) per share	8	14.77p	84.54p	99.31p	23.38p	(198.70)p	(175.32)p
Dividend per share	9			16.9p			16.40p
Special dividend per share	9			–			3.60p

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 38 to 53 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	**Total £'000**
At 31st December 2007	14,585	149,641	6,287	143,517	13,882	**327,912**
Repurchase and cancellation of the Company's own shares	(387)	—	387	(7,099)	—	**(7,099)**
Net (loss)/return on ordinary activities	—	—	—	(114,127)	13,426	**(100,701)**
Dividends appropriated in the year	—	—	—	—	(9,025)	**(9,025)**
At 31st December 2008	14,198	149,641	6,674	22,291	18,283	**211,087**
Repurchase and cancellation of the Company's own shares	(6)	—	6	(83)	—	**(83)**
Repurchase of shares into Treasury	—	—	—	(1,666)	—	**(1,666)**
Net return on ordinary activities	—	—	—	47,962	8,377	**56,339**
Dividends appropriated in the year	—	—	—	—	(11,347)	**(11,347)**
At 31st December 2009	14,192	149,641	6,680	68,504	15,313	**254,330**

The notes on pages 38 to 53 form an integral part of these accounts.

Balance Sheet
at 31st December 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	**280,531**	231,599
Investments in liquidity funds held at fair value through profit or loss		**3,571**	8,924
Total investments		**284,102**	240,523
Current assets	11		
Debtors		**932**	1,034
Cash and short term deposits		**174**	86
		1,106	1,120
Creditors: amounts falling due within one year	12	**(1,174)**	(879)
Net current (liabilities)/assets		**(68)**	241
Total assets less current liabilities		**284,034**	240,764
Creditors: amounts falling due after more than one year	13	**(29,704)**	(29,677)
Total net assets		**254,330**	211,087
Capital and reserves			
Called up share capital	14	**14,192**	14,198
Share premium	15	**149,641**	149,641
Capital redemption reserve	15	**6,680**	6,674
Capital reserves	15	**68,504**	22,291
Revenue reserve	15	**15,313**	18,283
Shareholders' funds		**254,330**	211,087
Net asset value per share	16	**451.3p**	371.7p

The accounts on pages 34 to 53 were approved and authorised for issue by the Directors on 9th March 2010 and were signed on their behalf by:

Michael Bunbury
Chairman

The notes on pages 38 to 53 form an integral part of these accounts.

The Company's registration number is 754577.

Cash Flow Statement

for the year ended 31st December 2009

	Notes	2009 £'000	2008 £'000
Net cash inflow from operating activities	17	**8,390**	14,934
Returns on investments and servicing of finance			
Interest paid		**(2,189)**	(2,208)
Taxation			
Overseas tax recovered		**–**	1
Capital expenditure and financial investment			
Purchases of investments		**(174,548)**	(211,554)
Sales of investments		**181,158**	221,060
Other capital (charges)/income		**(19)**	3
Net cash inflow from capital expenditure and financial investment		**6,591**	9,509
Dividends paid		**(11,347)**	(9,025)
Net cash inflow before financing		**1,445**	13,211
Financing			
Repurchase of shares		**(1,357)**	(7,149)
Net repayment of short term loan		**–**	(6,000)
Net cash outflow from financing activity		**(1,357)**	(13,149)
Increase in cash and cash equivalents	18	**88**	62

The notes on pages 38 to 53 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st December 2009

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' (the 'SORP') issued by the AIC in January 2009. All of the Company's operations are of a continuing nature.

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed, and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off in the capital column of the income statement at the time of acquisition. Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

Gains and losses on sales of investments including the related foreign exchange gains and losses of a capital nature, performance fees payable and other capital receipts and payments are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end, provisions for performance fees and unrealised foreign exchange gains and losses are dealt with in capital reserves within 'Holding gains and losses on investments'.

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

(c) Income

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

UK dividends are included net of any tax credits and unfranked income gross of any income tax. 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 as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital return.

Deposit interest receivable and underwriting commission are 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 35% to revenue and 65% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio;
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 44.

(e) Finance costs

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

Finance costs are allocated 35% to revenue and 65% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

Breakage costs incurred on the repurchase of the Company's debenture or on the early repayment of loans are charged 100% to capital.

(f) Financial instruments

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

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

The debenture in issue, bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. 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.

