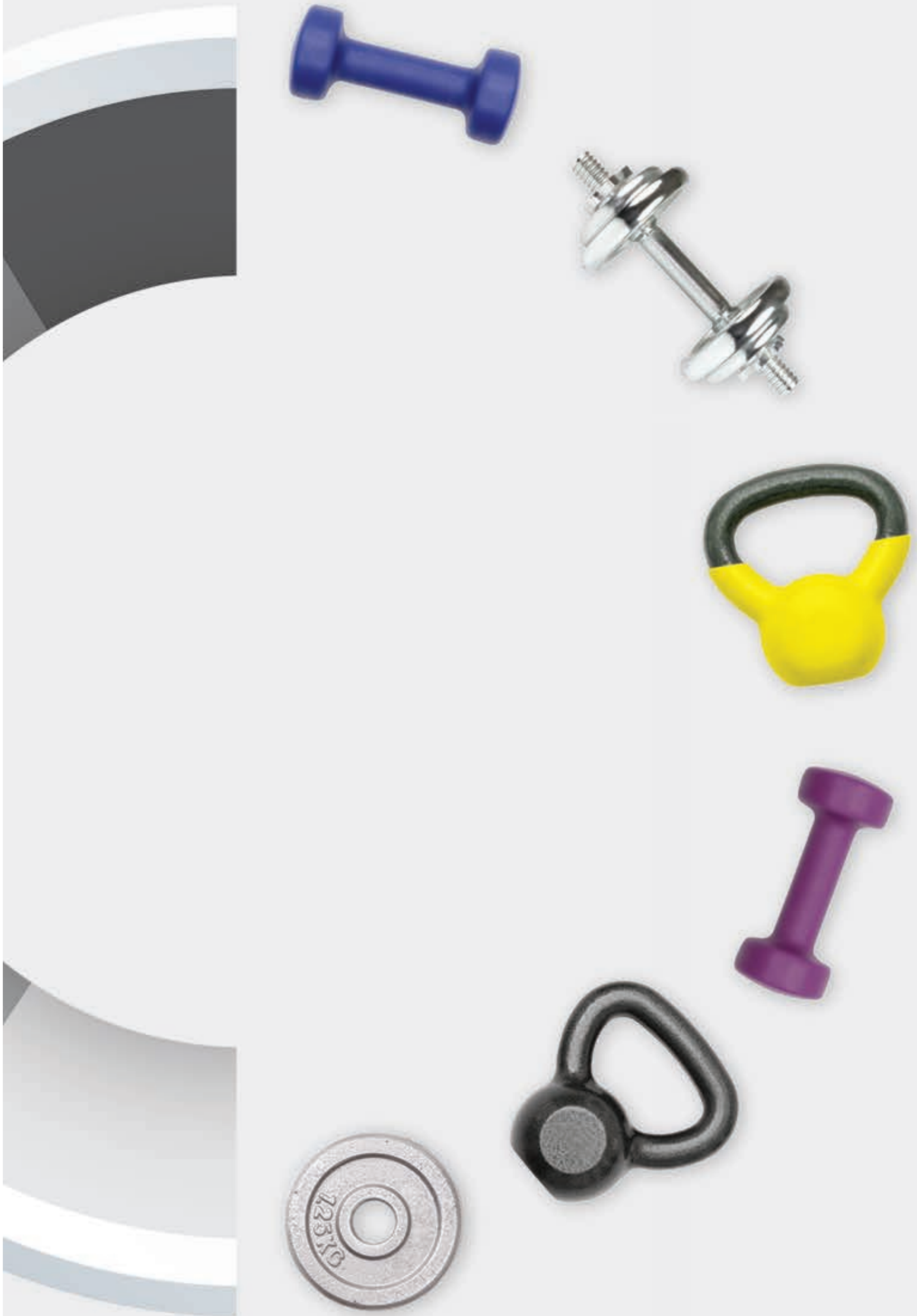
JPMorgan Smaller Companies Investment Trust plc

Annual Report & Financial Statements for the year ended 31st July 2018



J.P.Morgan
Asset Management

Your Company

Objective

Capital growth from UK listed smaller companies.

Investment Policies

- To provide capital appreciation for shareholders from a diversified portfolio of UK listed small companies, emphasising capital rather than income growth.
- Liquidity and borrowings are managed with the aim of increasing returns to shareholders.
- Further details on investment policy and risk management are contained in the Directors' Report on page 15.

Gearing

A flexible low cost £25 million borrowing facility is in place and available for the investment manager to utilise. At 31st July 2018, £25 million was drawn down on the facility with the gearing level being 9.1% at that date.

Benchmark

The FTSE Small Cap Index (excluding investment trusts). The Board proposes that the Company's benchmark be changed to the Numis Smaller Companies plus AIM (excluding Investment Companies) Index.

Capital Structure

At 31st July 2018, the Company's issued share capital comprised 15,938,601 Ordinary shares of 25p each.

Continuation Vote

In accordance with the Company's Articles of Association, the Directors are required to propose an ordinary resolution that the Company shall continue in existence at the Annual General Meeting in 2020 and in every third year thereafter.

Management Company and Company Secretary

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

FCA regulation of 'non-mainstream pooled investments'

The Company currently conducts its affairs so that the shares issued by JPMorgan Smaller Companies Investment Trust plc can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the FCA's rules 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.

AIC

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

Website

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

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Strategic Report

TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED)

for the year ended 31st July	Year to July 2018	Year to July 2017	3 Years Cumulative	5 Years Cumulative
Return to shareholders[1]	+31.8%	+28.7%	+52.5%	+91.2%
Return on net assets[2]	+19.7%	+31.0%	+46.8%	+80.5%
Benchmark return[3]	+2.1%	+23.4%	+28.7%	+63.9%
Net asset return outperformance against benchmark return[3]	+17.6%	+6.6%	+18.1%	+16.6%
Dividend per share	27.0p	23.0p		

[1] Source: Morningstar.

[2] Source: Morningstar/J.P. Morgan, using cum income net asset value per share.

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

A glossary of terms and alternative performance measures is provided on page 73.

SUMMARY OF RESULTS

	2018	2017	% change
Total returns for the year ended 31st July			
Return to shareholders[1]	+31.8%	+28.7%	
Return on net assets[2]	+19.7%	+31.0%	
Benchmark return[3]	+2.1%	+23.4%	
Net asset value and share price at 31st July			
Shareholders' funds (£'000)	227,108	207,285	+9.6
Net asset value per Ordinary share	1,424.9p	1,212.2p	+17.5
Ordinary share price	1,215.0p	942.0p	+29.0
Ordinary shares in issue	15,938,601	17,099,806	
Ordinary share price discount to net asset value per ordinary share			
At 31st July	14.7%	22.3%	
Highest during the year	21.7%	23.1%	
Lowest during the year	7.7%	16.7%	
Average during the year	16.2%	19.9%	
Revenue for the year ended 31st July			
Net revenue available for shareholders (£'000)	5,005	4,050	+23.6
Revenue return per Ordinary share	30.69p	24.24p	+26.6
Dividend per Ordinary share	27.0p	23.0p	+17.4
Gearing at 31st July	9.1%	8.1%	
Ongoing Charges	1.03%	1.12%	

[1] Source: Morningstar.

