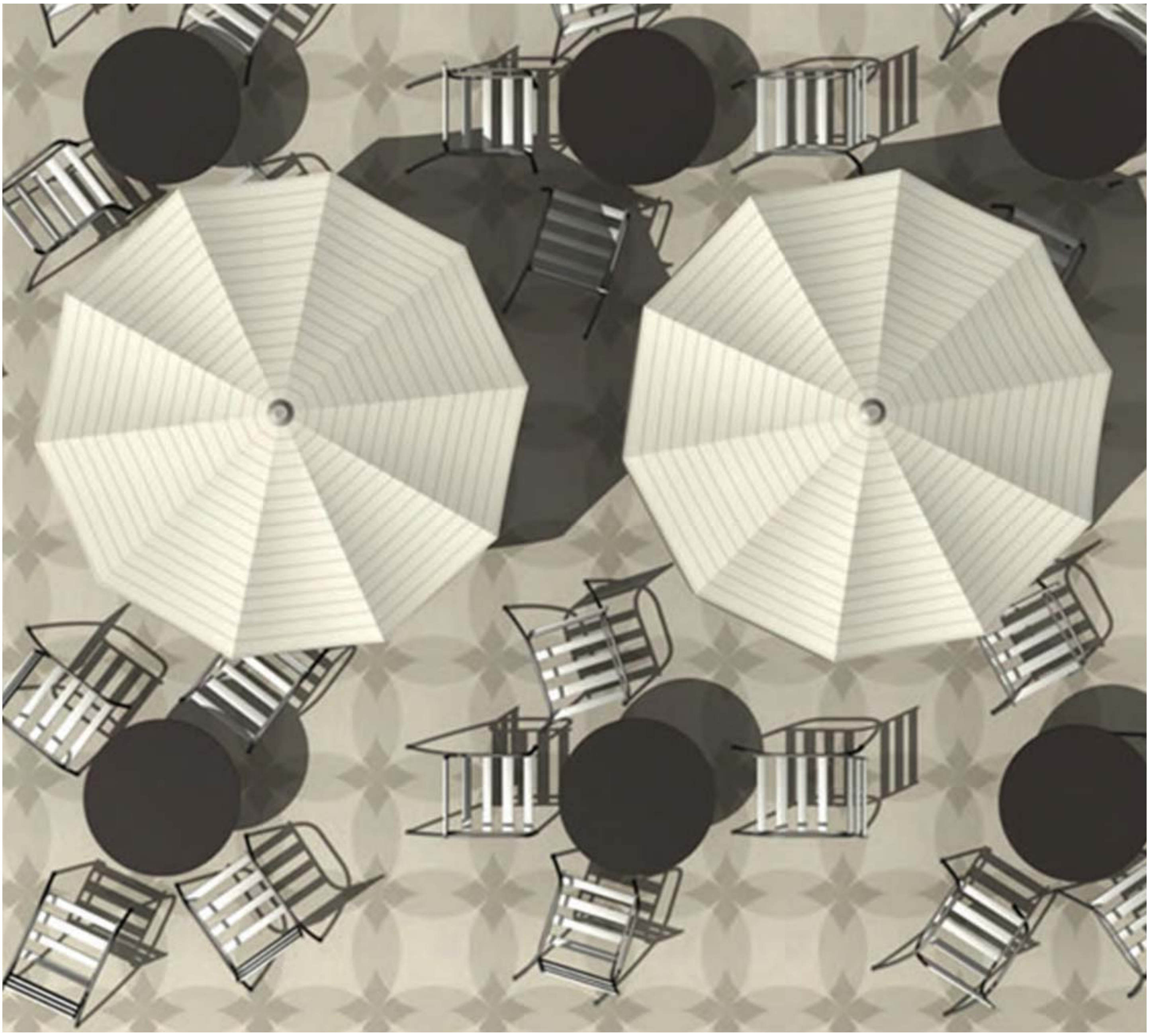
JPMorgan European Smaller Companies Trust plc

Annual Report & Accounts for the year ended 31st March 2016



J.P.Morgan
Asset Management

Features

Objective

Capital growth from smaller European companies (excluding the United Kingdom).

Investment Policies

- To invest in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom.
- To emphasise capital growth rather than income. Therefore shareholders should expect the dividend to vary from year to year.
- To manage liquidity and borrowings to increase potential returns to shareholders. The Board's current gearing policy is to be between 20% net cash and 20% geared.
- To invest no more than 15% of gross assets in other UK Listed investment companies (including investment trusts).

Risk

It should be noted that the Company invests in the shares of smaller companies, which tend to be more volatile than those of larger companies. The Company also employs gearing to generate greater returns. The Company's shares should therefore be regarded as carrying greater than average risk.

Further details on investment policies and risk management are given in the Business Review section of the Strategic Report on page 16.

Benchmark

Euromoney Smaller European Companies (ex UK) Index in sterling terms.

Capital Structure

At 31st March 2016, the Company's issued share capital comprised 160,147,885 ordinary shares of 5p each.

Management Company

The Company employs JPMorgan Funds Limited ('JPMF') as its Alternative Investment Fund Manager. JPMF delegates the management of the Company's portfolio to JPMorgan Asset Management (UK) Limited ('JPMAM').

Association of Investment Companies ('AIC')

The Company is a member of the AIC.

Website

The Company's website, can be found at www.jpmeuropeansmallercompanies.co.uk and includes useful information about the Company, such as daily prices, factsheets and current and historic half year and annual reports.

FCA Regulation of 'Non-Mainstream Pooled Investments'

The Company currently conducts its affairs so that the shares it issues can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority ('FCA') in relation to non-mainstream investment products, and intends to continue to do so for the foreseeable future.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

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Financial Results

TOTAL RETURNS TO 31ST MARCH 2016 (INCLUDES DIVIDENDS REINVESTED)

+19.7%
Share price total return[1]
(2015: –1.4%)

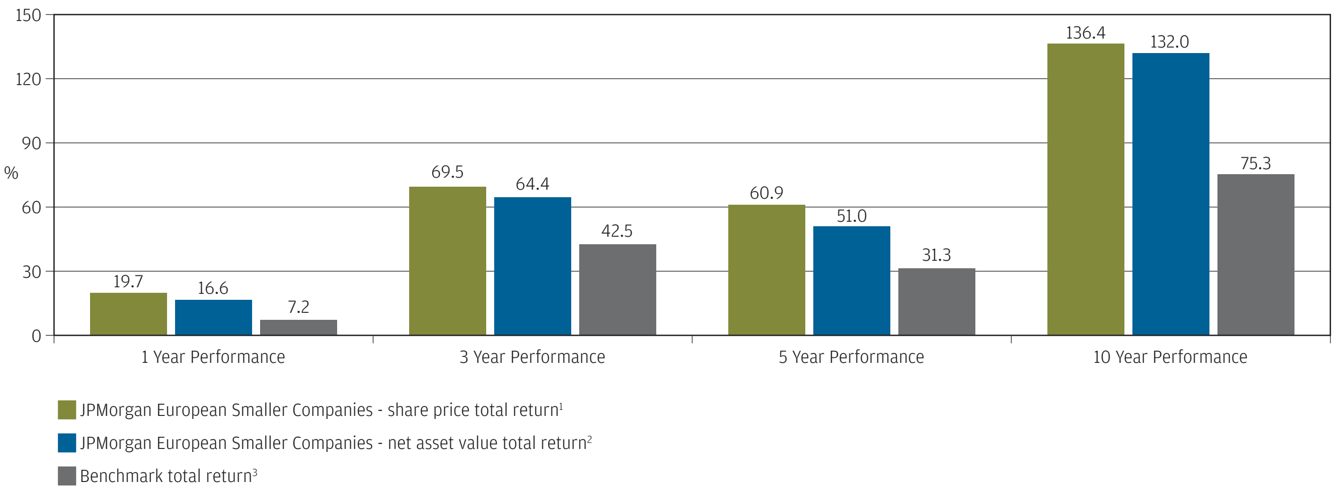
+16.6%
Net asset value total return[2]
(2015: +0.3%)

+7.2%
Benchmark total return[3]
(2015: +0.1%)

3.2p
Dividend
(2015: 3.2p)

Performance

FOR PERIODS ENDED 31ST MARCH 2016



[1] Source: Morningstar.

[2] Source: J.P. Morgan.

[3] Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

A glossary of terms and definitions is provided on page 67.

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to present the Company's results for the year ended 31st March 2016.

Performance

I am delighted to report that the Company produced a net asset value total return of +16.6% for the year ended 31st March 2016, compared with the benchmark total return of +7.2% over the same period. The share price total return for the year was +19.7%, as the discount narrowed over the year. I would like to congratulate our Investment Managers for this excellent performance, which continues the Company's very strong long term performance. It remains well ahead of the benchmark index over three, five and ten years.

The main contributor to the Investment Managers' excess relative performance was stock selection, with asset allocation largely being a consequence of the bottom-up investment process. The performance attribution analysis is set out on page 6 in the Investment Managers' Report. Their report on pages 5 to 8 reviews the market and provides more detail on performance and the stocks and countries in which the Company is invested.

Revenue and Dividends

The Board's dividend policy, which remains unchanged, is to pay out the vast majority of the revenue available each year. This is set against the Company's objective of maximising capital growth and as a result the Investment Managers are not constrained to deliver income in any one financial year.

Net revenue return for the year amounted to £5.7 million (2015: £5.5 million). An interim dividend of 1.2 pence per share was paid on 15th January 2016. Subject to shareholder approval at the forthcoming Annual General Meeting, a final dividend of 2.0 pence per share will be paid on 7th July 2016 to shareholders on the register as at the close of business on 3rd June 2016 (ex dividend date 2nd June 2016).

Share Repurchases

The discount of the Company's share price to net asset value narrowed over the year from 13.0% to 10.8% at the year end. The Board continues to monitor the level of the discount carefully and seeks to use its ability to repurchase shares to minimise the short term volatility and the absolute level of the discount. However, no shares were repurchased during the year.

Corporate Governance

The Nomination and Remuneration Committee evaluates the operations of the Board, its Committees, individual Directors and the Chairman. In line with corporate governance best practice, all Directors seek annual reappointment.

During the year, the Management Engagement Committee undertook a formal review of the Manager, covering the investment management, company secretarial, administrative and marketing services provided to the Company. The review took into account the Manager's investment performance record, management processes, investment style, resources and risk control mechanisms. I am pleased to report that the Board agreed with the Committee's recommendation that the continued appointment of the Manager is very much in the interests of shareholders as a whole.

CHAIRMAN'S STATEMENT *CONTINUED*

The Board

Nicholas Smith joined the Board in May 2015 and has succeeded Anthony Davidson, who retired at the AGM in July, as Chairman of the Audit Committee. Federico Marescotti will retire from the Board at the conclusion of this year's AGM. I would like to thank him for his contribution to the Board's deliberations, in particular in bringing a continental European perspective, over the past eleven years. All of the other Directors will stand for reappointment at the AGM. The Board is currently in the process of recruiting a new Director to join the Board and expects to make an appointment later this year.

Annual General Meeting

The Company's Annual General Meeting will be held at 60 Victoria Embankment, London EC4Y 0JP on Thursday, 30th June 2016 at 12.00 noon. The Investment Managers will make a presentation covering the past year and give their outlook for the current year. Shareholders are invited to join the Investment Managers and the Board for lunch following the Annual General Meeting when there will be opportunities for informal questions.

Outlook

Our Investment Managers continue to achieve strong performance relative to the market by good stock selection and have proven adept at navigating uncertain markets. Whilst they are optimistic about the prospects for European economic growth, we are living in very unusual financial conditions. It is nearly eight years since the financial crash and central banks still feel the need to actively suppress bond yields and interest rates in order to stimulate economic growth and drive inflation closer to their targets. It is hard to be very optimistic for the long term health of global stock markets until the central banks believe they can stop this extraordinary level of intervention. The forthcoming vote in the UK on EU membership adds further uncertainty.

Carolan Dobson
Chairman

24th May 2016

INVESTMENT MANAGERS' REPORT

Jim Campbell

Franceso Conte

Investment Scope and Process

The objective of the Company is to achieve capital growth from a portfolio of quoted smaller companies in Europe, excluding the United Kingdom. The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index, the Euromoney Smaller European Companies (ex UK) Index. At the end of March 2016 the index consisted of 1,000 companies with a market value of between £60 million and £4.0 billion across 15 countries, although Greece's exclusion from April 2016 will reduce this to 14. This universe of potential investments is screened using a proprietary multi-factor model, to the results of which we apply fundamental analysis.

The investment process is driven by bottom-up stock selection with a focus on identifying attractively priced, market leading growth companies with a catalyst for outperformance. Stock position sizing is determined by investment conviction and trading liquidity. Investments are sold when there is a fundamental negative change in business prospects, valuation or the market capitalisation has outgrown significantly the benchmark index. The Board has set a liquidity range of between 20% net cash and 20% gearing within which the Investment Managers may operate. The policy is not to hedge the currency exposure of the portfolio's assets.

Market Review

The 12 months under review proved to be more volatile than usual. The financial year started slowly, as pessimism surrounding the global economy and the newly elected Greek government's unwillingness to negotiate with the European Union led markets to move sideways within a volatile range. By mid July, although the Greek government finally accepted terms of a new bail out, markets turned their attention to the sustainability of the Chinese expansion, which had underpinned the momentum of global growth since the financial crisis. With a slowing economy the People's Bank of China responded by devaluing the yuan against the dollar by the largest amount in 20 years and implemented a further reduction in interest rates. Fears of contagion to other emerging markets led to sharp stock market falls during August. Despite these problems, a weak Euro combined with low commodity prices and a strong US economy lifted the gloom in the autumn and in the final quarter of 2015 markets recovered once again.

The start of the new calendar year saw volatility rise sharply once more. Markets fell from the first day of trading of 2016 on renewed concerns about the sustainability of the US and European economies in the face of continued emerging markets weakness. On 15th February, the ECB President Mr Draghi gave another of his now famous speeches to the European Parliament, saying the 'ECB would act if market turmoil weakens price stability' and that 'the ECB would not hesitate to act if needed'. Markets recovered sharply and were duly not disappointed by the raft of new easing measures announced at the ECB meeting in early March. For UK based investors the magnitude of the rise in European markets was further amplified by the weakness in sterling due to a slowdown in the UK economy.

In the 12 months to 31st March 2016 the large company MSCI Europe (ex UK) Index fell by 4.6% in sterling terms, driven by weakness in large commodity and financial stocks. Conversely, smaller companies, with much smaller exposures to those sectors, did better, rising by 7.2%.