(g) Taxation

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

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences, but deferred tax assets are only recognised to the extent that it is 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.

(h) Functional currency

In accordance with FRS 23: 'The Effects of Changes in Foreign Currency', the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board has determined that sterling is the Company's functional currency. Sterling is also the currency in which these accounts are presented.

(i) Dividends payable

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

(j) VAT

Irrecoverable VAT is included in the expense on which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. Further information regarding VAT on management fees is given in note 4 on page 41.

Notes to the Accounts continued

	2009 £'000	2008 £'000
2. Gains/(losses) on investments held at fair value through profit or loss		
Losses on sales of investments held at fair value through profit or loss based on historical cost	**(31,902)**	(19,040)
Amounts recognised in investment holding losses/(gains) in the previous year in respect of investments sold during the year	**33,852**	(15,196)
Gains/(losses) on sales of investments based on fair value at the previous balance sheet date	**1,950**	(34,236)
Net movement in investment holding gains and losses	**48,157**	(79,658)
Other capital (charges)/income	**(19)**	4
Total capital gains/(losses) on investments held at fair value through profit or loss	**50,088**	(113,890)

	2009 £'000	2008 £'000
3. Income		
Income from investments		
Franked dividends	**9,429**	12,044
Overseas dividends	**527**	472
Scrip dividends from listed UK investments	**160**	230
Income from liquidity fund	**97**	462
UK bond interest	**8**	10
Unfranked dividends from OEICs and REITs	**7**	117
	10,228	13,335
Other interest receivable and similar income		
Underwriting Commission	**94**	6
Deposit interest	**3**	22
Interest on VAT recovered	**–**	744
	97	772
Total income	**10,325**	14,107

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
4. Management fee						
Management fee[1]	**369**	**685**	**1,054**	475	881	1,356
VAT recoverable[2]	**–**	**–**	**–**	(1,267)	(2,067)	(3,334)
	369	**685**	**1,054**	(792)	(1,186)	(1,978)

[1] Details of the management fee and performance fee are given in the Directors' Report on page 24.

[2] No VAT has been charged on management fees since November 2007 when HM Revenue & Customs announced acceptance that VAT was not chargeable on investment trust management fees. The Company has since recovered £3,334,000 in respect of VAT paid in the past plus interest thereon amounting to £744,000. Both of these amounts were included in the previous year's accounts.

	2009 £'000	2008 £'000
5. Other administrative expenses		
Other management expenses	**356**	263
Directors' fees[1]	**113**	94
Savings scheme costs[2]	**265**	269
Auditors' remuneration[3]		
– for audit services	**25**	24
– for all other services	**–**	8
	759	658

[1] Details are given in the Directors' Remuneration Report on page 31.
[2] These fees were paid to JPMAM for the administration of savings products.
[3] Includes £4,000 (2008: £4,000) VAT.

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	**32**	**59**	**91**	22	41	63
Interest on debenture stock	**744**	**1,382**	**2,126**	744	1,382	2,126
	776	**1,441**	**2,217**	766	1,423	2,189

Notes to the Accounts continued

7. Taxation

(a) Analysis of tax charge for the year

	2009 £'000	2008 £'000
Overseas withholding tax	**41**	47
UK income tax on unfranked dividends	**3**	2
Current tax charge for the year	**44**	49

(b) Factors affecting current tax charge for the year

	2009			2008		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	**8,421**	**47,962**	**56,383**	13,475	(114,127)	(100,652)
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 28% (2008: 28.5%)	**2,358**	**13,429**	**15,787**	3,840	(32,526)	(28,686)
Effects of:						
Non taxable capital (gains)/losses	**–**	**(14,024)**	**(14,024)**	–	32,459	32,459
Non taxable UK dividend income	**(2,640)**	**–**	**(2,640)**	(3,433)	–	(3,433)
Non taxable scrip dividends	**(45)**	**–**	**(45)**	(66)	–	(66)
Income taxed in different periods	**3**	**–**	**3**	(5)	–	(5)
Excess capital expenses arising in the year	**–**	**595**	**595**	–	67	67
UK income tax on unfranked dividends	**3**	**–**	**3**	2	–	2
Overseas withholding tax	**41**	**–**	**41**	47	–	47
Overseas withholding tax not deductible for tax purposes	**(42)**	**–**	**(42)**	–	–	–
Unrelieved expenses and charges	**364**	**–**	**364**	(336)	–	(336)
Expenses not deductible for tax purposes	**2**	**–**	**2**	–	–	–
Current tax charge for the year	**44**	**–**	**44**	49	–	49

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £19,441,000 (2008: £18,421,000). This has arisen because deductible expenses have exceeded taxable income. It is not likely that the Company will be able to utilise any of these losses in the foreseeable future and therefore no asset has been recognised in the accounts.