[2] Source: Morningstar/J.P. Morgan, using cum income net asset value per share.

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

A glossary of terms and alternative performance measures is provided on page 73.

Michael Quicke OBE
Chairman

Investment Performance

Shareholders enjoyed very strong returns in the financial year to 31st July 2018, with significant outperformance against the benchmark being combined with a tightening of the discount to net asset value. This second consecutive year of outperformance has more than compensated for earlier periods of underperformance, demonstrating the importance of a longer-term perspective when investing in smaller companies. The Company's total return on net assets was +19.7%, compared with +2.1% recorded by the benchmark index. The return to Ordinary shareholders was +31.8% reflecting a narrowing of the share price discount to net asset value from 22.3% to 14.7%.

Unfortunately, the Company has given up some of these gains since the year end. As at 11th October 2018, net asset value per share has decreased by 11.0% compared with a 6.6% reduction in the benchmark. As a result of a widening of the discount to 17.2%, the share price has fallen by 13.6% to 1,050.0p.

The experience over the last two years has resulted in the Company delivering very attractive absolute returns as well as outperforming its benchmark over the 3, 5 and 10 year periods.

In their report, the Investment Managers have provided further detail on portfolio performance and attribution, together with a commentary on markets.

"Shareholders enjoyed very strong returns in the financial year"

Revenue and Dividends

The revenue return per share, calculated on the average number of shares in issue, increased significantly to 30.69p (2017: 24.24p). This improvement is a combination of companies increasing their dividends, a higher level of special dividends and changes in the composition of the portfolio. The Directors are recommending a final dividend of 27.0p per share, 17.4% higher than the 23.0p paid last year. If approved, the dividend will be paid on 7th December 2018 to shareholders on the register at close of business on 9th November 2018.

The level of income received each year varies according to economic conditions, the Company's investment stance and gearing. It is our policy to distribute substantially all the available income each year, and shareholders should note that dividends may vary accordingly.

Gearing

Gearing is regularly discussed between the Board and the Manager. A borrowing facility of £25 million with Scotiabank is in place until April 2019. This is highly flexible and is used with the aim of enhancing long-term returns at the cost of a small increase in volatility. There is a further option to increase borrowings to £35 million subject to certain conditions. At the year end, £25 million (2017: £22 million) was drawn on the facility with the gearing level of 9.1% (2017: 8.1%) of net assets. Since the year-end gearing has increased, and as of 11th October 2018 was 9.9%.

Shareholders will note that on the 20th September 2018 we announced that we were considering the possibility of issuing convertible unsecured loan stock in order to provide the Company with structural, long term gearing and the potential to grow the Company in future upon conversion into ordinary shares.

We will consult with shareholders on the matter and will make a further announcement in due course based on their responses. If a convertible unsecured loan stock is issued, part of the proceeds will be used to repay our current borrowing facility.

Share Repurchases and Issuance

At last year's Annual General Meeting ('AGM'), shareholders granted the Directors authority to repurchase the Company's shares for cancellation. During the financial year the Company repurchased 1,161,205 Ordinary shares for a total consideration of £12,007,000 representing 6.8% of the issued Ordinary share capital at the beginning of the year. Going forward, any shares repurchased will either be cancelled or held in Treasury for possible re-issue. Treasury shares or new Ordinary shares will only be sold or issued respectively at a premium to net asset value.

The Board's objective remains to use the repurchase authority to manage imbalances between the supply and demand of the Company's shares, with the intention of reducing the volatility of the discount. To date the Board believes this mechanism has been helpful and therefore proposes and recommends that powers to repurchase up to 14.99% of the Company's shares (less shares held in Treasury) be renewed.

Since the year end, and as at the date of this report, an additional 11,319 shares were repurchased for cancellation. The Company's issued share capital now comprises 15,927,282 Ordinary Shares.

Board of Directors and Corporate Governance

During the year, the Board employed Lintstock to facilitate an evaluation of the Board and its Committees including a review of chair succession. Following consideration of the results of this review, the Nomination Committee recommended to the Board that Andrew Impey take over from me as Chairman of the Company following my retirement at the AGM in 2019. It is pleasing that the Board has been able to select the new Chairman from its existing membership which will provide welcome continuity in the future.

In accordance with corporate governance best practice, all Directors will stand for reappointment at the forthcoming AGM. Shareholders who wish to contact the Chairman or other members of the Board directly may do so through the Company Secretary or the Company's website.

Sub-division of the Company's share capital

The Company has a relatively large share price which can present difficulties for those who wish to make small or regular investments and in relation to dividend reinvestment. In order to address these difficulties and potentially increase market liquidity, the Board is proposing a sub-division of the Company's share capital on a five for one basis. I would like to reassure existing shareholders that this sub-division of shares will not affect the overall value of their holdings in the Company as each Shareholder will hold the same proportionate interest in the Company following the completion of the share split as before.

Under the share split proposal, each existing share will be sub-divided into five new shares, each of which should be valued at one-fifth of the price before the share split. The share split proposal requires the approval of Shareholders at the forthcoming AGM, and the Board recommends that Shareholders vote in favour of this resolution.

Proposed Change to Benchmark and Amendments to Investment Objective and Policy

Following the change in investment guidelines in 2016, which increased the ability of the Company to invest up to 50% in AIM listed companies, the Board, in conjunction with the Manager, has conducted a review of the Company's benchmark. The existing benchmark, the FTSE Small Cap Index (excluding investment trusts), has changed its composition considerably over the past few decades, with the number of constituents more than halving partly due to an increasing number of companies opting to list on the AIM market.

We therefore propose that the Company adopts the Numis Smaller Companies plus AIM (excluding Investment Companies) Index as its benchmark, which is more suitably aligned with the Company's Investment Objectives.

In conjunction with this change, the Board also proposes to delete the market capitalisation limit from the Investment Policy.

The Board is therefore seeking shareholder approval at the AGM to amend the Company's Investment Objective and Policy to incorporate these changes, which if approved will take effect from the 1st January 2019. The Board recommends shareholders vote in favour of this resolution.

Annual General Meeting

The Company's twenty-eighth AGM will be held on Wednesday 28th November 2018 at 3.00 p.m. at 60 Victoria Embankment, London EC4Y 0JP. In addition to the formal part of the meeting, there will be a presentation from the Investment Manager who will answer questions on the portfolio and performance. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes.

Outlook

Shareholders have made considerable gains over the last two years despite significant domestic and international political and economic concerns. This demonstrates that strongly placed and well managed smaller companies are able to grow their businesses and create value even under difficult circumstances. It also shows the importance of a robust investment process and strong execution. I am sure that Shareholders would wish to join the Board in congratulating Georgina and Katen for delivering this outperformance.