INVESTMENT MANAGERS' REPORT *CONTINUED*

Portfolio Performance

We are pleased to report that over the financial year the net asset value of the Company performed strongly, rising by 16.6%, largely through good stock selection and to a lesser extent asset allocation. The three largest contributors were all French, vindicating our overweight position in France during the year. Trigano, the European leader of recreational vehicles, topped the contributor list once again as demand for its recreational vehicles accelerated further. Other positive contributors included Faiveley Transport, a railway equipment manufacturer, as a US competitor made an offer for the company and Ubisoft Entertainment, the European leader in video game publishing, following Vivendi's unsolicited purchase of an 11% stake. Stocks which failed to deliver expected returns included French linen provider Elis on the break out of a price war in their domestic market, Swiss private bank EFG International on very poor results and the Italian cement manufacturer Cementir on continued weak domestic and Turkish demand. Biggest asset allocation contributions came from being underweight in Greece and Spain during the market turmoil resulting from the Greek elections. Finally, the use of gearing made a small negative contribution to performance due to the volatility of the markets, making gearing changes more difficult than usual.

PERFORMANCE ATTRIBUTION
FOR THE YEAR ENDED 31ST MARCH 2016

	%	%
Contributions to total returns		
Benchmark total return		7.2
Asset allocation	3.1	
Stock selection	7.5	
Gearing/cash effect	–0.3	
Currency effect	0.3	
Investment Managers' added contribution		10.6
Portfolio total return		17.8
Management fee/other expenses	–1.2	
Other effects		–1.2
Net asset value total return		16.6
Share price total return		19.7

Source: Datastream/JPMAM/Morningstar.

All figures are on a total return basis.

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

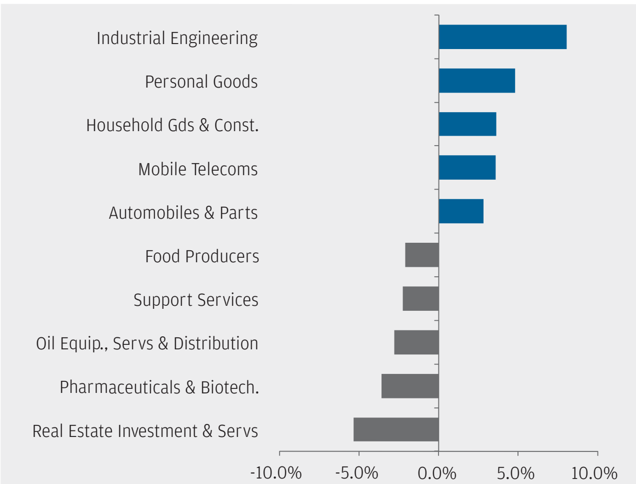
A glossary of terms and definitions is provided on page 67.

Portfolio Positioning

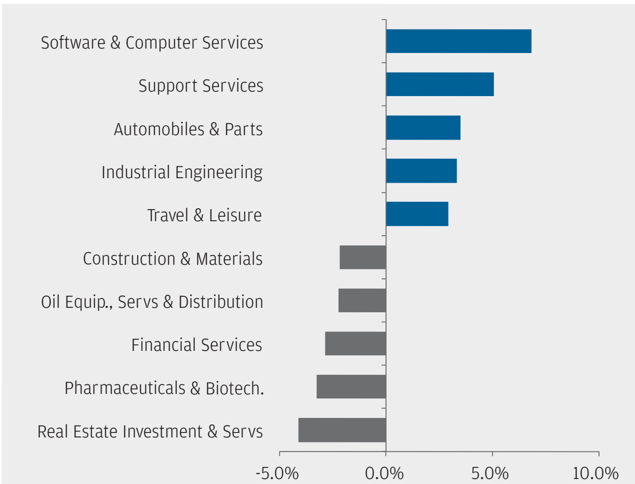
At the start of the year the portfolio had an overweight exposure to stocks likely to benefit from a global recovery, as evidenced by our large exposure to the industrial engineering sector. With the onset of the emerging market problems in mid August, we reduced this position in favour of more defensive growth companies. These included NetEnt, a Swedish provider of gambling software and IMCD, a Dutch specialty chemical distributor predominantly to the food and pharma industry. We also bought companies benefiting from a recovery in European consumer spending. These included OVS, the leading apparel retailer in Italy, Moleskine, the Italian provider of premium notebooks, Sopra Steria Group, the French IT services company and Alten, the French research and development consultant. We remained underweight in real estate and pharmaceuticals due to unattractive valuations.

Top 10 Sector Active Positions

MARCH 2015



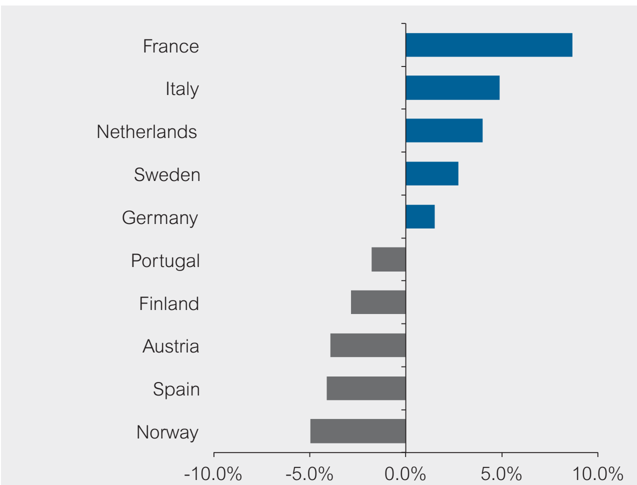
MARCH 2016



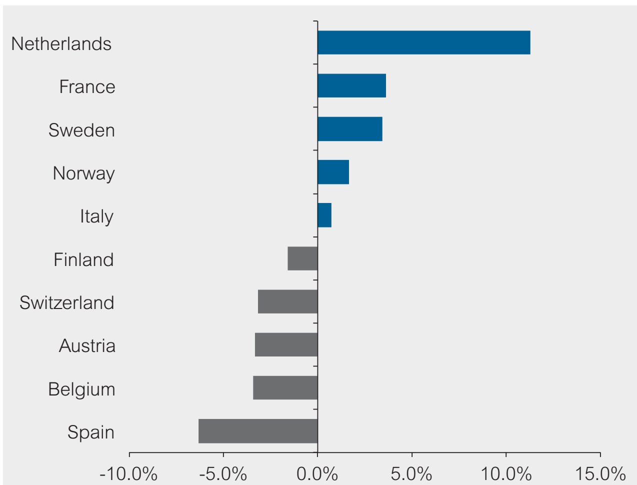
Source: FactSet. The above portfolio characteristics are shown for illustrative purposes only and are subject to change without notice. The Fund is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Managers without notice.

Top 10 Country Active Positions

MARCH 2015



MARCH 2016



Source: FactSet. The above portfolio characteristics are shown for illustrative purposes only and are subject to change without notice. The Fund is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Managers without notice.

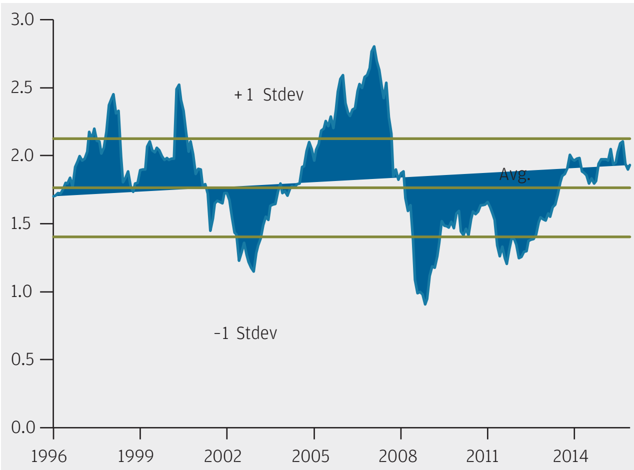
INVESTMENT MANAGERS' REPORT *CONTINUED*

The biggest shift at a country level was the reduction in the substantial overweight position in France which was the biggest contributor to performance during the year, by taking profits on Faiveley and Ubisoft following the aforementioned approaches. We found a lot of opportunities in the Netherlands, including several attractively priced IPOs such as Intertrust, the world leader in the provision of trust services and Flow Traders, the world leader in the liquidity provision for exchange traded products. In Italy we sold out of Cementir on a weaker outlook, Credito Emiliano, Banca Popolare Emilia Romagna and Banca Generali as the climate for financials deteriorated, while we increased our weighting in Norway through the purchase of two salmon farming providers, Salmar and Bakkafrost.

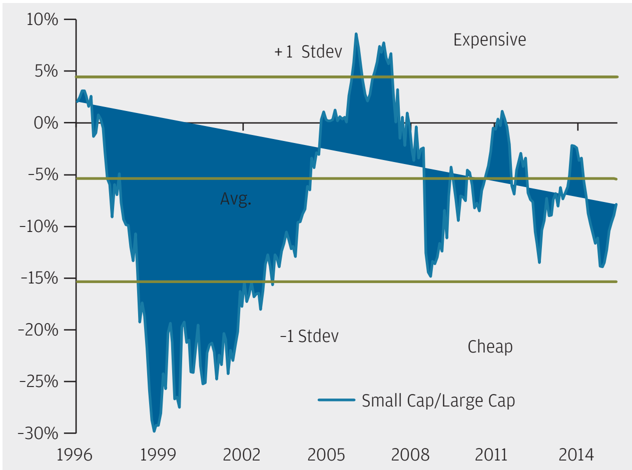
The level of gearing was reduced from 7.5% at the end of March 2015 to 2.8% cash at the end of March 2016, reflecting low conviction levels in the short term, but if the recovery takes hold as we expect, we will look to redeploy gearing.

European Smaller Company Valuations

ABSOLUTE VALUATIONS – PRICE/BOOK*



RELATIVE VALUATIONS – PRICE/BOOK*



Source: European Quantitative Research, Citigroup Investment Research. Data as at 31st March 2016.

Outlook

Despite the difficult and volatile markets that we are experiencing, the macroeconomic outlook on balance seems to be improving. We are becoming more constructive on the global economy for several reasons. President Draghi's additional quantitative easing has put pressure on the US Federal Reserve to keep its interest rate increases on hold. In turn this has weakened the US dollar which has been beneficial for commodities and emerging markets. This, coupled with a revival in European and Chinese lending, bodes well for an economic upturn of the global economy in the second half of this year, as evidenced from improving Citi economic surprise indices. A source of near term uncertainty is the referendum on Brexit and we continue to watch events closely.

Our more optimistic stance is reflected in our recent increase of our weighting to more cyclical industrial companies, whilst financing those by reducing defensive positions. Consequently, we are now overweight in sectors such as automobile components, software & computer services and travel & leisure, and underweight in healthcare and telecommunications.

Jim Campbell
Francesco Conte
Investment Managers

24th May 2016

SUMMARY OF RESULTS

	2016	2015	
Total returns for the year ended 31st March			
Share price total return[1]	+19.7%	-1.4%	
Net asset value total return[2]	+16.6%	+0.3%	
Benchmark total return[3]	+7.2%	+0.1%	
Net asset value, share price, discount and market data at 31st March			**% change**
Shareholders' funds (£'000)	495,380	429,727	+15.3
Net asset value per share	309.3p	268.3p	+15.3
Share price	276.0p	233.5p	+18.2
Share price discount to net asset value per share	10.8%	13.0%	
Shares in issue	160,147,885	160,147,885	
Euromoney Smaller European Companies (ex UK) Index in sterling terms (capital only)[4]	416.8	394.3	+5.7
Revenue for the year ended 31st March			
Gross revenue return (£'000)	8,474	8,586	-1.3
Net revenue available for shareholders (£'000)	5,732	5,519	+3.9
Revenue return per share	3.58p	3.45p	+3.8
Dividend per share	3.2p	3.2p	
(Net cash)/gearing at 31st March	**(2.8)%**	**7.5%**	
Ongoing charges	**1.18%**	**1.32%**	

[1] Source: Morningstar.

[2] Source: J.P. Morgan.

[3] Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

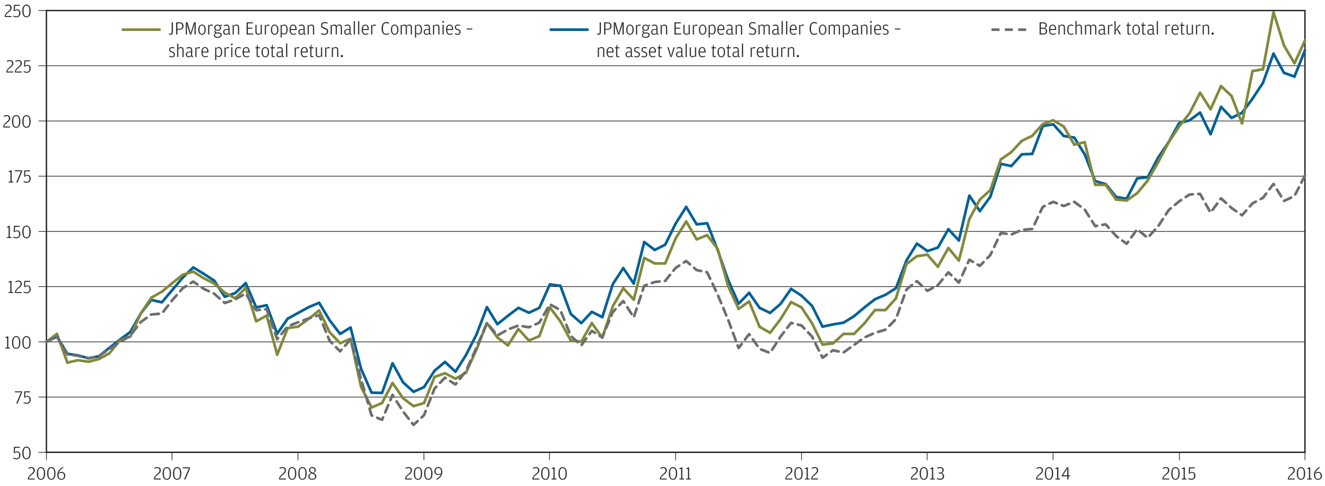
[4] Source: Datastream.

A glossary of terms and definitions is provided on page 67.