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

8. Return/(loss) per ordinary share

The revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £8,377,000 (2008: £13,426,000) and on the weighted average number of shares in issue during the year of 56,730,311 (2008: 57,437,139).

The capital return per ordinary share is based on the capital return attributable to the ordinary shares of £47,962,000 (2008: £114,127,000 loss) and on the weighted average number of shares in issue during the year of 56,730,311 (2008: 57,437,139).

The total return per ordinary share is based on the total return attributable to the ordinary shares of £56,339,000 (2008: £100,701,000 loss) and on the weighted average number of shares in issue during the year of 56,730,311 (2008: 57,437,139).

9. Dividends

(a) Dividends paid and declared

	2009 £'000	2008 £'000
Unclaimed dividends refunded to the Company[1]	**(2)**	(3)
2008 fourth quarterly dividend of 5.9p (2007: 5.2p) paid in March 2009	**3,351**	3,020
2008 Special dividend of 3.6p paid in March 2009 in respect of the VAT recovery	**2,044**	–
First quarterly dividend of 3.5p (2008: 3.5p) paid in June 2009	**1,986**	2,023
Second quarterly dividend of 3.5p (2008: 3.5p) paid in September 2009	**1,986**	1,995
Third quarterly dividend of 3.5p (2008: 3.5p) paid in December 2009	**1,982**	1,990
Total dividends paid in the year	**11,347**	9,025

	2009 £'000	2008 £'000
Fourth quarterly dividend of 6.4p (2008: 5.9p) payable in March 2010	**3,607**	3,351
Special dividend of 3.6p paid in March 2009, in respect of the VAT recovery	**–**	2,044

[1]Represents dividends which remain unclaimed after a period of 6 years and thereby become the property of the Company.

The fourth quarterly dividend has been declared in respect of the year ended 31st December 2009. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st December 2010.

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

The requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered on the basis of dividends declared in respect of the financial year, as shown below. The revenue available for distribution by way of dividend for the year is £8,377,000 (2008: £13,426,000). Brought forward revenue reserves amounting to £1,184,000 have been utilised in order to finance the current year dividend.

	2009 £'000	2008 £'000
First quarterly dividend of 3.5p (2008: 3.5p) paid in June 2009	**1,986**	2,023
Second quarterly dividend of 3.5p (2008: 3.5p) paid in September 2009	**1,986**	1,995
Third quarterly dividend of 3.5p (2008: 3.5p) paid in December 2009	**1,982**	1,990
Fourth quarterly dividend of 6.4p (2008: 5.9p) payable in March 2010	**3,607**	3,351
Special dividend of 3.6p paid in March 2009, in respect of the VAT recovery	**–**	2,044
	9,561	11,403

Notes to the Accounts continued

	2009 £'000	2008 £'000
10. Investments		
Investments listed on a recognised stock exchange[1]	**284,102**	240,523
Opening book cost	**289,208**	317,350
Opening investment holding (losses)/gains	**(48,685)**	46,169
Opening valuation	**240,523**	363,519
Movements in the year:		
Purchases at cost	**174,657**	211,958
Sales – proceeds	**(181,185)**	(221,060)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	**1,950**	(34,236)
Net movement in investment holding gains and losses[2]	**48,157**	(79,658)
Closing valuation	**284,102**	240,523
Closing book cost	**250,778**	289,208
Closing investment holding gains/(losses)	**33,324**	(48,685)
Closing valuation	**284,102**	240,523

[1]The Company's investments in the JPMorgan UK Smaller Companies Fund, an open ended investment company and JPMorgan Sterling Liquidity Fund are included in investments listed on a recognised stock exchange.

[2]During the year, prior year investment holding gains amounting to £33,852,000 were transferred to gains on sales of investments as disclosed in note 15.

Transaction costs on purchases during the year amounted to £837,000 (2008: £1,102,000) and on sales during the year amounted to £246,000 (2008: £305,000). These costs comprise brokerage commission and stamp duty.