After a period of strong absolute performance, it would not be surprising if the future was a little more difficult. It is certainly the case that there are many significant challenges ahead, some the result of political problems, but others the symptoms of a long period of economic and stock market performance.

Every period has its challenges, and experience shows that whilst short-term performance is difficult to predict, well managed smaller company investment can deliver good long-term returns for patient investors.

Michael Quicke OBE
Chairman 15th October 2018

Georgina Brittain
Investment Manager

Katen Patel
Investment Manager

"the share price return was an impressive 31.8%"

Performance and Market Background

The strength of global growth was the focus for investors in 2017, but in 2018 an increase in geopolitical concerns, the threat of a US trade war with China and the imminent departure of the UK from the EU have dominated investor sentiment. In the UK, the economic backdrop to the year saw the first interest rate rise in a decade in November 2017, followed by a second rise this August post our year end. On the positive side, unemployment is at a multi-year low of 4%, and wage growth which has recently been above inflation has led to nascent growth in disposable income for consumers.

The FTSE Small Cap (ex Investment Trusts) Index had a pedestrian year. It underperformed both the FTSE 100 and the FTSE 250 indices, and returned only 2.1% over the twelve months to the end of July 2018. Against this, we are delighted to report that your Company enjoyed a very strong year and produced a total return on net assets of 19.7%. The discount also narrowed, which meant that the share price return was an impressive 31.8%.

PERFORMANCE ATTRIBUTION

	12 months to 31st July 2018		12 months to 31st July 2017		12 months to 31st July 2016	
	%	%	%	%	%	%
Contributions to total returns						
Benchmark return		2.1		23.4		2.1
Sector and stock selection	18.5		6.5		-8.9	
Gearing/net cash	0.1		2.0		-0.4	
Currency	–		–		0.1	
Investment Managers' contribution		18.6		8.5		-9.2
Portfolio total return		20.7		31.9		-7.1
Management fee/other expenses	-1.1		-1.1		-1.2	
Repurchase of shares for cancellation	0.1		0.7		0.4	
Effect of Subscription shares exercised in the period	–		-0.5		0.2	
Other effects		–1.0		-0.9		-0.6
Enhancement/(dilution) effect of potential exercise of remaining Subscription shares	–		–		1.3	
Return on net assets		19.7		31.0		-6.4
Impact of change in discount		12.1		-2.3		-3.7
Return to shareholders		31.8		28.7		-10.1

Source: 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 alternative performance measures is provided on page 73.

Portfolio

The outperformance of your Company over the last financial year was primarily achieved through stock selection. No fewer than five of our largest positions produced incredibly strong returns, and four of these remain in the portfolio, namely Plus500, Games Workshop, Victoria and Fevertree. The fifth, Fenner, was the subject of a bid at a significant premium and is now part of the French company, Michelin. Fenner aside, there were many less take-overs during the year than we have come to expect in recent years. Indeed the last year saw more take-overs of large FTSE 250 companies (and one in the FTSE 100, GKN). Conversely, the smaller companies arena saw a significant number of IPOs, or new companies coming to the market. While we remain highly selective in our approach to IPOs, we have participated in a significant number of exciting new investment opportunities this year. Included among them are a trio of companies in the gaming space, Sumo, Codemasters and Team 17, Alpha Financial Markets Consulting, an asset management consultancy, and two B2B platform providers for IFAs, Integrafin and Nucleus Financial.

Other new additions to the portfolio include FairFX, an international payments provider, and Future, a niche media business which owns magazine and on-line assets. On the other side, we have sold a number of holdings where our view on trading prospects has been revised. These include Eddie Stobart, Character Group, Amerisur and Renold. Sector positioning remains largely unchanged over the year. We have significant overweights in both Industrials and Consumer Goods, but remain very underweight in Consumer Services and Financials, in particular exposure to UK real estate. This positioning reflects our Brexit strategy for the portfolio, which we put in place two years ago and which we continue to believe will leave us well-positioned post the exit from the EU.

"The outperformance of your Company over the last financial year was primarily achieved through stock selection"

Outlook

For UK investors, the dominant issue for this financial year is Brexit. It is (almost) without doubt that the UK will leave the EU within the year, but despite the deadline set by Article 50 being only six months away, we still do not know what that exit will look like. The Bank of England assumes that economic sanity will prevail and therefore that the most likely outcome will be a gradual transition to new trading arrangements within the EU. The Prime Minister's recent Chequers speech on Brexit signalled a very soft exit. However, in our view the increased political uncertainty post that speech, the heightened divisions within the political parties, and the currently stalled negotiations mean that the tail risk of the UK exiting without any deal at all has risen materially.

This leads to a huge lack of clarity for companies, consumers and investors. Add to this the looming threat of global trade wars and it would be easy to become very pessimistic on the short term outlook. However, despite this, the IMF is forecasting UK GDP growth of 1.4% in 2018 and 1.5% in 2019. In the UK the all-important PMI data (purchasing managers' indices) are still indicating expansion, and lowered inflation expectations are positive for the consumer. While business confidence metrics have slipped, business investment remains low but positive, currently growing at 2-3%.

Despite this backdrop, we strongly believe it is wrong to be too pessimistic. The message from our companies, and the underlying macro-economic data, remain positive. Our experience during the depths of the global financial crisis a decade ago has taught us of the resilience of the UK's smaller companies. Current forecasts are for earnings growth of over 13% for the FTSE Small Cap Index over the next year, versus sub 8% for the FTSE All Share. Operating as a large number of our investments do in niche structural growth markets, they tend to be much less linked to the overall performance of the UK economy, and can grow significantly faster. We believe that your Company has invested in a portfolio of such companies, and we intend to utilise any market volatility over the next several months to add to a number of our key positions.

Georgina Brittain
Katen Patel
Investment Managers

15th October 2018

TEN LARGEST INVESTMENTS

AS AT 31ST JULY

Company	Sector	2018 Valuation £'000	2018 %[1]	2017 Valuation £'000	2017 %[1]
Plus500[2]	Financials	8,987	3.6	4,026	1.8
4imprint	Consumer Services	8,713	3.5	7,357	3.3
Forterra	Industrials	8,135	3.3	5,247	2.3
Games Workshop[2]	Consumer Goods	7,637	3.1	4,139	1.8
Victoria	Consumer Goods	7,351	3.0	6,116	2.7
OneSavings Bank	Financials	6,764	2.7	6,145	2.7
Fevertree Drinks	Consumer Goods	6,400	2.6	6,680	3.0
Avon Rubber[2]	Industrials	6,387	2.6	4,482	2.0
Charter Court Financial Services[3]	Financials	6,028	2.4	–	–
Huntsworth[2]	Consumer Services	5,658	2.3	21	–
Total		**72,060**	**29.1**		

[1] Based on total investments of £247.8m (2017: £224.1m).