PERFORMANCE

Ten Year Performance

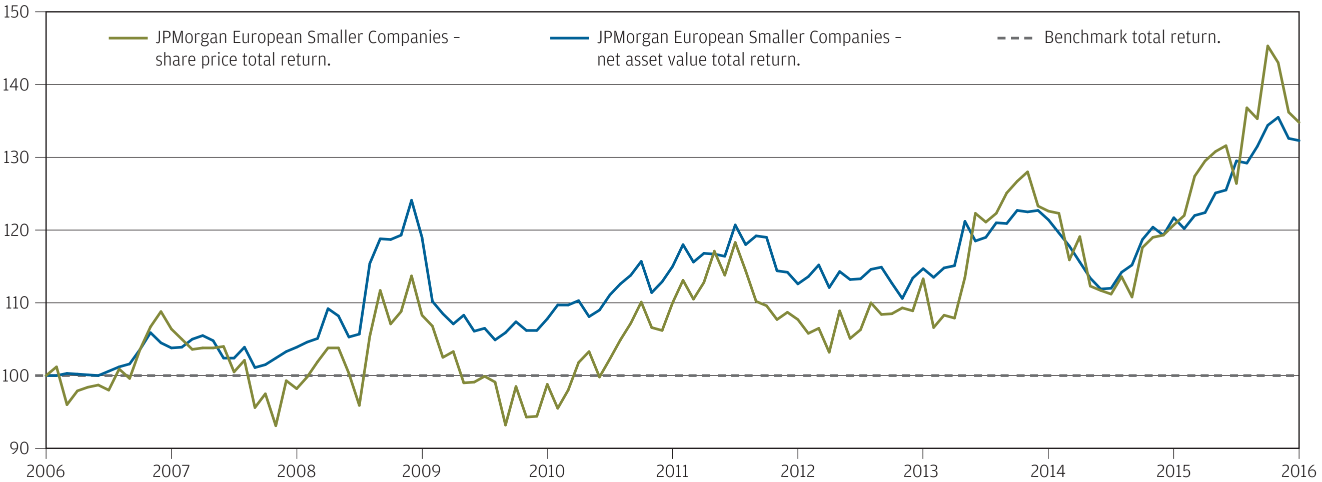
FIGURES HAVE BEEN REBASED TO 100 AT 31ST MARCH 2006



Source: Morningstar/Euromoney.

Performance Relative to Benchmark

FIGURES HAVE BEEN REBASED TO 100 AT 31ST MARCH 2006



Source: Morningstar/Euromoney.

TEN YEAR FINANCIAL RECORD

At 31st March	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total assets less current liabilities (£'m)	373.0	450.2	394.0	270.1	415.9	477.4	342.3	366.0	474.8	473.1	495.4
Net asset value per share (p)	141.8	175.4	161.6	114.7	181.5	219.5	170.8	195.1	270.7	268.3	309.3
Share price (p)	127.2	161.0	136.0	92.0	147.0	186.0	144.4	169.8	240.0	233.5	276.0
Share price discount (%)	10.3	8.2	15.8	19.8	18.7	15.2	15.5	13.0	11.3	13.0	10.8
Gearing/(net cash) (%)	3.8	(3.8)	(1.6)	(1.9)	0.2	16.7	7.6	12.9	12.6	7.5	(2.8)
Ongoing charges (%)	1.25	1.21	1.33	1.27	1.21	1.21	1.27	1.26	1.31	1.32	1.18
Year ended 31st March											
Gross revenue return (£'000)	4,898	7,767	6,149	10,067	8,431	9,241	10,215	8,481	8,016	8,586	8,474
Net revenue/(loss) available for shareholders (£'000)	216	1,279	(376)	7,363	2,167	2,369	7,055	6,134	5,047	5,519	5,732
Return/(loss) per share (p)	0.08	0.50	(0.15)	3.08	0.93	1.07	3.42	3.29	2.99	3.45	3.58
Total dividend(s) per share (p)	–	–	–	–	0.6	0.8	3.4	3.2	2.9	3.2	3.2
Rebased to 100 at 31st March 2006											
Share price total return[1]	100.0	126.6	106.9	72.3	115.6	146.9	115.6	139.5	200.3	197.5	236.4
Net asset value total return[2]	100.0	123.5	113.1	79.5	126.0	153.6	120.9	141.1	198.5	199.0	232.0
Benchmark total return[3]	100.0	118.9	108.9	66.8	117.0	133.5	107.4	123.1	163.4	163.6	175.3

[1] Source: Morningstar.

[2] Source: J.P.Morgan.

[3] Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

A glossary of terms and definitions is provided on page 67.

TEN LARGEST EQUITY INVESTMENTS AT 31ST MARCH

Company	Country	2016 Valuation £'000	%[1]	2015 Valuation £'000	%[1]
Flow Traders[3]	Netherlands	16,453	3.4	–	–
Intertrust[3]	Netherlands	16,384	3.4	–	–
Sopra Steria[2]	France	14,973	3.1	3,267	0.7
Aalberts Industries[2]	Netherlands	14,755	3.1	8,098	1.8
IMCD[2]	Netherlands	13,704	2.8	7,627	1.6
Rubis[2]	France	12,283	2.6	8,087	1.7
OVS[2]	Italy	12,244	2.5	8,765	1.9
Trigano	France	11,436	2.4	10,964	2.4
Ascom[2]	Switzerland	10,793	2.2	5,294	1.1
Stroeer Media[2]	Germany	10,721	2.2	7,773	1.7
Total[4]		**133,746**	**27.7**		

[1] Based on total investments of £482.6m (2015: £465.2m).

[2] Not included in the ten largest investments at 31st March 2015.

[3] Not held in the portfolio at 31st March 2015.

[4] At 31st March 2015, the value of the ten largest investments amounted to £93.2m representing 20.0% of total investments.

PORTFOLIO ANALYSES

Geographical

	31st March 2016 Portfolio %[1]	31st March 2016 Benchmark %	31st March 2015 Portfolio %[1]	31st March 2015 Benchmark %
Sweden	17.3	13.8	15.2	11.4
France	17.0	13.3	22.0	13.1
Netherlands	15.9	4.8	7.8	4.2
Germany	13.8	14.3	15.3	13.4
Italy	12.4	12.4	16.7	12.5
Switzerland	8.0	10.6	9.8	11.0
Norway	6.0	4.3	–	4.7
Finland	3.2	4.6	2.2	4.9
Denmark	2.6	3.6	2.8	3.6
Ireland	1.9	1.6	1.4	1.6
Belgium	1.0	4.3	3.5	4.2
Spain	0.9	7.4	3.3	7.7
Austria	–	3.4	–	3.9
Portugal	–	1.6	–	1.9
Greece	–	–	–	1.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Based on total investments of £482.6m (2015: £465.2m).

Sector

	31st March 2016 Portfolio %[1]	31st March 2016 Benchmark %	31st March 2015 Portfolio %[1]	31st March 2015 Benchmark %
Consumer Discretionary	30.4	14.4	22.1	14.6
Industrials	23.3	24.9	28.5	25.5
Information Technology	18.4	8.6	14.6	7.1
Financials	13.2	21.2	9.9	21.0
Consumer Staples	5.5	6.7	5.8	6.0
Health Care	5.1	8.4	3.4	9.7
Utilities	2.5	2.8	1.7	2.8
Materials	1.6	6.8	8.0	7.4
Energy	–	3.2	–	3.4
Telecommunication Services	–	3.0	6.0	2.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Based on total investments of £482.6m (2015: £465.2m).

INVESTMENT ACTIVITY DURING THE YEAR ENDED 31ST MARCH 2016

	Value at 31st March 2015 £'000	%	Purchases £'000	Sales £'000	Changes in value £'000	Value at 31st March 2016 £'000	% of
Sweden	70,825	15.2	152,497	(153,511)	13,922	83,733	17.3
France	102,525	22.0	137,946	(179,974)	21,443	81,940	17.0
Netherlands	36,065	7.8	70,622	(41,559)	11,666	76,794	15.9
Germany	71,037	15.3	154,821	(172,471)	13,006	66,393	13.8
Italy	77,779	16.7	58,904	(79,985)	3,269	59,967	12.4
Switzerland	45,773	9.8	48,327	(59,888)	4,234	38,446	8.0
Norway	–	–	38,895	(12,823)	2,920	28,992	6.0
Finland	10,106	2.2	68,058	(58,901)	(4,010)	15,253	3.2
Denmark	12,854	2.8	48,292	(49,697)	1,343	12,792	2.6
Ireland	6,746	1.4	44,878	(48,113)	5,694	9,205	1.9
Belgium	16,095	3.5	16,334	(25,758)	(1,808)	4,863	1.0
Spain	15,416	3.3	35,104	(44,585)	(1,723)	4,212	0.9
Portugal	–	–	2,047	(2,152)	105	–	–
Total investments	465,221	100.0	876,725	(929,417)	70,061	482,590	100.0

LIST OF INVESTMENTS AT 31ST MARCH 2016

Company	Valuation £'000
Sweden	
Fastighets Balder	10,616
Unibet	9,557
NetEnt	8,217
Intrum Justitia	7,540
NCC	7,407
Indutrade	6,893
Pandox	5,293
Dometic	5,112
Thule	5,043
Evolution Gaming	5,016
Bravida	4,749
Inwido	4,533
Nordax	3,757
Total	**83,733**
France	
Sopra Steria	14,973
Rubis	12,283
Trigano	11,436
Alten	10,099
Plastic Omnium	9,688
SEB	7,840
Havas	7,161
ID Logistics	6,438
Tarkett	2,022
Total	**81,940**
Netherlands	
Flow Traders	16,453
Intertrust	16,384
Aalberts Industries	14,755
IMCD	13,704
TKH	7,923
Beter Bed	7,575
Total	**76,794**
Germany	
Stroeer Media	10,721
Sartorius	8,578
Software	7,691
Grenkeleasing	7,019
Jungheinrich	6,707
CTS Eventim	6,376
Bechtle	5,230
TLG Immobilien	5,171
CANCOM	3,896
Stabilus	3,264

Company	Valuation £'000
Rational	1,590
Nordex	150
Total	**66,393**
Italy	
OVS	12,244
Datalogic	10,201
Amplifon	9,199
Brembo	8,268
Moleskine	7,889
Recordati	6,738
BasicNet	5,428
Total	**59,967**
Switzerland	
Ascom	10,793
Temenos	10,167
Forbo	9,917
Kaba	7,569
Total	**38,446**
Norway	
XXL	7,012
Salmar	6,927
Bakkafrost	6,817
Storebrand	4,461
Veidekke	3,775
Total	**28,992**
Finland	
Huhtamaki	7,718
Tieto	7,535
Total	**15,253**
Denmark	
Royal Unibrew	8,663
Scandinavian Tobacco	4,129
Total	**12,792**
Ireland	
Irish Continental	5,484
Dalata Hotel	3,721
Total	**9,205**
Belgium	
D'ieteren	4,863
Total	**4,863**
Spain	
CIE Automotive	4,212
Total	**4,212**
Total Investments	**482,590**

BUSINESS REVIEW

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out the structure and objective of the Company, its investment policies and risk management, investment limits and restrictions, performance and key performance indicators, share capital, principal risks and how the Company seeks to manage those risks, the Company's environmental, social and ethical policy and its long term viability.

Business of the Company

JPMorgan European Smaller Companies Trust plc is an investment trust company that has a premium listing on the London Stock Exchange. Its objective is to achieve capital growth from smaller European companies (excluding the United Kingdom). In seeking to achieve this objective, the Company employs JPMF which, in turn, delegates portfolio management to JPMAM to actively manage the Company's assets. The Board has determined an investment policy and related guidelines and limits as described below. It aims to out perform the Euromoney Smaller Companies (ex UK) Index (in sterling terms).

The Company is subject to UK and European legislation and regulations including UK company law, UK Financial Reporting Standards, the UKLA Listing, Prospectus, Disclosure and Transparency Rules, taxation law and the Company's own Articles of Association.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010). As a result the Company is not liable for taxation on capital gains. The Directors have no reason to believe that approval will not continue to be retained. The Company is not a close company for taxation purposes.

Investment Policies and Risk Management

In order to achieve its investment objective and to seek to manage investment risks, the Company invests in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom. The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index which, at the end of March 2016, consisted of 1,000 companies with a market value of between £60 million and £4 billion across 15 countries.

The Company manages liquidity and borrowings with the aim of increasing potential sterling returns to shareholders. The Company borrows in Euros in order to hedge the currency risk in respect of the geared portion of the portfolio. The Company does not normally hedge the foreign currency exposure of the remainder of the portfolio.

The investment policy emphasises capital growth rather than income and shareholders should therefore expect dividends to vary from year to year.

The Board has set no minimum or maximum limits on the number of investments in the portfolio but, in the year under review, the number of investments ranged between approximately 60 to 70. To gain the appropriate exposure, the Investment Managers are permitted to invest in collective investment schemes. JPMF is responsible for management of the Company's assets. On a day-to-day basis the assets are managed by two Investment Managers based in London, supported by a 49-strong European equity team.

It should be noted that the Company invests in the shares of smaller companies which tend to be more volatile than those of larger companies and the Company's shares should therefore be regarded as having greater than average risk.

Investment Restrictions and Guidelines

The Board seeks to manage the risks facing the Company by imposing various limits and restrictions. The Company must demonstrate that it has policies in place to spread investment risk.

- The Company will not invest more than 5% of its total assets in any one individual stock at the time of acquisition.
- No more than 15% of assets may be invested outside the benchmark but they must be European ex UK companies or a UK investment company that invests in Europe.
- The Company does not normally invest in unquoted investments and to do so requires prior Board approval.
- No more than 25% of the Company's assets may be invested in the aggregate of: (i) securities not listed on a recognised exchange; and (ii) holdings in which the Company has 20% or more of the issued equities. It is unlikely that the Company would invest in companies that fall into either of these categories and did not do so in the year under review.
- In accordance with the Listing Rules of the UK Listing Authority ('UKLA'), the Company will not invest more than 15% of its gross assets in other listed closed-ended investment funds and will not invest more than 10% of its gross assets in listed closed-ended investment funds that themselves may invest more than 15% of gross assets in listed closed-ended investment funds. It is very unlikely that the Company would wish to have substantial positions in such companies and had no such investments in the year under review.

- The Board has set a normal gearing range of 20% net cash to 20% geared.
- The Company does not normally enter into derivative transactions and to do so requires prior Board approval.

These limits and restrictions may be varied by the Board at any time at its discretion.

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

Performance

In the year ended 31st March 2016, the Company produced a share price total return of +19.7% and a net asset value total return of +16.6%. This compares with the total return on the Company's benchmark index of +7.2%. As at 31st March 2016 the value of the Company's investment portfolio was £482.6 million (2015: £465.2 million). The Investment Managers' Report on pages 5 to 8 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 £77.2 million (2015: £7.8 million) and net total return after deducting the management fee, other administrative expenses, finance costs and taxation amounted to £70.8 million (2015: £0.9 million). Net revenue return on ordinary activities after taxation for the year amounted to £5.7 million (2015: £5.5 million). An interim dividend of 1.2p per share (2015: 1.2p) was paid during the year, costing £1.9 million. The Directors have proposed a final dividend of 2.0p (2015: 2.0p) per share. This dividend will cost £3,203,000 and the revenue reserve would have amounted to £3,684,000 had the dividend been accounted for in the year.