	2009 £'000	2008 £'000
11. Current assets		
Debtors		
Dividends and interest receivable	**879**	1,012
Tax recoverable	**15**	19
Other debtors	**38**	3
	932	1,034

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

Cash and short term deposits

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

	2009 £'000	2008 £'000
12. Creditors: amounts falling due within one year		
Securities purchased awaiting settlement	**96**	174
Repurchases of the Company's own shares awaiting settlement	**425**	33
Other creditors and accruals	**653**	672
	1,174	879

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

	2009 £'000	2008 £'000
13. Creditors: amounts falling due after more than one year		
Falling due after more than five years		
£30,000,000 7% debenture stock 30th March 2020	**29,704**	29,677

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

	2009 £'000	2008 £'000
14. Share capital		
Authorised		
156,000,000 (2008: 156,000,000) ordinary shares of 25p each	**39,000**	39,000
Allotted and fully paid		
Opening balance of 56,789,153 (2008: 58,338,568) shares	**14,198**	14,585
Repurchase of 23,500 (2008: 1,549,415) shares for cancellation	**(6)**	(387)
Repurchase of 408,600 (2008: nil) shares into Treasury	**(102)**	–
Subtotal	**14,090**	14,198
408,600 (2008: nil) shares held in Treasury	**102**	–
Closing balance[1]	**14,192**	14,198

[1]Represents 56,765,653 (2008: 56,789,153) shares, including 408,600 (2008: nil) shares held in Treasury.

During the year the Company repurchased 23,500 shares with a nominal value of £6,000 for cancellation, representing 0.04% of the shares outstanding at the beginning of the year. The total consideration paid for these shares was £83,000 and the reason for the purchase was to seek to manage the volatility and absolute level of the share price discount to net asset value. During the year, the Company repurchased 408,600 shares into Treasury for a total consideration of £1,666,000.

Notes to the Accounts continued

15. Reserves

	Share premium £'000	Capital redemption reserve £'000	Capital reserves: Gains and losses on sales of investments £'000	Capital reserves: Holding gains and losses on investments £'000	Revenue reserve £'000
Opening balance	149,641	6,674	70,976	(48,685)	18,283
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	1,950	–	–
Net movement in investment holding gains and losses	–	–	–	48,157	–
Transfer on disposal of investments	–	–	(33,852)	33,852	–
Repurchase and cancellation of the Company's own shares	–	6	(1,666)	–	–
Repurchases of shares into Treasury	–	–	(83)	–	–
Management fee and finance costs charged to capital	–	–	(2,126)	–	–
Other capital charges	–	–	(19)	–	–
Dividends appropriated in the year	–	–	–	–	(11,347)
Retained revenue for the year	–	–	–	–	8,377
Closing balance	**149,641**	**6,680**	**35,180**	**33,324**	**15,313**

16. Net asset value per share

Net asset value per share is based on the net assets attributable to the ordinary shareholders of £254,330,000 (2008: £211,087,000) and on the 56,357,053 (2008: 56,789,153) shares in issue at the year end, excluding shares held in Treasury.

17. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	2009 £'000	2008 £'000
Net total return/(loss) on ordinary activities before finance costs and taxation	**58,600**	(98,463)
Less net capital (return)/loss before finance costs and taxation	**(49,403)**	112,704
Decrease/(increase) in accrued income	**133**	(219)
Decrease/(increase) in accrued expenses	**(22)**	13
(Increase)/decrease in other debtors	**(35)**	1
Scrip dividends received as income	**(160)**	(230)
Expenses (charged)/credited to capital	**(685)**	1,186
Overseas withholding tax and UK income tax	**(38)**	(58)
Net cash inflow from operating activities	**8,390**	14,934
Reconciliation of net cash flow to movement in net debt		
Increase in cash for the year	**88**	62
Cash outflow from changes in net debt	**–**	6,000
Changes in net debt arising from cash flows	**88**	6,062
Net debt at the beginning of the year	**(29,591)**	(35,626)
Amortisation of issue expenses	**(27)**	(27)
Closing net debt	**(29,530)**	(29,591)

	At 31st December 2008 £'000	Cash flow £'000	Other movements £'000	At 31st December 2009 £'000
18. Analysis of changes in net debt				
Cash and short term deposits	86	88	—	**174**
Debenture falling due after more than five years	(29,677)	—	(27)	**(29,704)**
Net debt	(29,591)	88	(27)	**(29,530)**

19. Contingent liabilities and capital commitments

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

20. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 24. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £1,054,000 (2008: £1,356,000) of which £nil (2008: £nil) was outstanding at the year end.