[2] Not included in the ten largest equity investments at 31st July 2017.

[3] Not held in the portfolio as at 31st July 2017.

At 31st July 2017, the value of the ten largest equity investments amounted to £61.2 million representing 27.2% of total investments.

PORTFOLIO ANALYSIS

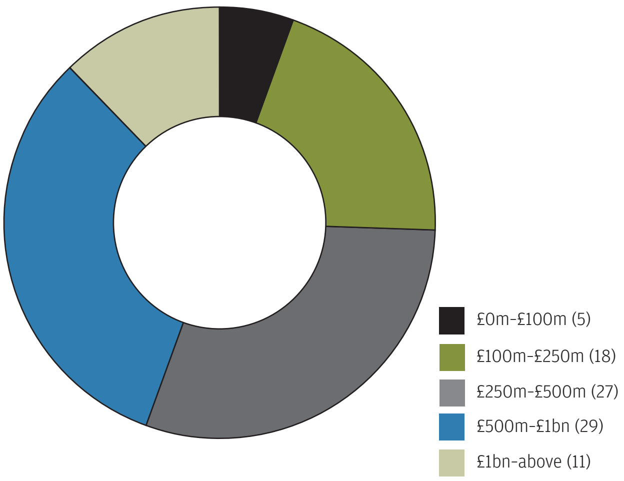
AS AT 31ST JULY

	31st July 2018		31st July 2017	
	Portfolio	Benchmark	Portfolio	Benchmark
Sector	%[1]	%	%[1]	%[1]
Industrials	39.9	30.2	42.3	33.0
Financials	20.3	27.1	13.4	24.2
Consumer Goods	15.8	6.3	17.2	8.2
Consumer Services	15.1	19.6	13.7	15.9
Technology	5.8	4.6	8.5	7.1
Oil & Gas	2.2	2.8	4.4	4.6
Basic Materials	0.8	3.4	0.5	2.6
Health Care	0.1	5.0	–	3.4
Telecommunications	–	1.0	–	1.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

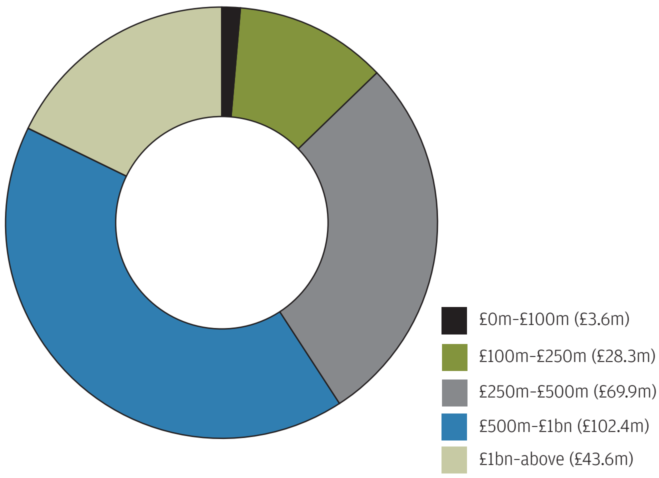
[1] Based on total investments of £247.8m (2017: £224.1m).

HOLDINGS BREAKDOWN BASED ON MARKET CAPITALISATION AS AT 31ST JULY 2018

Number of Companies



Total Value of Companies (£m)



LIST OF INVESTMENTS AT 31ST JULY 2018

Company	Valuation £'000
INDUSTRIALS	
Forterra	8,135
Avon Rubber	6,387
Robert Walters	4,971
Morgan Sindall	4,249
Ricardo	4,014
Trifast	3,696
Keywords Studios[1]	3,648
Tyman	3,611
RPS	3,511
Vitec	3,499
Oxford Instruments	3,482
De La Rue	3,451
XP Power	3,446
SThree	3,442
John Menzies	3,285
Volution	3,025
Costain	2,983
Judges Scientific[1]	2,797
Somero Enterprises[1]	2,775
Mind Gym[1]	2,677
Wincanton	2,497
Henry Boot	2,227
Alpha Financial Markets Consulting[1]	2,202
Porvair	2,118
Smart Metering Systems[1]	1,991
Restore[1]	1,849
Learning Technologies[1]	1,768
Hill & Smith	1,733
Marshalls	1,472
Staffline[1]	1,321
Gordon Dadds[1]	974
Nexus Infrastructure[1]	922
Anexo[1]	800
	98,958
FINANCIALS	
Plus500	8,987
OneSavings Bank	6,764
Charter Court Financial Services	6,028

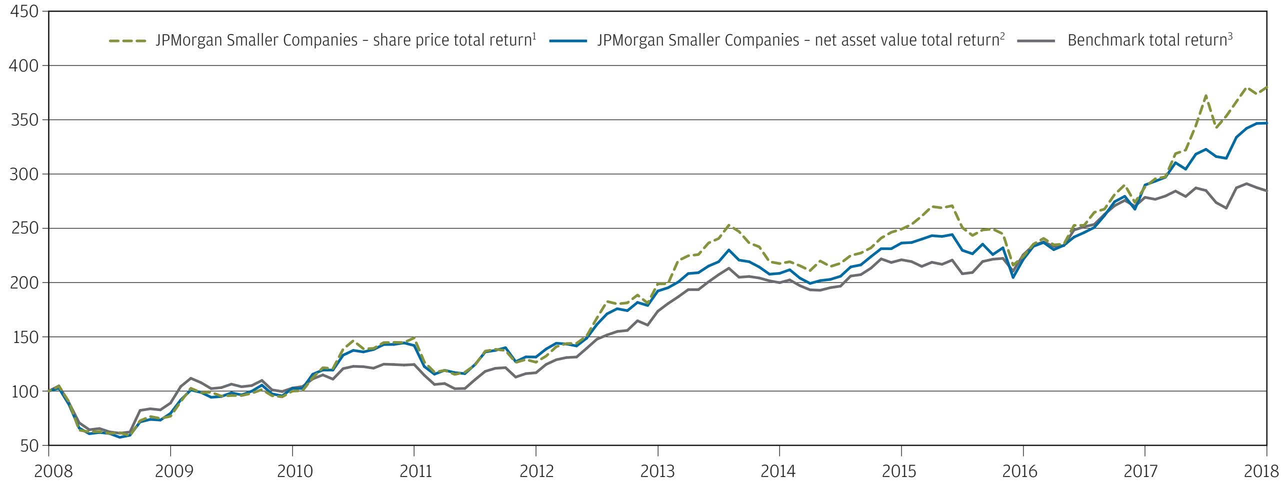
Company	Valuation £'000
FINANCIALS *CONTINUED*	
Arrow Global	3,315
Sabre Insurance	3,077
TBC Bank	2,901
Mortgage Advice Bureau[1]	2,794
IntegraFin	2,660
JTC	2,603
Liontrust Asset Management	2,583
CLS	1,748
Fairfx[1]	1,687
Palace Capital	1,488
Safestore	1,165
Nucleus Financial[1]	1,123
Urban & Civic	752
Tatton Asset Management[1]	748
	50,423
CONSUMER GOODS	
Games Workshop	7,637
Victoria[1]	7,351
Fevertree Drinks[1]	6,400
MJ Gleeson	5,519
Watkin Jones[1]	3,077
Hilton Food	2,745
McBride	1,687
Team17[1]	1,310
Warpaint London[1]	1,257
Sumo[1]	1,129
Frontier Developments[1]	1,001
	39,113
CONSUMER SERVICES	
4imprint	8,713
Huntsworth	5,658
JD Sports Fashion	4,351
Dignity	3,128
Gocompare.Com	3,120
Tarsus	2,338
Trinity Mirror	1,988
Next Fifteen Communications[1]	1,511