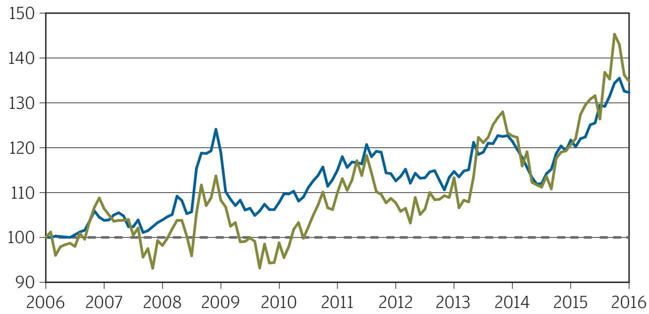
Key Performance Indicators ('KPIs')

At each Board meeting the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. The principal KPIs are performance relative to the benchmark index, performance against the Company's peers, performance attribution, share price discount to net asset value per share and ongoing charges. Unless there is a particular reason for the Board to change the KPIs (which would require an explanation to shareholders), consistency is maintained to provide continuity. Further details of the principal KPIs are given below:

- **Performance relative to the benchmark index**
  This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and the Investment Managers' Report on pages 3 and 5.

Performance Relative to Benchmark Index

FIGURES HAVE BEEN REBASED TO 100 AT 31ST MARCH 2006

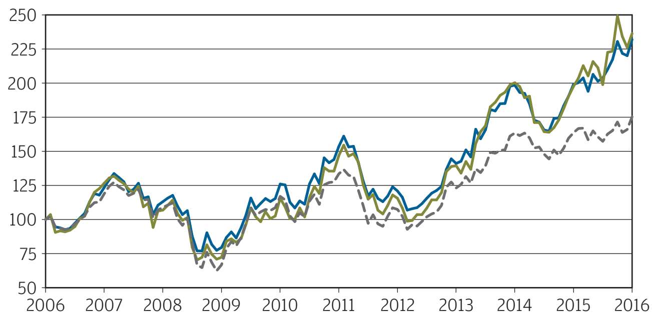


Source: Morningstar/Euromoney.

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

Ten Year Performance

FIGURES HAVE BEEN REBASED TO 100 AT 31ST MARCH 2006



Source: Morningstar/Euromoney.

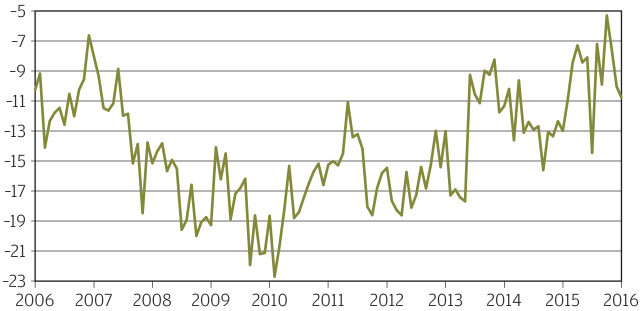
JPMorgan European Smaller Companies - share price total return.
JPMorgan European Smaller Companies - net asset value total return.
Benchmark total return.

- **Performance against the Company's peers**
  The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds with similar objectives.
- **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 stock selection and asset allocation. Details of the attribution analysis for the year ended 31st March 2016 are given in the Investment Managers' Report on page 6.

BUSINESS REVIEW *CONTINUED*

- **Share price discount to net asset value ('NAV') per share**
  The Board recognises that the possibility of a widening discount can be a key disadvantage of investment trusts that can discourage investors. The Board has for several years operated a share repurchase programme which seeks to address imbalances in supply of and demand for the Company's shares within the market and thereby seek to manage the volatility and absolute level of the discount to NAV per share at which the Company's shares trade. In the year ended 31st March 2016, the discount ranged between 5.3% and 14.5%, (using month end data, with debt at par value). More information on the Board's share repurchase policy is given in the Chairman's Statement on page 3.

Discount



Source: Morningstar (month end data).

JPMorgan European Smaller Companies - share price discount to net asset value per share.

- **Ongoing charges**
  The ongoing charges represent the Company's management fee and all other operating expenses, excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ended 31st March 2016 were 1.18% (2015: 1.32%). Each year the Board reviews an analysis which shows a comparison of the Company's ongoing charges and its main expenses with those of its peers.

Share Capital

The Company has the authority both to issue new shares, or reissue shares out of Treasury, for cash at a premium to net asset value and to repurchase shares in the market for cancellation (or to be held in Treasury) at a discount to net asset value.

During the year, the Company did not issue or repurchase any shares and, at the time of writing, has not done so since the Company's year end (2015: nil). The Company does not have authority to reissue shares from Treasury at a discount to net asset value and will not seek such authority at the forthcoming Annual General Meeting. It will however, seek to renew its authority to reissue shares from Treasury at a premium to net asset value.

Resolutions to renew the authority to issue new shares and reissue shares from Treasury and repurchase shares for cancellation or to be held in Treasury will be put to shareholders at the forthcoming Annual General Meeting. The full text of these resolutions is set out in the Notice of Meeting on pages 64 and 65.

The issued share capital of the Company is 160,147,885 ordinary shares of 5 pence each.

Board Diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. Diversity is important in bringing an appropriate range of skills and experience to the Board and the Board is diverse on a number of bases, namely gender, race and nationality. As at 31st March 2016, there were four male Directors and one female Director on the Board.

Employees, Social, Community and Human Rights Issues

The Company has a management contract with JPMF. It has no employees and all its Directors are non-executive. The day to day activities are carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes the policy statements of JPMAM in respect of Social, Community and Environmental and Human Rights issues, as highlighted in italics:

Social, Community, Environmental and Human Rights

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

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request.

Greenhouse Gas Emissions

The Company is managed by JPMF with delegation of the active management of the Company's assets to JPMAM. JPMF acts as Company Secretary and provides administrative support. The

Company has no employees, all its Directors being non-executive, the day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Company itself has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. JPMAM is a signatory to the Carbon Disclosure Project and JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

Modern Slavery Act

The Modern Slavery Act 2015 requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. The Board's statement will be set out on the Company's website at jpmeuropeansmallercompanies.co.uk shortly.

Principal Risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. In assessing the risks and how they can be mitigated, the Board has given particular attention to those risks that might threaten the viability of the Company. These key risks fall broadly under the following categories:

- **Investment Underperformance and Strategy:** An inappropriate investment strategy, for example excessive concentration of investments, asset allocation, the level of gearing or the degree of portfolio risk, may lead to underperformance against the Company's benchmark index and peer companies, which may result in the Company's shares trading on a wider discount.

  The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on by the Manager. JPMF 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 Board sets strategic guidelines for gearing as well as investments. Once those are agreed, decisions on levels of gearing are delegated to the Investment Managers, whose decisions are subject to challenge by the Board. The Board holds a separate meeting devoted to strategy each year.

- **Market and Currency:** 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 JPMF. The Board monitors the implementation and results of the investment process with the Manager. The majority of the Company's assets, liabilities and income are denominated in Euros rather than in the Company's functional currency of sterling (in which it reports). As a result, movements in the Euro:sterling exchange rate may affect the sterling value of those items. Therefore, there is an inherent risk from these exchange rate movements. The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market risk is given in note 22(a) on pages 55 to 59 of this report, together with details of how the Board manages these risks. The Board has also identified the forthcoming vote on the UK's membership of the European Union as a risk. Should the UK vote to leave the EU, the impact on continental European companies is difficult to assess, however it is likely to result in volatility in equity markets and on the Euro/sterling exchange rate.

- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' on page 16. Were the Company to breach Section 1158, it may lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to capital gains tax. The Section 1158 qualification criteria are continually monitored by JPMF and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 2006 and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules, Disclosure and Transparency Rules ('DTRs') and, as an investment trust, the Alternative Investment Fund Managers Directive ('AIFMD'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. Failure of the Manager to comply with the AIFMD could lead to the Manager losing its status as an Alternative Investment Fund Manager ('AIFM') and the Company would then need to change its AIFM. The Board relies on the services of its Company Secretary, the Manager and its professional advisers

BUSINESS REVIEW *CONTINUED*

to ensure compliance with the Companies Act, the UKLA Listing Rules, DTRs and AIFMD.

- **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 Statement on pages 26 to 30.
- **Operational and Cyber Crime:** Loss of key staff by the Manager, such as the Investment Managers, could affect the performance of the Company. Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the Depositary or Custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Under the terms of its agreement, the Depositary has strict liability for the loss or misappropriation of assets held in custody. See note 22(c) for further details on the responsibilities of the Depositary. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal controls are included within the Risk Management and Internal Controls section of the Corporate Governance Statement on pages 29 to 30. The threat of cyber attack, in all its guises, is regarded as at least as important as more traditional physical threats to business continuity and security. The Board has received the cyber security policies for its key third party service providers and JPMF has assured Directors that the Company benefits directly or indirectly from all elements of JPMorgan's Cyber Security programme. The information technology controls around the physical security of JPMorgan's data centres, security of its networks and security of its trading applications are tested by Deloitte and reported every six months against the AAF Standard.
- **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 55 to 60.

Long Term Viability

Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering those principal risks, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the European economies and equity markets.

In determining the appropriate period of assessment the Directors had regard to their view that, given the Company's objective of achieving long term capital growth, shareholders should consider the Company as a long term investment proposition. This is consistent with advice provided by investment advisers, that investors should consider investing in equities for a minimum of five years. Thus the Directors consider five years to be an appropriate time horizon to assess the Company's viability.

The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

For and on behalf of the Board
Carolan Dobson
Chairman

24th May 2016

BOARD OF DIRECTORS

Carolan Dobson (Chairman)
A Director since September 2010. Appointed Chairman in 2013.

Last reappointed to the Board: 2015

Other directorships: Chairman of Aberdeen Smaller Companies High Income Trust plc, Chairman of Brunner Investment Trust plc, Schroder UK Growth Fund plc, Blackrock Latin American Investment Trust plc and the Nest Corporation. She has a wealth of investment experience, having previously been a Director of Abbey Asset Managers, Head of Investment Trusts at Murray Johnstone and fund manager of Murray Income plc.

Connections with Manager: None

Shared Directorships with any other Trust Directors: None

Federico Marescotti
A Director since December 2005.

Last reappointed to the Board: 2015

Other directorships: Executive Chairman of Vela Capital, Italy. A Director of Dunedin Enterprise Investment Trust plc. A Director of the Illy Group of companies, Italy, and an Adviser to ADCO International GMBH, Germany.

Connections with Manager: None

Shared Directorships with other Directors: None

Stephen White
A Director since 1st April 2012.

Last reappointed to the Board: 2015

Other directorships: Head of European and US equities at British Steel Pension Fund, responsible for the day to day management of the Fund's Europe ex-UK and US equity portfolios. Director of New India Investment Trust plc and formerly a director of Global Special Opportunities Trust Plc, Head of European Equities at F&C Asset Management and Manager of Foreign & Colonial Eurotrust PLC and Deputy Manager of the Foreign & Colonial Investment Trust Plc. He is a Chartered Accountant.

Connections with Manager: None

Shared Directorships with other Directors: None

BOARD OF DIRECTORS CONTINUED

Ashok Gupta
A Director since 1st January 2013.

Last reappointed to the Board: 2015

Other directorships: Non-executive Director of New Ireland Assurance plc and a member of the FRC Codes & Standards Committee and Actuarial Council. Non-executive Chairman of eValue. Formerly Non-executive Chairman of AA Insurance Services Limited and Skandia UK, Director of The Pensions Regulator, J Rothschilds Assurance and the Pearl Group.

Connections with the Manager: None

Shared Directorships with other Directors: None

Nicholas Smith (Chairman of the Audit Committee)
A Director since 1st May 2015.

Last reappointed to the Board: 2015

Other directorships: Non-executive Chairman of Aberdeen New Thai Investment Trust plc and Schroder Asia Pacific Investment Fund. A Chartered accountant with a long-term career in investment banking and from 1993 to 1997 as CFO of Jardine Fleming.

Connections with the Manager: None

Shared Directorships with other Directors: None

All Directors are members of the Audit, Management Engagement and Nomination and Remuneration Committees and are considered by the Board to be independent of the Manager.

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31st March 2016.

Management of the Company

The Manager and Company Secretary is JPMorgan Funds Limited ('JPMF'). JPMF is employed under a contract which can be terminated on six months' notice, without penalty. The contract may also be terminated on three months' notice if the current Investment Managers both cease to be the named managers of the Company's portfolio. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation. The active management of the Company's assets is delegated by JPMF to an affiliate, JPMorgan Asset Management (UK) Limited ('JPMAM'). The Manager is a wholly owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides accounting, banking, dealing and custodian services to the Company.

The Management Engagement Committee conducts a formal evaluation of the performance of the contractual relationship with the Manager on an annual basis. Part of this evaluation includes a consideration of the management fees and whether the service received is value for money for shareholders. The Committee has thoroughly reviewed the performance of the Manager in the course of the year. The review covered consideration of the investment strategy and process of the Manager, resources and risk controls, performance against the benchmark over the long term and the quality of support that the Company received including the marketing support provided. The latest evaluation of the Manager was carried out in early 2016. As a result of that process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole.

The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF is the Company's alternative investment fund manager ('AIFM'). It is approved as an AIFM by the FCA. For the purposes of the AIFMD the Company is an alternative investment fund ('AIF'). JPMF has delegated responsibility for the day to day management of the Company's portfolio to JPMAM. The Company has appointed BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary. BNY has appointed JPMorgan Chase Bank, N.A. as the Company's custodian. BNY is responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows.

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. An Investor Disclosure Document, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information is available on the Company's website at www.jpmeuropeansmallercompanies.co.uk There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider.

JPMF's remuneration disclosures are set out on page 62.

Management Fee

From 1st April 2015 the management fee was charged at 1% of net assets (until 31st March 2014 it was charged at 1.3% of the Company's market capitalisation). It is calculated and paid monthly in arrears. An adjustment is made to exclude from the calculation investments in funds on which the Manager charges a management fee. In addition, the Company reimburses the Manager for the costs of administering its shareholders who hold their shares through the JPMorgan savings products.

Directors

Nicholas Smith was appointed on 1st May 2015. Anthony Davidson retired at the conclusion of the AGM on 10th July 2015. The Directors who held office at the year end are detailed on pages 21 and 22. Details of their beneficial shareholdings may be found in the Directors' Remuneration Report on page 32.