Included in other management expenses in note 5 on page 41 are safe custody fees amounting to £5,000 (2008: £5,000) payable to JPMorgan Chase of which £2,000 (2008: £3,000) was outstanding at the year end.

JPMAM may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. Commission amounting to £55,000 (2008: £22,000) was payable to JPMorgan Securities for the year and £nil (2008: £nil) was outstanding at the year end.

An annual fee of £20,000 (2008: £20,000) was paid to JPMorgan Cazenove in lieu of commission on share repurchases, of which £nil (2008: £nil) was outstanding at the year end.

The Company holds investments in JPMorgan UK Smaller Companies Fund and JPMorgan Smaller Companies Investment Trust which are managed by JPMAM. At the year end these were valued at £9.9 million (2008: £6.9 million) and represented 3.5% (2008: 2.9%) of the Company's investment portfolio. During the year the Company made £nil (2008: £0.6 million) purchases of such investments and sales with a total value of £0.3 million (2008: £2.4 million). Income amounting to £248,000 (2008: £214,000) was receivable from these investments during the year of which £96,000 (2008: £123,000) was outstanding at the year end.

The Company also holds an investment in The JPMorgan Sterling Liquidity Fund, managed by JPMAM. At the year end this was valued at £3.6 million (2008: £8.9 million) and represented 1.3% (2008: 3.7%) of the Company's investment portfolio. During the year, the Company made purchases of this investment with a total value of £44.0 million (2008: £7.6 million) and sales with a total value of £49.3 million (2008: £4.8 million). Income amounting to £97,000 (2008: £462,000) was receivable from this investment during the year of which £2,000 (2008: £19,000) was outstanding at the year end.

Handling charges on dealing transactions amounting to £19,000 (2008: £9,000) were payable to JPMorgan Chase during the year of which £3,000 (2008: £nil) was outstanding at the year end.

At the year end, a bank balance of £174,000 (2008: £86,000) was held with JPMorgan Chase. A net amount of interest of £3,000 (2008: £14,000) was receivable by the Company during the year from JPMorgan Chase, of which £nil (2008: £1,000) was outstanding at the year end.

Notes to the Accounts continued

21. Disclosures regarding financial instruments measured at fair value

The disclosures required by the amendment to FRS 29: 'Improving Disclosures about Financial Instruments' are given below. The Company's financial instruments within the scope of FRS 29 that are held a fair value comprise its investment portfolio. The Company currently holds no derivative financial instruments and its liabilities are not held at fair value.

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

Level 1 – valued using quoted prices in active markets for identical assets.

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 on page 38.

The following table sets out the fair value measurements using the FRS 29 hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets held at fair value through profit or loss at 31st December 2009				
Equity investments	280,531	–	–	280,531
Liquidity funds	3,571	–	–	3,571
Total	284,102	–	–	284,102

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

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

These risks include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company has no significant direct exposure to foreign exchange risk. The Company Secretary, in close co-operation with the Board and the Manager, co-ordinates the Company's risk management.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year. The Company's financial instruments may comprise the following:

– investments in UK equity shares and other securities, which are held in accordance with the Company's investment objective;

– short term debtors, creditors and cash arising directly from its operations;

– a debenture issued by the Company, the purpose of which is to finance the Company's operations; and

– a sterling loan facility, the purpose of which is to finance the Company's operations.

(a) **Market risk**

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

(i) **Interest rate risk**

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate cash borrowings.

Management of interest rate risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's gearing policy is to operate within a range of 95% to 120% invested in normal market conditions.

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

Interest rate exposure

The Company has a £30 million 7% debenture in issue which is repayable on 30th March 2020. The Company has no other financial assets or liabilities carrying fixed rates of interest. 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.

	2009 Within one year £'000	2008 Within one year £'000
Exposure to floating interest rates:		
Cash and short term deposits	174	86
Investments in liquidity funds	3,571	8,924
Total exposure	3,745	9,010

Interest receivable and finance costs are at the following rates:

- Interest receivable on cash balances is at a margin below LIBOR.
- The Company has a £5 million floating rate loan facility with Lloyds TSB which expires in August 2010. Interest payable is at a 1.75% 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. The Company has utilised this facility during the year, but it was undrawn at the year end. Bank commitment fees are payable at the rate of 0.875% per annum on the daily available but undrawn balance of the facility. The Company had a similar facility with Lloyds TSB in place during the comparative year which was undrawn at the year end.