Company	Valuation £'000
CONSUMER SERVICES *CONTINUED*	
EI	1,239
888	1,139
Future	976
ULS Technology[1]	971
Quiz[1]	718
On the Beach	642
NAHL[1]	477
STV	345
	37,314
TECHNOLOGY	
FDM	4,246
Microgen	3,970
First Derivatives[1]	2,349
Softcat	1,252
Codemasters[1]	1,134
SDL	765
Amino Technologies[1]	732
	14,448
OIL & GAS	
EnQuest	2,693
Ophir Energy	1,598
Faroe Petroleum[1]	1,089
	5,380
BASIC MATERIALS	
Anglo Pacific	991
Central Asia Metals[1]	881
	1,872
HEALTH CARE	
Bioquell	277
	277
TOTAL INVESTMENTS	**247,785**

[1] AIM listed, totalling 24.8% of total investments.

TEN YEAR PERFORMANCE

Figures have been rebased to 100 at 31ST JULY 2008



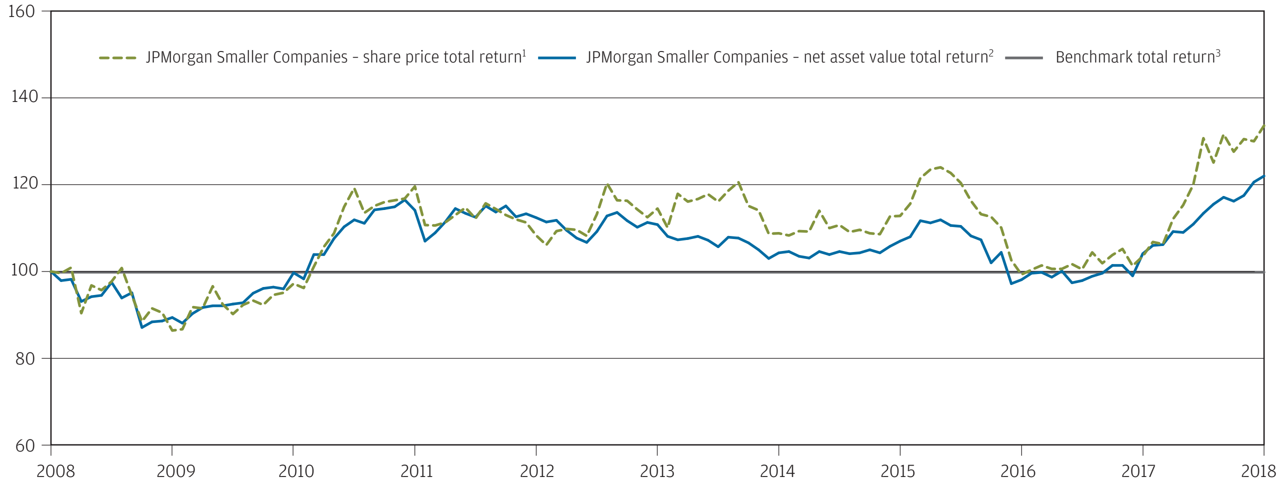
[1] Source: Morningstar.

[2] Source: Morningstar/J.P.Morgan, cum income net asset value.

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

TEN YEAR PERFORMANCE RELATIVE TO BENCHMARK

Figures have been rebased to 100 at 31ST JULY 2008



[1] Source: Morningstar.

[2] Source: Morningstar/J.P.Morgan, cum income net asset value.

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

TEN YEAR FINANCIAL RECORD

At 31st July	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Shareholders' funds (£'000)	96,035	73,016	89,460	120,126	107,282	154,116	165,229	179,597	160,633	207,285	227,108
Undiluted net asset value per Ordinary share (p)	479.6	372.3	472.3	644.5	586.8	845.9	908.0	1,039.1	948.8	1,212.2	1424.9
Diluted net asset value per Ordinary share (p)[1]	–	–	–	–	–	–	–	1,017.9	942.9	1,212.2	1424.9
Ordinary share price (p)	391.3	289.0	368.0	538.0	448.0	690.8	746.8	844.5	750.0	942.0	1215.0
Discount (%)	18.4	22.4	22.1	16.5	23.7	18.3	17.8	17.0	20.5	22.3	14.7
Subscription share price (p)[2]	–	–	–	–	–	–	–	41.0	11.0	–	–
Gearing (%)	5.6	7.0	5.5	7.3	7.5	8.4	9.3	9.3	5,7	8.1	9.1

Year ended 31st July											
Gross revenue attributable to shareholders (£'000)	2,977	2,579	2,355	2,525	2,594	2,937	3,151	3,606	4,284	5,183	6,244
Revenue return per share (p)	8.67	11.43	8.92	8.50	9.01	10.38	10.01	12.20	18.31	24.24	30.69
Dividend per share (p)	7.00	11.00[3]	8.50	8.50	9.00	9.50	9.60	11.00	18.30	23.00	27.00
Ongoing Charges (%)	1.15	1.39	1.26	1.16	1.21	1.15	1.13	1.19	1.17	1.12	1.03

Rebased to 100 at 31st July 2008											
Total return to shareholders[4]	100.0	76.8	100.0	149.0	126.6	198.8	217.5	249.2	224.0	288.2	380.0
Total return on net assets[5]	100.0	79.5	102.5	142.0	131.4	192.2	208.5	236.4	221.3	289.9	346.9
Benchmark total return[6]	100.0	89.0	102.8	124.5	116.9	173.6	199.9	221.0	225.6	278.5	284.5

Total returns for the year ended 31st July											
Return to shareholders (%)[4]	-29.7	-23.2	+30.2	+49.0	-15.0	+57.0	+9.4	+14.6	-10.1	+28.7	+31.8%
Return on net assets (%)[5]	-29.1	-20.3	+29.5	+39.3	-7.5	+46.3	+8.5	+13.4	-6.4	+31.0	+19.7%
Benchmark return (%)[6]	-35.5	-11.0	+15.6	+21.1	-6.2	+48.5	+15.2	+10.5	+2.1	+23.4	+2.1%

[1] Assumes that all outstanding Subscription shares were converted into Ordinary shares at the year end. As at 31st July 2018, there was no dilution effect due to the expiry of the Subscription shares and their rights having lapsed on 30th June 2017.