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

The Nomination and Remuneration Committee, having considered their qualifications, performance and contribution to the Board and its Committees, confirms that each Director standing for reappointment continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be reappointed.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, each Director has the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. For the Directors who served during the year under review, these indemnities were in place throughout the year and as at the date of this report. The effective date of the indemnity concerning Nicholas Smith was 1st May 2015, the date of his appointment, and remains in place at the date of this report.

DIRECTORS' REPORT *CONTINUED*

An insurance policy is maintained by the Company which insures 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 Section 418(2) of the Companies Act 2006.

Independent Auditors

In line with corporate governance best practice, the Board undertook a formal review and tender of audit services in 2014. PricewaterhouseCoopers LLP were retained as the Company's Auditors and have expressed their willingness to continue in office as Auditors. A resolution to reappoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the Annual General Meeting.

Section 992 Companies Act 2006

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

Capital Structure
At 31st March 2016, the Company's share capital comprised 160,147,885 ordinary shares of 5p each. There were no shares held in Treasury. The ordinary shares have a premium listing on the London Stock Exchange.

Voting Rights in the Company's shares
Details of the voting rights in the Company's shares as at the date of this report are given in Note 16 to the Notice of Annual General Meeting on page 66.

Notifiable Interests in the Company's Voting Rights

At the end of the financial year, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
Lazard Asset Management LLC	22,371,063	13.9
Investec Wealth & Investment Limited	8,847,562	5.5

Since the year end no further notifiable interests have been declared and no changes to the above holdings had been notified as at the date of this report.

The Company is also aware that as at 31st March 2016, approximately 9.7% of the Company's total voting rights were held by individuals through savings products managed by JPMorgan and registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of the savings products, under certain circumstances JPMorgan has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

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

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

Listing Rule 9.8.4R

Listing Rule 9.8.4R requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

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. The full text of the resolutions is set out in the Notice of Meeting on pages 64 and 65:

(i) Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 10 and 11)

The Directors will seek renewal of the authority at the Annual General Meeting to issue new ordinary shares for cash or by way of a sale of Treasury shares up to an aggregate nominal amount of £400,369, such amount being equivalent to approximately 5% of the issued share capital (excluding Treasury shares) as at the latest practicable date before the publication of this document or, if different, the number of ordinary shares which is equal to 5% of the Company's issued share capital (excluding Treasury shares) as at the date of the passing of the resolution. This authority will expire at the conclusion of the Annual General Meeting of the Company in 2017 unless renewed at a prior general meeting.

Resolution 11 will enable the allotment of ordinary shares otherwise than by way of a pro rata issue to existing shareholders. It is advantageous for the Company to be able to issue new shares (or to reissue shares from Treasury) to investors when the Directors consider that it is in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the net asset value ('NAV'), thereby increasing the NAV per share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's net assets, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

(ii) Authority to repurchase the Company's shares (resolution 12)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2015 Annual General Meeting, will expire on 9th January 2017 unless renewed at the forthcoming Annual General Meeting. The Directors consider that the renewal of this 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 12 gives the Company authority to repurchase 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 number of ordinary shares, representing approximately 14.99% of the Company's issued ordinary shares as at the latest practicable date before the publication of this document or, if less, the number of ordinary shares which is equal to 14.99% of the Company's issued share capital (excluding Treasury shares) as at the date of the passing of the resolution. The authority also sets minimum and maximum prices.

If resolution 12 is passed at the Annual General Meeting, the Board may repurchase the shares for cancellation or hold them in Treasury pursuant to the authority granted to it for possible reissue at a premium to NAV. 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 29th January 2018, or when the whole of the 14.99% has been acquired, whichever is the earlier, however it is the Board's intention to seek renewal of the authority at the 2017 Annual General Meeting.

Recommendation

The Board considers that resolutions 10 to 12 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, where voting rights are exercisable, in respect of their own beneficial holdings which, as at the year end, amounted in aggregate to 54,132 shares representing approximately 0.03% of the voting rights in the Company.

DIRECTORS' REPORT *CONTINUED*

Corporate Governance Statement

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 34, indicates how the Company has applied the principles of good governance of the Financial Reporting Council's UK Corporate Governance Code (the 'UK Corporate Governance Code') and the Association of Investment Companies' ('AIC') Code of Corporate Governance (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

Copies of the UK Corporate Governance Code and the AIC Code may be found on the respective organisations' websites at www.frc.org.uk and www.theaic.co.uk

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code, other than the appointment of a Senior Independent Director, 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 JPMF sets out the matters which have been delegated to the Manager. 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 the 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.

At each Board meeting, Directors' interests are considered. These are reviewed carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved. It was resolved that there were no actual or indirect interests of a Director which conflicted with the interests of the Company which arose during the year.

Following the introduction of The Bribery Act 2010, the Board has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the year under review.

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

There is an agreed procedure for Directors to take independent professional advice, if necessary, 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, who is responsible to the Board for ensuring that Board procedures are followed and for compliance with applicable rules and regulations.

Board Composition

The Board, chaired by Carolan Dobson, currently comprises five non-executive Directors, all of whom, including the Chairman, are regarded by the Board as independent of the Company's Manager. 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 pages 21 and 22. There have been no changes to the Chairman's other significant commitments during the year under review.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a senior independent director should be appointed and has concluded that, due to the Company's nature of business as an investment trust and because the Board is comprised entirely of non-executive Directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussions 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 reappointed by shareholders. A Director's continued appointment is subject to the performance evaluation carried out each year, Board approval and shareholder reappointment. The Board has adopted corporate governance best practice and all Directors stand for annual reappointment. The Board believes that Directors should serve more than nine years only in exceptional circumstances, except in the case of a serving Chairman where the Chairman's second term of three years would result in the nine year limit being exceeded; a Chairman should serve more than six years in the role only in exceptional circumstances and the total tenure of a Chairman having previously been a Director should be no more than twelve years.

To ensure adequate succession planning and continuity it has been agreed that Federico Marescotti and Carolan Dobson will retire at the conclusion of the 2016 and 2018 Annual General Meetings respectively. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the requirements of the UK Corporate Governance Code and the AIC Code, including the need to refresh the Board and its Committees periodically.

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

Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and 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 trust companies. Regular reviews of the Directors' training needs are carried out by the Chairman by means of the evaluation process described on page 27.

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Details of the membership of these Committees are shown with the Directors' profiles on pages 21 and 22.

The table below details the number of formal Board and Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings, one Management Engagement Committee meeting and two Nomination and Remuneration Committee meetings. These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals. In addition, there is regular contact between the Directors and the Manager and Company Secretary throughout the year.

Meetings Attended

	Board	Audit Committee	Nomination and Remuneration Committee	Management Engagement
Anthony Davidson[1]	2	1	1	0
Carolan Dobson	5	2	2	1
Ashok Gupta	5	2	2	1
Federico Marescotti	5	2	2	1
Nicholas Smith[2]	5	2	2	1
Stephen White	5	2	2	1

[1] Retired 10th July 2015.

[2] Appointed 1st May 2015.

Board Committees

Nomination Committee

The Nomination and Remuneration Committee, chaired by Carolan Dobson, consists of all 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 appointment process takes account of the benefits of diversity, including gender. An independent third party, Trust Associates, has been engaged to search for a new Director. Trust Associates have no other connection with the Board or the Manager.

The Board's policy on diversity, including gender, is to take account of the benefits of these during the appointment process. However, the Board remains committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity. Therefore, no targets have been set against which to report.

The Committee conducts an annual performance evaluation of the Board, its Committees and individual Directors to ensure that all Directors have devoted sufficient time and contributed adequately to the work of the Board and its Committees. The evaluation of the Board considers the balance of experience, skills, independence, corporate knowledge, its diversity, including gender, and how it works together. Questionnaires, drawn up by the Board, with the assistance of the Manager and a firm of independent consultants, are completed by each Director. The responses are collated and then discussed by the Committee. The evaluation of individual Directors is led by the Chairman. The Audit Committee Chairman leads the evaluation of the Chairman's performance.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate in relation to the remuneration policy. This review forms only a minimal part of discussions and therefore it is felt to be appropriate for Carolan Dobson to act as Chairman to the Committee.

Management Engagement Committee

The membership of the Management Engagement Committee consists of all the independent Directors and is chaired by Carolan Dobson. The Committee meets at least once a year to review the terms of the management agreement between the Company and the Manager, to review the performance of the Manager, to review the notice period that the Board has with the Manager and to make recommendations to the Board on the continued appointment of the Manager following these reviews.

Audit Committee

The Audit Committee, chaired by Nicholas Smith, consists of all the Directors and meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Audit Committee. At least one member of the Audit Committee has recent and relevant financial experience and the qualifications of the members of the

DIRECTORS' REPORT *CONTINUED*

Audit Committee are disclosed on pages 21 and 22. Carolan Dobson is a member of the Audit Committee. This is permitted under corporate governance rules because the Chairman was deemed to be independent on appointment.

The Committee reviews the actions and judgements of the Manager and the Secretary in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code.

During its review of the Company's financial statements for the year ended 31st March 2016, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting:

Significant issue	How the issue was addressed
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1(c) to the accounts on page 45. Controls are in place to ensure that valuations are appropriate and existence is verified through Custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(e) to the accounts on page 46. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Compliance with Sections 1158 and 1159 of the Corporation Taxes Act 2010	Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st April 2013 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the AIFM, the Investment Managers, the Company Secretary and other third party service providers, the Audit Committee has concluded that the annual report for the year ended 31st March 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 34.

The Board was made fully aware of any significant financial reporting issues and judgements made in connection with the preparation of the financial statements.

The Audit Committee examines the effectiveness of the Company's internal controls systems and receives information from the Manager's Compliance department. The Directors' statement on the Company's system of Risk Management and Internal Controls is set out on pages 29 and 30. The Audit Committee also 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 independent. The Audit Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of external Auditors.

Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft annual report and accounts are considered and also engage with the Directors as and when required. Having reviewed the performance of the external Auditors, including assessing the quality of work, timing of communications and work with the Manager, the Committee considered it appropriate to recommend their reappointment. The Board supported this recommendation and a resolution will be put to shareholders at the forthcoming Annual General Meeting.

The current audit firm has audited the Company's financial statements since 1998. The Company's year ended 31st March 2016 is the current Audit Partner's first of a five year maximum term. Details of the fees paid for audit services are included in note 6 on page 48. As part of its review of the continuing appointment of the Auditors, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit.

As a result of a formal tender exercise undertaken in 2014, PricewaterhouseCoopers LLP were retained as Auditors to the Company and Alex Bertolotti's first audit is in respect of this year ending 31st March 2016. The Board reviews and approves any non-audit services provided by the independent Auditors and assesses the impact of any non-audit work on the ability of the Auditors to remain independent. No such work was undertaken during the year.

Terms of Reference

All of the Committees 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.

Going Concern

The Directors believe that, having considered the Company's investment objective (see page 16), risk management policies (see pages 55 to 60), capital management policies and procedures (see page 61), the nature of the portfolio and expenditure and cash flow projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the Company's financial statements. They have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of these financial statements.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice each year by way of the annual report and accounts and the half year report. These are supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares and the Company's level of gearing.

All shareholders have the opportunity and are encouraged to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet 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 support these meetings and to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 69, or via the Company's website.

The Company's annual report and accounts are published in time to give shareholders at least twenty working days' notice of the annual general meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to do so via the Company's website or write to the Company Secretary at the address shown on page 69. A formal process is in place for all letters to the Directors to be immediately forwarded. As part of this process, any feedback from shareholders is also communicated to the Board.

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

Risk Management and Internal Controls

The UK Corporate Governance Code requires the Directors, at least annually, to review the effectiveness of the Company's system of risk management and internal controls 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 risk management and internal controls 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 the Manager and its associates, the Company's system of risk management and internal controls mainly comprises monitoring the services provided by the Manager and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 19 and 20). This process has been in place for the year under review and up to the date of the approval of the annual report and accounts, and it accords with the Turnbull guidance. Whilst the Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of the Manager. This arrangement is kept under review.

The key elements designed to provide effective internal controls 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 — Appointment of a manager and depositary, regulated by the FCA, whose responsibilities are clearly defined in written agreements.

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

DIRECTORS' REPORT *CONTINUED*

management and internal controls 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 the Manager's Compliance department;
- reviews reports on the risk management and internal controls and the operations of its Depositary, BNY Mellon Trust & Depositary (UK) Limited and its Custodian, JPMorgan Chase Bank, the latter of which is itself independently reviewed; and
- reviews every six months an independent report on the risk management and internal controls and the operations of the Manager.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal controls for the year ended 31st March 2016 and to the date of approval of this annual report and accounts.

The Board confirms that any failings or weaknesses identified during the course of its review of the system of risk management and internal controls were not significant and did not affect the Company.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM through the Manager. The following is a summary of JPMAM's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details on social and environmental issues are included in the Strategic Report on page 18.

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

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

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

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

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

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

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

24th May 2016

DIRECTORS' REMUNERATION REPORT

The Board presents the Directors' Remuneration Report for the year ended 31st March 2016 which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The Auditors' opinion is included in their report on pages 35 to 40.

Remuneration of the Directors is considered by the Nomination and Remuneration Committee on a regular basis. The Committee makes recommendations to the Board as and when appropriate.

Directors' Remuneration Policy

The Directors' Remuneration Policy is subject to a triennial binding vote, however, a decision has been taken to seek approval annually, and therefore an ordinary resolution to approve this policy will be put to shareholders at the forthcoming Annual General Meeting. The policy subject to the vote is set out in full below and is currently in force.

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 and retained. 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.

Reviews are based on information provided by the Manager, 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 involvement of remuneration consultants has not been deemed necessary as part of this review. The Company has no Chief Executive Officer and no employees and therefore no consultation of employees is required and there is no employee comparative data to provide, in relation to the setting of the remuneration policy for Directors.

All of the Directors are non-executive. There are no performance-related elements to their fees and the Company does not operate any type of incentive, share scheme, award or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not granted exit payments and are not provided with compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in attending the Company's business.

In the year under review, Directors' fees were paid at the following rates: Chairman £36,000; Chairman of the Audit Committee £29,500; and other Directors £24,000 (all unchanged from the prior year except in respect of the Chairman of the Audit Committee).

With effect from 1st April 2016, the fees have been increased to the following rates: Chairman £36,500; Chairman of the Audit Committee £30,000; and other Directors £24,500.

The Company's Articles of Association provide that any increase in the maximum aggregate annual limit on Directors' fees, currently £175,000, requires both Board and shareholder approval.

The Company has not sought shareholder views on its remuneration policy. The Nomination and Remuneration Committee considers any comments received from shareholders on remuneration policy on an ongoing basis and takes account of those views.

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on pages 26 and 27.

Directors' Remuneration Policy Implementation

The Directors' Remuneration Report, which includes details of the Directors' remuneration policy and its implementation, is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st March 2015 and no changes are proposed for the year ending 31st March 2017.