Notes to the Accounts continued

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

(i) Interest rate risk continued

The exposure during the year fluctuated between net cash balances as follows:

	2009 Within one year £'000	2008 Within one year £'000
Maximum credit interest rate exposure to floating rates – net cash balances	**10,862**	16,219
Minimum credit interest rate exposure to floating rates – net cash balances	**235**	3,857

Interest rate sensitivity

The following table illustrates the sensitivity of the total return after taxation for the year and net assets to a 1% (2008: 3%) 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.

	2009		2008	
	1% Increase in rate £'000	1% Decrease in rate £'000	3% Increase in rate £'000	3% Decrease in rate £'000
Income statement – return after taxation				
Revenue return	**37**	**(37)**	270	(270)
Capital return	**—**	**—**	—	—
Total return after taxation for the year and net assets	**37**	**(37)**	270	(270)

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes, due to fluctuations in the level of cash balances and borrowings on the loan facility.

(ii) Other price risk

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

Management of other price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective 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:

	2009 £'000	2008 £'000
Equity investments at fair value through profit or loss	**280,531**	230,438

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

Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 15 to 19. This shows that all of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However, it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Other price risk sensitivity

The following table illustrates the sensitivity of the total return after taxation for the year and the net assets to an increase or decrease of 20% (2008: 20%) in market values. 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 equity investments and adjusting for change in the management fee, but with all other variables held constant.

	2009		2008	
	20% Increase in fair value £'000	20% Decrease in fair value £'000	20% Increase in fair value £'000	20% Decrease in fair value £'000
Income statement – revenue after taxation				
Revenue return	(108)	108	(89)	89
Capital return	55,906	(55,906)	45,923	(45,923)
Total return after taxation for the year and net assets	55,798	(55,798)	45,834	(45,834)

(b) Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities. The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements 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:

	2009				2008			
	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due after more than one year								
£30,000,000 7% debenture stock 30th March 2020	525	1,575	49,425	51,525	525	1,575	51,525	53,625
Creditors: amounts falling due within one year:								
Securities purchased awaiting settlement	96	–	–	96	174	–	–	174
Repurchases of the Company's own shares awaiting settlement	425	–	–	425	33	–	–	33
Other creditors and accruals	653	–	–	653	672	–	–	672
	1,699	1,575	49,425	52,699	1,404	1,575	51,525	54,504

Notes to the Accounts continued

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

(c) Credit risk

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

Management of credit risk

Portfolio dealing

The Company invests in markets that operate DVP (Delivery Versus Payment) settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager 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 clearly ring-fenced in client designated accounts. Therefore, in the event that JPMorgan Chase were to cease trading, these assets would be protected.

Credit risk exposure

Compared to the balance sheet the maximum exposure to credit risk at the year end was as follows:

	2009		2008	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets – investments held at fair value through profit or loss	284,102	3,571	240,523	8,924
Current assets				
Debtors	932	932	1,034	1,034
Cash and short term deposits	174	174	86	86
	285,208	4,677	241,643	10,044

(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 except for the debenture stock which the Company has in issue. The fair value of this debenture stock has been calculated by reference to a similar dated gilt yield plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

	Accounts value		Fair value	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
£30 million 7% debenture stock March 2020	29,704	29,677	33,771	36,082

23. Capital management policies and procedures

The Company's capital comprises the following:

	2009 £'000	2008 £'000
Share capital	**14,192**	14,198
Reserves	**240,138**	196,889
Total capital	**254,330**	211,087

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

The Board's gearing policy is to operate within a range of 95% to 120% invested in normal market conditions. Gearing for this purpose is defined as investments, excluding liquidity fund holdings, expressed as a percentage of total net assets.

	2009 £'000	2008 £'000
Investments excluding holdings in liquidity funds	**280,531**	231,599
Net assets	**254,330**	211,087
Gearing	**110.3%**	109.7%

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

– the planned level of gearing, which takes into account the Manager's views on the market;

– the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium;

– the need for issues of new shares, including issues from Treasury; and

– the extent to which revenue in excess of that which is required to be distributed should be retained.

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