[2] On 25th February 2015, the Company issued Subscription shares as a bonus issue to the Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held. These shares expired and their new rights lapsed on 30th June 2017.

[3] Includes a special dividend of 3.00p per share representing VAT recovered on investment management fees.

[4] Source: Morningstar.

[5] Source: Morningstar/J.P. Morgan, cum income net asset value.

[6] Source: Morningstar. The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts).

A glossary of terms and alternative performance measures is provided on page 73.

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, performance and key performance indicators, share capital, the Company's environmental, social and ethical policy, principal risks and how the Company seeks to manage those risks, and finally its long-term viability.

Business Review

Structure and Objective of the Company

The Company's existing investment objective and investment policy are set out below. As noted in the Chairman's Statement on page 6, to reflect the proposed change in the Company's benchmark, a proposal is being put forward at the Company's AGM to seek shareholder approval to amend the Company's investment objective and investment policy. The new investment objective and investment policy, if approved, shall come into effect from 1st January 2019. The proposed new investment objective and investment policy are set out in full in the Appendix on page 72 of this annual report, with all the amendments to the existing investment objective and investment policy highlighted for ease of reference.

JPMorgan Smaller Companies Investment Trust plc is an investment trust company that has a premium listing on the London Stock Exchange. The Company's objective is to achieve capital growth from UK listed smaller companies by out-performance of the Company's benchmark index, the FTSE Small Cap Index (excluding investment trusts) and a rising share price over the longer term by taking carefully controlled risks.

In seeking to achieve this objective the Company employs JPMF to actively manage the Company's assets. The Board has determined an investment policy and related guidelines and limits as described below.

The Company is subject to UK and European legislation and regulations including UK company law, Financial Reporting Standards, the UKLA Listing, Prospectus, Disclosure Guidance and Transparency Rules, Market Abuse Regulation, 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) for the year ended 31st July 2013 and future years. The Directors have no reason to believe that approval will not continue to be obtained. The Company is not a close company for taxation purposes.

Investment Policy

In order to achieve the investment objective, the Company invests in a diversified portfolio of small companies, emphasising capital rather than income growth.

Investment risks are managed by investing in a diversified portfolio of UK listed smaller companies. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to stocks and sectors.

The Company invests in smaller companies which tend to be more volatile than larger companies and the investment policy should therefore be regarded as carrying greater than average risk.

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company makes use of borrowings to increase returns.

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 UK listed closed-ended investment funds and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed closed-ended investment funds at the time of acquisition.

Investment Restrictions and Guidelines

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

- No investment in the portfolio will be greater than 10% of the Company's gross assets.
- The Company will not normally invest in unlisted securities.
- The Company will not normally invest in derivative instruments.
- The Company will not normally invest greater than 50% of its gross assets in AIM stocks.
- The number of investments in the portfolio will normally range between 60 and 120.
- The Company's gearing policy is to operate within a range of -10% to +15% invested in normal markets.
- The maximum exposure to an investment will normally range between +/-5% relative to the benchmark index.
- The maximum exposure to an ICB (Industry Classification Benchmark) sector will range between +/-20% relative to the benchmark index.
- No investments in new companies with a capitalisation greater than £1 billion will be made without consultation with the Board. This restriction will be removed if the new benchmark proposed is adopted, but will be monitored on an ongoing basis.

All of the above restrictions and guidelines are kept under review by the Board.

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

Performance

In the year ended 31st July 2018, the Company produced a total return to shareholders of +31.8% and a total return on net assets of +19.7%. This compares with the return on the Company's benchmark index of +2.1%. As at 31st July 2018, the value of the Company's investment portfolio was £247.8 million. The Investment Managers' Report on pages 8 and 9 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total return for the year amounted to £38,509,000 (2017: £50,139,000) and net total return after deducting interest, administration expenses and taxation amounted to £35,747,000 (2017: £47,746,000). Distributable income for the year amounted to £5,005,000 (2017: £4,050,000).

The Directors recommend a final dividend of 27.0p (2017: 23.0p) per share payable on 7th December 2018 to holders on the register at the close of business on 9th November 2018. This distribution will cost £4,303,000 (2017: £3,933,000). Following payment of the final dividend, the revenue reserve will amount to £2,479,000 (2017: £1,761,000).

Gearing

The Board sets the overall gearing policy. A £25 million unsecured floating rate borrowing facility is currently in place with Scotiabank which expires on 4th April 2019. This facility is highly flexible and is used with the aim of enhancing returns. As at 31st July 2018, £25 million had been drawn on the facility. Further details about the loan facility are given in note 13 on page 56.

Key Performance Indicators ('KPIs')

The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Performance against the benchmark index**

  This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and the Investment Managers' Report. Also, please refer to the graphs on page 13.

  The Company outperformed its benchmark index in the year ended 31st July 2018. Over the longer term, performance has been strong, with the Company outperforming its benchmark over the 3, 5 and 10 year periods.

  The principal objective is to outperform the benchmark. However, the Board also considers the performance relative to a broad range of competitor funds.

- **Performance attribution**

  The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index and to understand the impact on the Company's relative performance of the various components such as sector allocation and stock selection. Details of the attribution analysis for the year ended 31st July 2018 are given in the Investment Manager's Report on page 8.

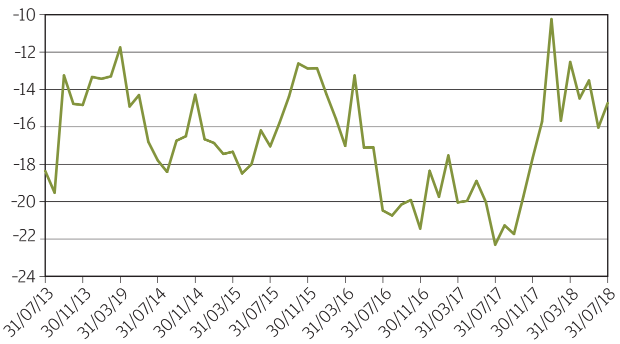
- **Share price discount to net asset value ('NAV') per share**

  The Board operates a share repurchase programme that seeks to address imbalances in supply and demand for the Company's shares within the market and thereby reduce the volatility of the discount to NAV per share at which the Company's shares trade. In the year to 31st July 2018, the discount ranged between 7.7% and 21.7% based on daily data.

  The Board at its regular meetings, undertakes reviews of marketing/investor relations and sales reports from the Manager. It also considers their effectiveness as well as measures of investor sentiment.

Discount Performance

FIGURES HAVE BEEN REBASED TO 100 AT 31ST JULY 2013



Source: Morningstar.

JPMorgan Smaller Companies Investment Trust plc – share price discount to cum income net asset value (month end data).