At the Annual General Meeting held on 10th July 2015, of votes cast in respect of the Remuneration Policy, 99.5% were in favour (or granted discretion to the Chairman who voted in favour) and 0.5% were against. Abstentions were received from 0.2% of the votes cast. Of votes cast in respect of the Remuneration Report, 99.5% were in favour (or granted discretion to the Chairman who voted in favour) and 0.5% were against. Abstentions were received from 0.2% of the votes cast.

DIRECTORS' REMUNERATION REPORT *CONTINUED*

Details of the implementation of the Company's remuneration policy are given below.

Single total figure of remuneration

The single total figure of remuneration for each Director is detailed below together with the prior year comparative.

Single total figure table[1]

	Total fees[2] 2016 £	2015 £
Carolan Dobson	36,000	35,500
Anthony Davidson[3]	8,283	29,000
Ashok Gupta	24,000	23,500
Federico Marescotti	24,000	23,500
Nicholas Smith[4]	26,005	n/a
Stephen White	24,000	23,500
Total	142,288	135,000

[1] Audited information. Other subject headings for the single figure table as prescribed by regulation are not included because there is nothing to disclose in relation thereto.

[2] Directors' remuneration comprises an annual fee only. Directors are also reimbursed for out of pocket expenses incurred in attending to the Company's business.

[3] Retired 10th July 2015.

[4] Appointed 1st May 2015.

A table showing the total remuneration for the Chairman over the five years ended 31st March 2016 is below:

Remuneration for the Chairman over the five years ended 31st March 2016

Year ended 31st March	Fees
2016	£36,000
2015	£35,500
2014	£35,500
2013	£34,000
2012	£34,000

Directors' Shareholdings[1]

There are no requirements pursuant to the Company's Articles of Association for the Directors to own shares in the Company. The beneficial shareholdings of the Directors who held office at the year end are detailed below.

Directors' Name	31st March 2016 or as at date of retirement	31st March 2015 or as at date of appointment
Anthony Davidson[2]	15,946	15,946
Carolan Dobson	10,000	10,000
Ashok Gupta	7,500	7,500
Federico Marescotti	6,632	6,343
Nicholas Smith[3]	5,000	nil
Stephen White	25,000	25,000
Total	**70,078**	**64,789**

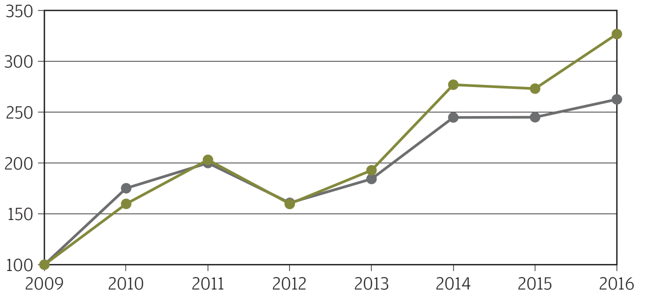
[1] Audited information.
[2] Retired 10th July 2015.
[3] Appointed 1st May 2015.

As at the latest practicable date before the publication of this document, there have been no changes to the Directors' shareholdings.

The Directors have no other share interests or share options in the Company and no share schemes are available.

In accordance with the Companies Act 2006, a graph showing the Company's share price total return compared with its benchmark, the Euromoney Smaller European Companies (ex UK) Index (the 'Index'), over the last seven years is shown on page 33. The Board believes that the Index is the most representative comparator for the Company, because the Company's investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the Index.

Seven Year Share Price and Benchmark Total Return Performance to 31st March 2016



Source: Morningstar/Euromoney.

Share price total return.

Benchmark total return.

A table showing actual expenditure by the Company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st March 2016 £	2015 £
Remuneration paid to all Directors	142,288	135,000
Distribution to shareholders		
– by way of dividend	5,125,000	5,125,000

For and on behalf of the Board
Carolan Dobson
Chairman

24th May 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that, taken as a whole, the annual report and accounts are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's performance, business model and strategy and 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 order to provide these confirmations, and 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; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

and the Directors confirm that they have done so.

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

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

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Strategic Report, Statement of Corporate Governance and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed on pages 21 and 22 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return or loss of the Company; and
- the Strategic 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.

The Board confirms that it is satisfied that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the strategy and business model of the Company.

The Board also confirms that it is satisfied that the Strategic Report and Directors' Report include a fair review of the development and performance of the business, and the position of the Company, together with a description of the principle risks and uncertainties that the Company faces.

For and on behalf of the Board
Carolan Dobson
Chairman

24th May 2016

Independent Auditors' Report

TO THE MEMBERS OF JPMORGAN EUROPEAN SMALLER COMPANIES TRUST PLC

Report on the financial statements

Our opinion

In our opinion, JPMorgan European Smaller Companies Trust plc's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31st March 2016 and of its net return and cash flows 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.

What we have audited

The financial statements, included within the Annual Report & Accounts (the 'Annual Report'), comprise:

- the Statement of Financial Position as at 31st March 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Our audit approach

Overview

- Overall materiality: £4,954,000 which represents 1% of net assets.

- The Company is a stand alone investment trust company and engages JPMorgan Funds Limited (the 'Manager') to manage its assets.
- We conducted our audit of the financial statements from information provided by JPMorgan Corporate & Investment Bank (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

- Income.
- Valuation and existence of investments.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Income *Refer to page 28 (Directors' Report), page 46 (Accounting Policies) and pages 48 and 51 (Notes to the Financial Statements).* We focused on the accuracy and completeness of dividend income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). This is because incomplete or in accurate income could have material impact on the Company's net assets value. We also focused on the calculation of realised and unrealised gains or losses on the investment portfolio.	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. In addition, we tested dividend receipt by agreeing the dividend rate from investments to independent third party sources. No misstatements were identified which required reporting to those charged with governance. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared for a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends. We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP. We then tested the validity of revenue and capital special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP. We have also tested the gains or losses on investments held at fair value comprise realised and unrealised gains or losses. For realised gains or losses, we tested purchases and sales amounts to bank statements and we reperformed the calculation of a sample of realised gains or losses. For unrealised gains or losses, we tested the valuation of the portfolio at the year-end, together with testing the reconciliation of opening and closing investments. No misstatements were identified by our testing.
Valuation and existence of investments *Refer to page 28 (Directors' Report), page 46 (Accounting Policies) and page 51 (Notes to the Financial Statements).* The investment portfolio at the year end principally comprised of listed equity investments of £483 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.	We tested the valuation of the listed investment portfolio by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from JPMorgan Chase Bank, N.A. No differences were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the types of investments within the Company, the involvement of the Manager and Administrator, the accounting processes and controls, and the industry in which the Company operates.

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls and report to the Manager and the Directors.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the Administrator on which we could place reliance to provide audit evidence. We also assessed the gap period of six months between the period covered by the controls report and the year-end of the Company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the Administrator was not required because additional substantive testing was performed.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£4,954,000 (2015: £4,300,000)
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £248,000 (2015: £216,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the UKLA Listing Rules we are required to review the Directors' statement, set out on pages 28 and 29, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion
In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 34, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 27 and 28, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company
Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the Directors' confirmation on pages 19 and 20 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 20 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the UKLA Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24th May 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST MARCH 2016

		2016			2015		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	3	–	69,936	69,936	–	(8,060)	(8,060)
Net foreign currency (losses)/gains		–	(1,191)	(1,191)	–	7,229	7,229
Income from investments	4	8,357	–	8,357	8,427	–	8,427
Interest receivable and similar income	4	117	–	117	159	–	159
Gross return/(loss)		8,474	68,745	77,219	8,586	(831)	7,755
Management fee	5	(1,345)	(3,139)	(4,484)	(1,336)	(3,117)	(4,453)
Other administrative expenses	6	(818)	–	(818)	(694)	–	(694)
Net return/(loss) on ordinary activities before finance costs and taxation		6,311	65,606	71,917	6,556	(3,948)	2,608
Finance costs	7	(240)	(560)	(800)	(290)	(676)	(966)
Net return/(loss) on ordinary activities before taxation		6,071	65,046	71,117	6,266	(4,624)	1,642
Taxation	8	(339)	–	(339)	(747)	–	(747)
Net return/(loss) on ordinary activities after taxation		5,732	65,046	70,778	5,519	(4,624)	895
Return/(loss) per share	10	3.58p	40.62p	44.20p	3.45p	(2.89)p	0.56p

A final dividend of 2.0p per share (2015: 2.0p per share) is proposed in respect of the year ended 31st March 2016, costing £3,203,000 (2015: £3,203,000). More details can be found in note 9(a) on page 50.

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 notes on pages 45 to 61 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH 2016

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve[1] £'000	Total £'000
At 31st March 2014	8,008	1,312	7,628	411,139	5,406	433,493
Expenses incurred due to stock split	–	–	–	(16)	–	(16)
Net (loss)/return on ordinary activities	–	–	–	(4,624)	5,519	895
Dividends paid in the year	–	–	–	–	(4,645)	(4,645)
At 31st March 2015	8,008	1,312	7,628	406,499	6,280	429,727
Net return on ordinary activities	–	–	–	65,046	5,732	70,778
Dividends paid in the year	–	–	–	–	(5,125)	(5,125)
At 31st March 2016	8,008	1,312	7,628	471,545	6,887	495,380

[1] This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

The notes on pages 45 to 61 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31ST MARCH 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	482,590	465,221
Current assets	12		
Derivative financial instruments		1	–
Debtors		2,889	6,322
Cash and cash equivalents[1]		53,392	11,292
		56,282	**17,614**
Current liabilities	13		
Creditors: amounts falling due within one year		(43,492)	(9,699)
Net current assets		**12,790**	**7,915**
Total assets less current liabilities		**495,380**	**473,136**
Creditors: amounts falling due after more than one year	14	–	(43,409)
Net assets		**495,380**	**429,727**
Capital and reserves			
Called up share capital	15	8,008	8,008
Share premium	16	1,312	1,312
Capital redemption reserve	16	7,628	7,628
Capital reserves	16	471,545	406,499
Revenue reserve	16	6,887	6,280
Total shareholders' funds		**495,380**	**429,727**
Net asset value per share	17	**309.3p**	**268.3p**

[1] This line item combines the two lines of 'Investments in liquidity funds held at fair value through profit or loss' and 'Cash and short term deposits' in the financial statements for the year ended 31st March 2015 into one. Under FRS 102, liquidity funds are considered cash equivalents as they are held for cash management purposes.

The financial statements on pages 41 to 61 were approved and authorised for issue by the Directors on 24th May 2016 and were signed on their behalf by:

Stephen White
Director

The notes on pages 45 to 61 form an integral part of these financial statements.

Company registration number: 2431143.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH 2016

	Notes	2016 £'000	2015 £'000
Net cash outflow from operations before dividends and interest	18	(2,578)	(5,936)
Dividends received		6,497	7,084
Interest received		9	21
Overseas tax recovered		249	518
Interest paid		(769)	(974)
Net cash inflow from operating activities		**3,408**	**713**
Purchases of investments		(881,746)	(883,929)
Sales of investments		933,115	904,735
Settlement of foreign currency contracts		(62)	(410)
Net cash inflow from investing activities		**51,307**	**20,396**
Dividends paid		(5,125)	(4,645)
Net repayment of bank loans		(7,520)	(20,585)
Expenses incurred due to stock split		–	(16)
Net cash outflow from financing activities		**(12,645)**	**(25,246)**
Increase/(decrease) in cash and cash equivalents		**42,070**	**(4,137)**
Cash and cash equivalents at start of year		11,292	15,437
Exchange movements		30	(8)
Cash and cash equivalents at end of year		53,392	11,292
Increase/(decrease) in cash and cash equivalents		**42,070**	**(4,137)**
Cash and cash equivalents consist of:			
Cash and short term deposits		6,248	1,300
Cash held in JPMorgan Euro Liquidity Fund		47,144	9,992
Total		**53,392**	**11,292**

The notes on pages 45 to 61 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2016

1. Accounting policies

(a) Basis of accounting

The financial statements are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in November 2014.

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

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 28 of the Directors' Report form part of these financial statements.

(b) Transition to FRS 102

This set of financial statements, in accordance with the SORP includes changes arising from the adoption of FRS 102 which the Company is required to comply with for the first time for the year ended 31st March 2016.

Aside from amendments to the disclosure of fair value hierarchy information and presentational aspects relating to the Statement of Cash Flows, no significant changes have arisen from the adoption of the new standards. Where changes have arisen, they are substantially in relation to presentation, disclosure and non-quantifiable aspects - there has been no impact to financial position or financial performance and no comparative figures require restating.

Early adoption

In March 2016, the FRC published amendments to FRS 102 concerning the fair value hierarchy disclosures. These amendments are effective for accounting periods beginning on or after 1st January 2017. The Company has elected to early adopt these amendments in this set of financial statements. Full disclosure is given in note 21 on pages 54 and 55.

(c) Valuation of investments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

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. The 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 to capital 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.

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

(d) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on foreign currency cash balances and loans, realised gains and losses on foreign currency contracts, management fee and finance costs allocated to capital and any other capital charges, are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Gains and losses on sales of investments'.

Increases and decreases in the valuation of investments held at the year end including the related foreign exchange gains and losses, plus unrealised gains and losses on foreign currency contracts or foreign currency loans are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Investment holding gains and losses'.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

1. Accounting policies *continued*

(e) Income

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

UK dividends are included net of tax credits. Overseas dividends are included gross of any withholding tax.

Special dividends are looked at individually to ascertain the reason behind the payment. This will determine whether they are treated as income or capital.

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

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

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

(f) Expenses

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

- The management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 51.

(g) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest rate method.

Finance costs are allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

(h) Financial instruments

Cash and cash equivalents may comprise cash including demand deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Liquidity funds are considered cash equivalents as they are held for cash management purposes as an alternative to cash.

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

Bank loans are classified as financial liabilities measured at fair value. They are initially measured as proceeds and subsequently measured at fair value. Interest payable on the bank loan is accounted for on an accruals basis in the Statement of Comprehensive Income.

Derivative financial instruments, including short term forward currency contracts, are valued at fair value, which is the net unrealised gain or loss, and are included in current assets or current liabilities in the Statement of Financial Position.

(i) Taxation

Current tax is provided at the amounts expected to be paid or received.

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 the capital column.

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

(j) Value Added Tax ('VAT')

Expenses are disclosed inclusive of the related irrecoverable VAT. Recoverable VAT is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies.

(k) Foreign currency

The Company is required to identify its functional currency, being the currency of the primary economic environment in which the Company operates.

The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the financial statements are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

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

(l) Dividends payable

Dividends are included in the financial statements in the year in which they are approved by shareholders.