- **Ongoing Charges**

  The ongoing charges represent the Company's management fee and all other operating expenses excluding interest, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ended 31st July 2018 were 1.03% (2017: 1.12%). The Board reviews each year an analysis which compares the Company's ongoing charges and its main expenses with those of its peers.

Share Capital

The Directors have, on behalf of the Company, authority to both repurchase shares in the market for cancellation or to hold in Treasury and reissue shares from Treasury or to issue new shares in the market for cash at a premium to net asset value per share.

During the year, the Company repurchased a total of 1,161,205 Ordinary shares at nominal value of approximately £290,301, for cancellation for a total consideration of £12,007,000. This amount represented 6.8% of the issued share capital at the beginning of the year. As the shares were repurchased at a discount to the underlying net asset value ('NAV') per share, they enhanced the NAV per share of the remaining shares. Since the year end, the Company has repurchased a further 11,319 Ordinary shares for cancellation.

Resolutions to renew the authority to repurchase shares for cancellation or to hold in Treasury and issue new shares will be put to shareholders for approval at the forthcoming Annual General Meeting.

The full text of these Resolutions is set out in the Notice of Meeting on pages 69 and 70.

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

Board Diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. The Board believes diversity is important in bringing an appropriate range of skills, knowledge and experience to the Board and gives that consideration when recruiting new Directors. At 31st July 2018, there were three male Directors and two female Directors on the Board.

Employees, Social, Community and Human Rights Issues

The Company has a management contract with JPMF. It has no employees and all of 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 JPMorgan Asset Management ('JPMAM') policy statements in respect of Social, Community and Environmental and Human Rights issues, as highlighted in italics:

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.

The Manager has implemented a policy which seeks to restrict investments in securities issued by companies that have been identified by an independent third party provider as being involved in the manufacture, production or supply of cluster munitions, depleted uranium ammunition and armour and/or anti-personnel mines. Shareholders can obtain further details on the policy by contacting the Manager.

Greenhouse Gas Emissions

The Company is managed by JPMF. It has no employees and all of its Directors are 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 other fuel and consequently does not have a measurable carbon footprint. JPMAM is also 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.

The Modern Slavery Act 2015 (the 'MSA')

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. As the Company has no employees and does not supply goods and services, the MSA does not apply directly to it. The MSA requirements more appropriately relate to JPMF and JPMAM. JPMorgan's statement on the MSA can be found on the following website: https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/modern-slavery-act.pdf

Corporate Criminal Offence

The Company has zero tolerance for tax evasion. As the Company has no employees, the Board's focus is to ensure that the risk of the Company's service providers facilitating tax evasion is also low. To this end it seeks assurance from its service providers that effective policies and procedures are in place to prevent this.

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 completed a robust risk assessment and 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 issues that threaten the viability of the Company. These key risks remain unchanged since last year and fall broadly under the following categories:

- **Corporate Strategy**
  The corporate strategy, including the investment objectives and policies, may not be of sufficient interest to current or prospective shareholders. Other factors, such as the size of the Company and level of liquidity in its shares, may also deter shareholder interest, resulting in the shares trading at an increased discount to net asset value. The Board regularly reviews its strategy, and assesses, with its brokers, shareholder views.

- **Investment and Performance**
  Poor investment performance, for example due to poor stock selection, asset allocation or an inappropriate level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on. The Manager provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates and liquidity reports. The Board monitors the implementation and results of the investment process with the Investment Manager, who attend Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Manager employs the Company's gearing, within a strategic range set by the Board.

- **Discount**
  A disproportionate widening of the discount relative to the Company's peers could result in loss of value for shareholders. The Board regularly discusses discount management policy and has set parameters for the Manager and the Company's broker to follow.

- **Smaller Company Investment**
  Investing in smaller companies is inherently more risky and volatile, partly due to a lack of liquidity in the shares, plus AIM stocks are less regulated. The Board discusses these risk factors regularly at each Board meeting with the Investment Managers. The Board has placed investment restrictions and guidelines to limit these risks.

- **Political and Economic**
  Changes in financial or tax legislation, including in the European Union, and the impact of the EU Referendum result, may adversely affect the Company. The Manager makes recommendations to the Board on accounting, dividend and tax policies, and seeks external advice where appropriate.

- **Investment Management Team**
  Investment performance may suffer if the designated investment managers were to leave. The Board considers that, though there may be short-term disruption, the risk would be mitigated by the substantial investment management resources of JPMorgan, and the use of an established investment methodology.

- **Market**
  Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by the Manager. The Board monitors the implication and results of the investment process with the Manager.

- **Accounting, Legal and Regulatory**
  In order to qualify as an investment trust, the Company must comply with Section 1158 of the Income and Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' above. Should the Company breach Section 1158, it may lose its investment trust status and as a consequence capital gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by the Manager and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act 2006 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure and Transparency Rules ('DTRs'). A breach of the Companies Act 2006 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 may result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMorgan Funds Limited, and its professional advisers to monitor compliance with all relevant requirements.

- **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 25 to 28. The Board receives regular reports from the Manager and the Company's broker about shareholder communications, their views and their activity.

- **Operational and Cybercrime**
  Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the depositary's or custodian's records may prevent accurate reporting and monitoring of the Company's financial position. On 1st July 2014, the Company appointed Bank of New York Mellon (International)

Limited to act as the depositary, responsible for overseeing the operations of the custodian, JPMorgan Chase Bank, N.A., and the Company's cash flows. Details of how the Board monitors the services provided by the Manager, its associates and depositary and the key elements designed to provide effective internal control are included within the Risk Management and Internal Control section of the Directors' Report on pages 27 and 28. 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 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 independently.

- **Financial**

  The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Counterparties are subject to daily credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 21 on pages 60 to 63.

Long-Term Viability

During the year, as a result of a reduction in the liquidity and increase in volatility of smaller company shares, the Board decided to change the period of assessment of the Company's long-term viability from three to five years.

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 UK economy and its 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. The Directors also take account of the inherent uncertainties of equity markets and the existence of a continuation vote every three years. Thus the Directors consider five years to be an appropriate time horizon to assess the Company's viability.

The Directors confirm that, assuming a successful continuation vote at the 2020 AGM, 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.

By order of the Board
Lucy Dina, for and on behalf of
JPMorgan Funds Limited
Company Secretary

15th October 2018

Directors' Report

Michael Quicke OBE*†‡ (Chairman of the Board and Nomination Committee)
A Director since October 2005.
Last reappointed to the Board: 2017.
Current remuneration: £33,000.
He is chief executive of CCLA Investment Management Limited.
Connections with Manager: None.
Connections with other Directors: None.
Shareholding in Company: 16,982.