(m) Repurchase of ordinary shares for cancellation

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Capital reserves' and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements on occasion requires management to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

Management do not believe that any accounting judgements or estimates have been applied to this set of financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

3. Gains/(losses) on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Gains on investments held at fair value through profit or loss based on historical cost	47,443	311
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(48,845)	(62,195)
Losses on sales of investments based on carrying value at previous balance sheet date	(1,402)	(61,884)
Net movement in investment holding gains and losses	71,463	54,002
Other capital charges	(125)	(178)
Total capital gains/(losses) on investments held at fair value through profit or loss	**69,936**	**(8,060)**

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

4. Income

	2016 £'000	2015 £'000
Income from investments		
Overseas dividends	7,469	8,427
Scrip dividends	888	–
	8,357	**8,427**
Interest receivable and similar income		
Stock lending income	108	138
Interest from liquidity fund	–	21
Deposit interest	9	–
	117	**159**
Total income	**8,474**	**8,586**

5. Management fee

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	1,345	3,139	4,484	1,336	3,117	4,453

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

6. Other administrative expenses

	2016 £'000	2015 £'000
Administration expenses	404	324
Depositary fees	84	54
Directors' fees[1]	142	135
Savings scheme costs[2]	163	157
Auditors' remuneration for audit services[3]	25	24
	818	**694**

[1] Full disclosure is given in the Directors' Remuneration Report on pages 31 to 33.

[2] Paid to the Manager for the marketing and administration of savings scheme products. Includes £25,000 (2015: £26,000) irrecoverable VAT.

[3] Includes £4,000 (2015: £4,000) irrecoverable VAT.

7. Finance costs

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on bank loans and overdrafts	240	560	800	290	676	966

8. Taxation

(a) Analysis of tax charge in the year

	2016 £'000	2015 £'000
Overseas withholding tax	339	747
Total tax charge for the year	339	747

(b) Factors affecting total tax charge for the year

The tax charged for the year is lower (2015: higher) than the Company's applicable rate of corporation tax for the year of 20% (2015: 21%). The factors affecting the total tax charge for the year are as follows:

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Net return/(loss) on ordinary activities before taxation	**6,071**	**65,046**	**71,117**	**6,266**	**(4,624)**	**1,642**
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 20% (2015: 21%)	1,215	13,009	14,224	1,316	(971)	345
Effects of:						
Non taxable capital (losses)/gains	–	(13,749)	(13,749)	–	175	175
Non taxable overseas dividends	(1,494)	–	(1,494)	(1,676)	–	(1,676)
Non taxable scrip dividends	(178)	–	(178)	–	–	–
Overseas withholding tax	339	–	339	747	–	747
Unrelieved expenses and charges	457	740	1,197	360	796	1,156
Total tax charge for the year	**339**	**–**	**339**	**747**	**–**	**747**

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £8,942,000 (2015: £8,739,000) based on a prospective corporation tax rate of 18% (2015: 20%). The UK Government announced in July 2015 that the corporation tax rate is set to be cut to 19% in 2017 and 18% in 2020. These reductions in the standard rate of corporation tax were substantively enacted on 26th October 2015 and became effective from 18th November 2015. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income.

Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

9. Dividends

(a) Dividends paid and proposed

	2016 £'000	2015 £'000
Dividends paid		
2015 final dividend of 2.0p (2014: 1.7p) per share	3,203	2,723
Interim dividend of 1.2p (2015: 1.2p) per share	1,922	1,922
Total dividends paid in the year	**5,125**	**4,645**
Dividend proposed		
2016 final dividend of 2.0p (2015: 2.0p) per share	**3,203**	**3,203**

The final dividend has been proposed in respect of the year ended 31st March 2016 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 31st March 2017.

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year, shown below. The revenue available for distribution by way of dividend for the year is £5,732,000 (2015: £5,519,000).

	2016 £'000	2015 £'000
Interim dividend of 1.2p (2015: 1.2p) per share	1,922	1,922
Final dividend of 2.0p (2015: 2.0p) per share	3,203	3,203
	5,125	**5,125**

10. Return/(loss) per share

	2016 £'000	2015 £'000
Revenue return	5,732	5,519
Capital return/(loss)	65,046	(4,624)
Total return	**70,778**	**895**
Weighted average number of shares in issue during the year	160,147,885	160,147,885
Revenue return per share	3.58p	3.45p
Capital return/(loss) per share	40.62p	(2.89)p
Total return per share	**44.20p**	**0.56p**

11. Investments

	2016 £'000	2015[1] £'000
Investments listed on a recognised stock exchange	**482,590**	**465,221**
Opening book cost	408,027	422,253
Opening investment holding gains	57,194	65,091
Opening valuation	465,221	487,344
Movements in the year:		
Purchases at cost	876,725	875,478
Sales – proceeds	(929,417)	(892,005)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(1,402)	(59,895)
Net movement in investment holding gains and losses	71,463	54,299
	482,590	465,221
Closing book cost	402,778	408,027
Closing investment holding gains	79,812	57,194
Total investments held at fair value through profit or loss	**482,590**	**465,221**

[1] Relevant figures have been amended in line with the current presentation adopted. Under FRS 102, liquidity funds are classified as cash equivalents.

Transaction costs on purchases during the year amounted to £1,599,000 (2015: £1,483,000) and on sales during the year amounted to £886,000 (2015: £1,034,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding gains amounting to £48,845,000 have been transferred to gains on sales of investments as disclosed in note 16 on page 53.

12. Current assets

	2016 £'000	2015 £'000
Derivative financial instruments		
Forward foreign currency contracts	1	–
	1	**–**
Debtors		
Securities sold awaiting settlement	2,048	5,859
Dividends and interest receivable	445	138
Overseas tax recoverable	370	293
Other debtors	26	32
	2,889	**6,322**

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

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term deposits and liquidity funds. The carrying amount of these represents their fair value.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

13. Current liabilities

	2016 £'000	2015 £'000
Creditors: amounts falling due within one year		
Fixed rate loan facility	39,642	–
Securities purchased awaiting settlement	3,655	9,564
Other creditors and accruals	195	135
	43,492	9,699

In January 2014, the Company arranged a Euro 50 million three year fixed rate loan facility with Scotiabank Europe which matures on 20th January 2017. The facility was fully drawn at the year end.

In January 2012, the Company also arranged a Euro 50 million three year floating rate loan facility with Scotiabank Ireland. Under the terms of this agreement, the Company may draw down up to Euro 50 million, or its equivalent in another currency. This facility was renewed in January 2015 and was undrawn at the year end.

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

14. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Floating rate loan facility	–	7,235
Fixed rate loan facility	–	36,174
	–	43,409

See note 13 for further details of the loan facilities.

15. Called up share capital

	2016 £'000	2015 £'000
Ordinary shares allotted and fully paid		
Opening balance of 160,147,885 (2015: 160,147,885) shares of 5p each	8,008	8,008
Closing balance of 160,147,885 (2015: 160,147,885) shares of 5p each	**8,008**	**8,008**

Further details of transactions in the Company's shares are given in the Business Review on page 18.

16. Capital and reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves: Gains and losses on sales of investments £'000	Capital reserves: Investment holding gains and losses £'000	Revenue reserve[1] £'000	Total £'000
Opening balance	8,008	1,312	7,628	344,660	61,839	6,280	429,727
Net foreign currency gains on cash and cash equivalents	–	–	–	2,562	–	–	2,562
Net unrealised gains on foreign currency contracts	–	–	–	–	1	–	1
Losses on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	(1,402)	–	–	(1,402)
Net movement in investment holding gains and losses	–	–	–	–	71,463	–	71,463
Transfer on disposal of investments	–	–	–	48,845	(48,845)	–	–
Unrealised foreign currency losses on loans	–	–	–	–	(3,469)	–	(3,469)
Realised losses on repayment of loans	–	–	–	(285)	–	–	(285)
Management fee and finance costs allocated to capital	–	–	–	(3,699)	–	–	(3,699)
Other capital charges	–	–	–	(125)	–	–	(125)
Dividends paid in the year	–	–	–	–	–	(5,125)	(5,125)
Retained revenue for the year	–	–	–	–	–	5,732	5,732
Closing balance	**8,008**	**1,312**	**7,628**	**390,556**	**80,989**	**6,887**	**495,380**

[1] This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

17. Net asset value per share

	2016	2015
Net assets (£'000)	495,380	429,727
Number of shares in issue	160,147,885	160,147,885
Net asset value per share	309.3p	268.3p

18. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest

	2016 £'000	2015 £'000
Net return on ordinary activities before finance costs and taxation	71,917	2,608
(Less capital return)/add capital loss before finance costs and taxation	(65,606)	3,948
Scrip dividends received as income	(888)	–
Increase in accrued income and other debtors	(301)	(140)
Increase/(decrease) in other creditors	16	(11)
Overseas withholding tax	(665)	(1,204)
Management fee allocated to capital	(3,139)	(3,117)
Dividends received	(6,497)	(7,084)
Interest received	(9)	(21)
Realised gain on foreign exchange transactions	388	1,371
Exchange gain/(loss) on liquidity fund and time deposits	2,206	(2,286)
Net cash outflow from operations before dividends and interest	**(2,578)**	**(5,936)**

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

19. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2015: same).

20. Related party transactions

Details of the management contract are set out in the Directors' Report on page 23. The management fee payable to the Manager for the year was £4,484,000 (2015: £4,453,000) of which £nil (2015: £nil) was outstanding at the year end.

During the year £163,000 (2015: £157,000), including VAT, was payable to JPMAM for the marketing and administration of savings scheme products, of which £nil (2015: £nil) was outstanding at the year end.

Included in administration expenses in note 6 on page 48 are safe custody fees payable to JPMorgan Chase amounting to £62,000 (2015: £64,000) excluding VAT of which £11,000 (2015: £13,000) was outstanding at the year end.

The Manager may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities Limited for the year was £192,000 (2015: £89,000) of which £nil (2015: £nil) was outstanding at the year end.

The Company also holds cash in JPMorgan Euro Liquidity Fund, which is managed by JPMorgan. At the year end, this was valued at £47.1 million (2015: £10.0 million). Expenses amounting to £26,000 were payable (2015: Income amounting to £21,000 was receivable) during the year of which £nil (2015: £nil) was outstanding at the year end.

Stock lending income amounting to £108,000 (2015: £138,000) was receivable by the Company during the year. JPMAM commissions in respect of such transactions amounted to £19,000 (2015: £24,000).

Handling charges on dealing transactions amounting to £125,000 (2015: £178,000) were payable to JPMorgan Chase during the year of which £26,000 (2015: £14,000) was outstanding at the year end.

At the year end, a bank balance of £6,248,000 (2015: £1,300,000) was held with JPMorgan Chase. A net amount of interest of £9,000 (2015: £nil) was receivable by the Company during the year from JPMorgan Chase of which £nil (2015: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 32.

21. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio and derivative financial instruments.

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

(1) The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date

The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

(2) Inputs other than quoted prices included within Level 1 that are observable (ie: developed using market data) for the asset or liability, either directly or indirectly

When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

(3) Inputs are unobservable (ie: for which market data is unavailable) for the asset or liability

If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

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(c) on page 45.

The following table sets out the fair value measurements using the FRS 102 hierarchy at 31st March.

	2016		2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	482,590	–	465,221	–
Level 2	1	–	–	–
Total	**482,591**	**–**	**465,221**	**–**

There have been no transfers between Levels 1, 2 or 3 during the year (2015: nil).

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

As an investment trust, the Company invests in equities 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 financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

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

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 classes of financial instruments are as follows:

- investments in European equity shares, which are held in accordance with the Company's investment objective;
- cash held within a liquidity fund;
- short term debtors, creditors and cash arising directly from its operations;
- short term forward currency contracts for the purpose of settling short term liabilities; and
- loan facilities, the purpose of which are to finance the Company's operations.

(a) Market risk

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

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

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

(a) Market risk continued

(i) Currency risk

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

Management of currency risk

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

Foreign currency exposure

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

				2016			
	Euro £'000	Swiss francs £'000	Danish krone £'000	Swedish krona £'000	Norwegian krone £'000	US Dollar £'000	Total £'000
Current assets	54,940	290	23	1,095	62	1	56,411
Creditors	(43,116)	(226)	–	(99)	–	(127)	(43,568)
Foreign currency exposure on net monetary items	11,824	64	23	996	62	(126)	12,843
Investments held at fair value through profit or loss	318,626	38,446	12,793	83,733	28,992	–	482,590
Total net foreign currency exposure	**330,450**	**38,510**	**12,816**	**84,729**	**29,054**	**(126)**	**495,433**

				2015			
	Euro £'000	Swiss francs £'000	Danish krone £'000	Swedish krona £'000	Norwegian krone £'000	US Dollar £'000	Total £'000
Current assets	14,998	429	154	2,231	67	1	17,880
Creditors	(51,526)	(194)	(154)	(1,460)	–	–	(53,334)
Foreign currency exposure on net monetary items	(36,528)	235	–	771	67	1	(35,454)
Investments held at fair value through profit or loss	335,769	45,773	12,854	70,825	–	–	465,221
Total net foreign currency exposure	**299,241**	**46,008**	**12,854**	**71,596**	**67**	**1**	**429,767**

In the opinion of the Directors, the above year end amounts are broadly representative of the exposure to foreign currency risk during the year.

Foreign currency sensitivity

The following table illustrates the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and the income receivable in foreign currency and assumes a 10% (2015: 10%) appreciation or depreciation in sterling against the Euro, Swiss francs, Danish krone, Swedish krona, Norwegian krone and US dollar to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

	2016		2015	
	If sterling strengthens by 10% £'000	If sterling weakens by 10% £'000	If sterling strengthens by 10% £'000	If sterling weakens by 10% £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	(836)	836	(845)	845
Capital return	1,284	(1,284)	(3,545)	3,545
Total return after taxation	448	(448)	(4,390)	4,390
Net assets	**448**	**(448)**	**(4,390)**	**4,390**

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the current and comparative year.

(ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits, the liquidity fund and the interest payable on variable rate borrowings when interest rates are reset.

Management of interest rate risk

The Company does not normally hold significant cash balances. Short term borrowings are used when required. The Company may finance part of its activities through borrowings at levels approved and monitored by the Board.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the floating rate loan facility. However, amounts drawn down on this facility are for short term periods and therefore there is limited exposure to interest rate risk.

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

Interest rate exposure

The Company has a loan carrying a fixed rate of interest and the exposure is therefore already quantifiable. The exposure of financial assets and liabilities to floating interest rates using the year end figures, giving cash flow interest rate risk when rates are reset, is shown below.

	2016 £'000	2015 £'000
Exposure to floating interest rates:		
Cash and short term deposits	6,248	1,300
JPMorgan Euro Liquidity Fund	47,144	9,992
Floating rate loan facility	–	(7,235)
Total exposure	**53,392**	**4,057**

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2015: same).

The target interest earned on the JPMorgan Euro Liquidity Fund is the 7 day Euro London Interbank Bid Rate. Details of the bank loan are given in notes 13 and 14 on pages 52.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

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

(a) Market risk continued

(ii) Interest rate risk continued

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2015: 1%) increase or decrease in interest rates with regard 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.

	2016		2015	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	534	(534)	91	(91)
Capital return	–	–	(50)	50
Total return after taxation	534	(534)	41	(41)
Net assets	**534**	**(534)**	**41**	**(41)**

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, cash held in the liquidity fund and amounts drawn down on the Company's loan facilities.

(iii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk or currency risk, which may affect the value of 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 objectives and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Other price risk exposure

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

	2016 £'000	2015 £'000
Equity investments held at fair value through profit or loss	482,590	465,221

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 13 and 15. This shows that all of the investments' value is in European companies and there is no concentration of exposure to any one country. It should also 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 return after taxation for the year and net assets to an increase or decrease of 10% (2015: 10%) in the market value of equity investments. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2016		2015	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	(145)	145	(140)	140
Capital return	47,921	(47,921)	46,196	(46,196)
Total return after taxation	47,776	(47,776)	46,056	(46,056)
Net assets	**47,776**	**(47,776)**	**46,056**	**(46,056)**

(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 mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements and to gear the Company as appropriate.

Liquidity risk exposure

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

	2016			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors				
Securities purchased awaiting settlement	3,655	–	–	3,655
Other creditors	149	–	–	149
Bank loans, including interest	157	39,999	–	40,156
	3,961	**39,999**	**–**	**43,960**

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

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

(b) Liquidity risk continued

	2015			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year or more £'000	Total £'000
Creditors				
Securities purchased awaiting settlement	9,564	–	–	9,564
Other creditors	121	–	–	121
Bank loans, including interest	172	482	43,929	44,583
	9,857	**482**	**43,929**	**54,268**

The liabilities shown above represent future contractual payments and therefore may differ from the amounts shown in the Statement of Financial Position.

(c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction 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 continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

Cash and cash equivalents

Counterparties are subject to regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group. The Board regularly reviews the counterparties used by the Manager. The JPMorgan Euro Liquidity Fund has a AAA rating.

Exposure to JPMorgan Chase

JPMorgan Chase Bank, N.A. is the custodian of the Company's assets. The Company's assets are segregated from JPMorgan Chase's own trading assets. Therefore these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading. The Depositary, BNY Mellon Trust and Depositary (UK) Limited, is responsible for the safekeeping of all custodial assets of the Company and for verifying and maintaining a record of all other assets of the Company. However, no absolute guarantee can be given on the protection of all the assets of the Company.

Credit risk exposure

The amounts shown in the Statement of Financial Position under debtors and cash and cash equivalents represent the maximum exposure to credit risk at the current and comparative year ends.

The aggregate value of securities on loan at 31st March 2016 amounted to £17.2 million and the maximum value of stock on loan during the year amounted to £20.0 million. Collateral is obtained by JPMorgan Asset Management and is called in on a daily basis to a value of 102% of the value of the securities on loan if that collateral is denominated in the same currency as the securities on loan and 105% if it is denominated in a different currency.

(d) Fair values of financial assets and financial liabilities

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

23. Capital management policies and procedures

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

	2016 £'000	2015 £'000
Debt:		
Bank loans	39,642	43,409
Equity:		
Called up share capital	8,008	8,008
Reserves	487,372	421,719
	495,380	429,727
Total debt and equity	**535,022**	**473,136**

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 policy is to limit gearing within the range of 20% net cash to 20% geared.

	2016 £'000	2015 £'000
Investments held at fair value through profit or loss	482,590	465,221
Current assets excluding cash and cash equivalents	2,890	6,322
Current liabilities excluding bank loans	(3,850)	(9,699)
Total assets	481,630	461,844
Net assets	**495,380**	**429,727**
(Net cash)/gearing	**(2.8)%**	**7.5%**

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 opportunity for issues of new shares, including issues from Treasury; and
- the level of dividend distributions in excess of that which is required to be distributed.

24. Subsequent events

The Directors have evaluated the period since the year end and have not noted any subsequent events.

Regulatory Disclosures

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (‘AIFMD’) DISCLOSURES (UNAUDITED)

Leverage

For the purposes of the Alternative Investment Fund Managers Directive (the ‘AIFMD’), leverage is any method which increases the Company’s exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company’s exposure and its net asset value and is calculated on a gross and a commitment method, in accordance with the AIFMD. Under the gross method, exposure represents the sum of the Company’s positions without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated after certain hedging and netting positions are offset against each other.

The Company is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD, as at 31st March 2016, which gives the following figures:

	Gross Method	Commitment Method
Leverage Exposure		
Maximum limit	200%	200%
Actual	108%	108%

JPMF Remuneration

JPMF is the authorised manager of the Company and is part of the J.P. Morgan Chase & Co. group of companies. In this disclosure, the terms ‘J.P. Morgan’ or ‘Firm’ refer to that group, and each of the entities in that group globally, unless otherwise specified.

This disclosure has been prepared in accordance with the AIFMD, the European Commission Delegated Regulation supplementing the AIFMD, the ‘Guidelines on Sound Remuneration Policies’ under the AIFMD issued by the European Securities and Markets Authority and the Financial Conduct Authority Handbook (SYSC 19B: The AIFM Remuneration Code and FUND 3.3).

JPMF Remuneration Policy

The current remuneration policy for the EMEA Global Investment business of J.P. Morgan can be found at https://am.jpmorgan.com/gb/en/asset-management/gim/adv/emea-remuneration-policy. This policy includes details of the alignment with risk management, the financial and non-financial criteria used to evaluate performance and the measures adopted to avoid or manage conflicts of interest.

JPMF Quantitative Disclosures

Disclosure in accordance with Fund 3.3.5, Article 22(2)e and 22(f) of the AIFMD and Article 107 of the Delegated Regulation are disclosed on the Company’s website at jpmeurosmallercompanies.co.uk

Shareholder Information

SHAREHOLDER ANALYSIS

	At 31st March 2016 Number of shares	At 31st March 2016 % Holding	At 31st March 2015 % Holding
Pension funds	30,559,500	19.1	19.5
Insurance companies	6,062,705	3.8	4.6
Mutual funds	18,314,547	11.4	12.3
JPMorgan Elect plc	1,932,830	1.2	1.2
Fund of funds	1,356,349	0.9	1.5
Other institutions	11,254,753	7.0	8.8
Total Institutions	**69,480,684**	**43.4**	**47.9**
Market Trading Accounts	**429,876**	**0.3**	**0.7**
Retail investors holding shares directly or through nominee or private client broker accounts[1]	74,782,120	46.7	39.3
Individual in the JPMorgan Investment Trust Investment Account/ISA	15,455,205	9.6	12.1
Total Retail Holdings	**90,237,325**	**56.3**	**51.4**
Total Shares in Issue	**160,147,885**	**100.0**	**100.0**

[1] Includes shares below threshold of 10,000 shares
Source: Richard Davies Investor Relations

Nominee accounts have been allocated to their appropriate category.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-seventh Annual General Meeting of JPMorgan European Smaller Companies Trust plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Thursday, 30th June 2016 at 12.00 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2016.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st March 2016.
4. To declare a final dividend of 2.0 pence per share.
5. To reappoint Carolan Dobson as a Director of the Company.
6. To reappoint Ashok Gupta as a Director of the Company.
7. To reappoint Nicholas Smith as a Director of the Company.
8. To reappoint Stephen White as a Director of the Company.
9. To reappoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider the following resolutions:

Authority to allot new shares – Ordinary Resolution

10. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('Rights') up to an aggregate nominal amount of £400,369 or, if different the aggregate nominal amount representing approximately 5% of the Company's issued ordinary share capital (including Treasury shares) as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2017 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

Authority to disapply pre-emption rights on allotment of relevant securities – Special Resolution

11. THAT subject to the passing of Resolution 10 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 10 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £400,369 or, if different the aggregate nominal amount representing approximately 5% of the issued share capital as at the date of the passing of this resolution (including Treasury shares) at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 10 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

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

    PROVIDED ALWAYS THAT

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be the number of ordinary shares which is equal to 14.99% of the Company's issued share capital (less shares held in Treasury) as at the date of the passing of this Resolution;

    (ii) the minimum price which may be paid for an ordinary share shall be the nominal value of such ordinary share;

    (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of: (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

(iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);

(v) the authority hereby conferred shall expire on 29th January 2018 unless the authority is renewed at the Company's Annual General Meeting in 2017 or at any other general meeting prior to such time; and

(vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Funds Limited,
Secretary

31st May 2016

Notes

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

1. A member entitled to attend and vote at the Annual General Meeting (the 'Meeting') may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form no later than 12 noon two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.

NOTICE OF ANNUAL GENERAL MEETING *CONTINUED*

6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative(s) may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

   Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.

8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the Meeting; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous Meeting, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the Meeting includes any statement that the Company has been required to publish on its website pursuant to this right.

9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Meeting any question relating to the business being dealt with at the Meeting which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.

10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

11. A copy of this Notice of Meeting has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy cannot be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

12. In accordance with Section 311A of the Companies Act 2006, the contents of this Notice of Meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the Meeting, the total voting rights members are entitled to exercise at the Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice of Meeting will be available on the Company's website www.jpmeuropeansmallercompanies.co.uk.

13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). They will also be available for inspection at the Meeting. No Director has any contract of service with the Company.

14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.

15. As an alternative to completing a hard copy Form of Proxy/Voting Instruction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Instruction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.

16. As at 24th May 2016 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 160,147,885 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 160,147,885.

Electronic appointment – CREST members

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

GLOSSARY OF TERMS AND DEFINITIONS

Share Price Total Return

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

Net Asset Value Total Return

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

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

Benchmark Total Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at the time the shares were quoted ex-dividend.

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

Benchmark Index

The Company's investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index, the Euromoney Smaller European Companies (ex UK) Index (formerly known as the HSBC Smaller European Companies (ex UK) Index). At 31st March 2016, the index consisted of 1,000 companies with a market capitalisation of between £60 million and £4 billion across 15 countries.

Gearing/Net Cash

Gearing represents the excess amount above shareholders' funds of total assets, expressed as a percentage of the shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year and is calculated in accordance with guidance issued by the Association of Investment Companies.

Share Price Discount/Premium to NAV Per Share

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

Performance Attribution

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

Premium Listing

The listing of the Company's ordinary shares on the London Stock Exchange.

Performance Attribution Definitions:

Stock Selection/Asset Allocation
Measures the effect of investing in securities/sectors to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark.

Currency Effect
Measures the effect of currency exposure differences between the Company's portfolio and its benchmark.

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

Share Repurchases
Measures the positive effect on relative performance of repurchasing the Company's shares for cancellation, or repurchases into Treasury, at a discount to their net asset value ('NAV') per share.

WHERE TO BUY J.P. MORGAN INVESTMENT TRUSTS

Savings Plan

The Company participates in the J.P. Morgan Investment Trusts Savings Plan, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Savings Plan should call J.P. Morgan Asset Management free on 0800 20 40 20 or visit its website at am.jpmorgan.co.uk

Stocks & Shares Individual Savings Accounts (ISA)

The Company's shares are eligible investments within J.P. Morgan's Stocks & Shares ISA. For the 2016/17 tax year, from 6th April 2016 and ending 5th April 2017, the total ISA allowance is £15,240. Details are available from J.P. Morgan Asset Management free on 0800 20 40 20 or via its website at am.jpmorgan.co.uk

There are a number of ways that you can buy shares in investment trust companies; you can invest through J.P. Morgan Online or on the following:

Fund supermarkets:

AJ Bell
Alliance Trust Savings
Barclays Stockbrokers
Charles Stanley Direct
Halifax Share Dealing Service
Hargreaves Lansdown
Interactive Investor
James Brearley
James Hay
Stocktrade
TD Direct
The Share Centre
Tilney Bestinvest
Transact

Alternatively you can invest through an Investment Professional (e.g. a Financial Adviser) on the following 3rd party platforms:

Ascentric
Avalon
Axa Elevate
Novia
Nucleus
Praemium
Transact

Please note that these websites are third party websites and J.P. Morgan Asset Management does not endorse or recommend any of them. This list is not exhaustive and is subject to change. Please observe each site's privacy and cookie policies as well as their platform charges structure.

You can also buy investment trusts through stockbrokers, wealth managers and banks.

To familiarise yourself with the Financial Conduct Authority ('FCA') adviser charging and commission rules, visit www.fca.org.uk.

Information about the Company

FINANCIAL CALENDAR

Financial year end	31st March
Final results announced	May/June
Half year end	September
Half year results announced	November
Annual General Meeting	30th June 2016

History

On 24th April 1990, the Company acquired the undertaking and assets of Fleming European Fledgeling Fund Limited (the 'Fund') in exchange for the issue of its shares and warrants. The Fund was an open-ended, unquoted investment company based in Jersey and formed in June 1987 with the same objectives and investment policies as the Company. The Company adopted its present name in July 2010.

Company Numbers

Company registration number: 2431143
London Stock Exchange number: 0341969
ISIN: GB00BMTS0Z37
Bloomberg code: JESC LN

Market Information

The Company's net asset value ('NAV') per share is published daily, via the London Stock Exchange. The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Times, The Daily Telegraph and The Scotsman and on the Company's website at www.jpmeuropeansmallercompanies.co.uk, where the share price is updated every fifteen minutes during trading hours.

Website

www.jpmeuropeansmallercompanies.co.uk

Share Transactions

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

Manager and Company Secretary

JPMorgan Funds Limited

Company's Registered Office

60 Victoria Embankment
London EC4Y 0JP
Telephone: 020 7742 4000

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

Depositary

BNY Mellon Trust and Depositary (UK) Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

The Depositary has appointed JPMorgan Chase Bank, N.A. as the Company's custodian.

Registrars

Equiniti Limited
Reference 1083
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone number: 0371 384 2325

Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls to the helpline will cost no more than a national rate call to a 01 or 02 number. Callers from overseas should dial +44 121 415 0225

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1083.

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

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Brokers

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Savings Product Administrators

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

aic
The Association of Investment Companies
A member of the AIC

www.jpmeuropeansmallercompanies.co.uk

J.P. Morgan Helpline

Freephone 0800 20 40 20 or +44 (0) 1268 444470.
Telephone lines are open Monday to Friday, 9am to 5.30pm.

Telephone calls may be recorded and monitored for security and training purposes.

GB A112 05/16

J.P.Morgan
Asset Management