Andrew Robson*†‡ (Chairman of the Audit Committee)
A Director since April 2007.
Last reappointed to the Board: 2017.
Current remuneration: £26,000.
He is a director of Witan Pacific Investment Trust plc, First Integrity Limited, Mobeus Income & Growth 4 VCT plc, Shires Income plc, and Peckwater Limited. He is a chartered accountant.
Connections with Manager: None.
Connections with other Directors: None.
Shareholding in Company: 3,795.

Frances Davies*†‡
A Director since March 2013.
Last reappointed to the Board: 2017.
Current remuneration: £23,000.
Since 2007, she has been a partner of Opus Corporate Finance, a corporate finance advisory business providing independent strategic advice to businesses across Europe. She is a director of Aviva Life's With Profits Committee.
Connections with Manager: None.
Connections with other Directors: None.
Shareholding in Company: 809.

Andrew Impey*†‡
A Director since March 2015.
Last reappointed to the Board: 2017.
Current remuneration: £23,000.
He is a director of OLIM Limited, responsible for managing investment portfolios and a partner of Albion Capital Group LLP. He has over 30 years' fund management experience including UK smaller companies. Prior to joining OLIM in 2009, he was Chief Investment Officer at Singer & Friedlander Investment Management.
Connections with Manager: None.
Connections with other Directors: None.
Shareholding in Company: 1,500.

Alice Ryder*†‡
A Director since February 2017.
Last reappointed to the Board: 2017.
Current remuneration: £23,000.
She is a partner of Stanhope Capital LLP and Head of Stanhope Consulting. She is a non-executive director of BlackRock North American Income Trust PLC.
Connections with Manager: None.
Connections with other Directors: None.
Shareholding in Company: 1,000.

*** Member of the Audit Committee**
† Member of the Nomination Committee
‡ Considered independent by the Board

The Directors present their report and the audited financial statements for the year ended 31st July 2018.

Management of the Company

The Manager and Company Secretary is JPMorgan Funds Limited ('JPMF'), a company authorised and regulated by the FCA. 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.

JPMF is employed under a contract terminable on three months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

The Board conducts a formal evaluation of the Manager on an annual basis. The evaluation includes consideration of the investment strategy and process of the Investment Managers, the performance of the benchmark over the long-term, and the support that the Company receives from JPMF. As a result of the evaluation 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 Bank of New York Mellon (International) 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.jpmsmallercompanies.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.

The Company's leverage and JPMF's remuneration disclosures are set out on page 66.

Management Fee

The management fee is paid by monthly instalments based on the total assets less current liabilities at the beginning of each month and is charged at a rate of 0.8% per annum on gross assets up to £200 million; thereafter, 0.7% on gross assets over £200 million. Loans that are drawn down under a loan facility with an original maturity date of one year or more are not classified as current liabilities for the purpose of the management fee calculation. If the Company invests in funds managed or advised by the Manager or any of its associated companies, the investments are excluded from the calculation and therefore attract no fee. The Company invests any surplus liquidity into a non-charging class of the JPMorgan Sterling Liquidity Fund and this Fund is therefore not excluded from the management fee calculation.

Directors

Ivo Coulson retired from the Board on 28th November 2017.

The Directors of the Company who held office at the end of the year are as detailed on page 21.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 33. No changes have been reported to the Directors' shareholdings since the year end.

In accordance with corporate governance best practice, all Directors will retire at the forthcoming AGM and, being eligible, will offer themselves for reappointment. The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director 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, the Directors have the benefit of a deed of indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. The indemnities were in place during the year and as at the date of this report.

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

Disclosure of information to Auditor

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 2006) of which the Company's auditor is 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 and to establish that the Company's auditor is aware of that information.

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

Independent Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor to the Company and a resolution proposing their reappointment and to authorise the Directors to agree their remuneration for the ensuing year will be put to shareholders at the forthcoming Annual General Meeting.

Companies Act 2006 Requirements

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

Capital Structure
The Company's capital structure is summarised on the inside front cover of this report. 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 AGM on page 71.

Notifiable Interests in the Company's Voting Rights
At the year-end, the following had declared a notifiable interest in the Company's voting rights:

Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%
JPMorgan Asset Management Holdings Inc.	2,265,539	14.03
Border to Coast Pension	1,271,816	7.98
Barclays PLC	993,939	6.24
Wells Capital Limited	908,000	5.70
Royal London Asset Management Limited	807,719	5.00
City of Bradford Metropolitan District Council	755,000	4.26
Investec Wealth & Investment Limited	709,991	4.08
Legal & General Group Plc	782,158	4.00
City of London Investment Management Co. Ltd.	524,757	3.10
Rensburg Sheppards Investment Management Limited	566,548	3.00

Since the year-end, Royal London Asset Management Limited has notified the Company that its holding has decreased to 657,719 representing 4.13% of the Company's voting rights.

No other changes to these holdings had been notified as at the date of this report.

The Company is also aware that approximately 12.50% of the Company's total voting rights are held by individuals through savings products managed by JPMorgan Asset Management 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 Asset Management 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 and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

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

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 advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following items of special business will be proposed at the forthcoming AGM:

(i) Sub-division of existing ordinary shares (resolution 11)

At the Annual General Meeting the Directors will seek authority to sub-divide each existing ordinary share of 25 pence each (the 'Existing Ordinary Shares') into five new ordinary shares of 5 pence each (the 'New Ordinary Shares'). The full text of this resolution is set out on page 69. The resolution is conditional upon the New Ordinary Shares being listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange.

If resolution 11 is passed at the Annual General Meeting and the conditions attaching to the resolution are fulfilled there will be 79,636,410 New Ordinary Shares in issue (including those held in Treasury) immediately following completion of the sub-division (on the basis that there are currently 15,927,282 Existing Ordinary Shares in issue. The Directors consider the sub-division to be in the best interests of shareholders as a whole as lowering the price at which the shares are traded should improve their marketability and make it easier for investors to make small or regular investments.

The New Ordinary Shares will rank pari passu with each other and will be subject to the same rights and restrictions as the Existing Ordinary Shares, including the same rights to participate in dividends or income of the Company. Mandates and other instructions for the payment of dividends, including any dividend reinvestment instruction received, in paper form or via CREST, will, unless and until revised, continue to apply to the New Ordinary Shares. A holding of New Ordinary Shares following the sub-division will represent the same proportion of the issued ordinary share capital of the Company as the corresponding holding of Existing Ordinary Shares.

If resolution 11 is approved at the Annual General Meeting it is expected that: (i) dealings in Existing Ordinary Shares will cease as at close of business on 29th November 2018 and that admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange and dealings will commence in the New Ordinary Shares on 30th November 2018; (ii) where Existing Ordinary Shares are held in certificated form, share certificates will cease to be valid from 29th November 2018. Certificates in respect of the New Ordinary Shares will be posted, at the risk of shareholders, by 14th December 2018 (these will replace existing certificates which should be destroyed); and (iii) shareholders who hold their Existing Ordinary Shares in uncertificated form will have their CREST accounts credited with the relevant entitlements to New Ordinary Shares on 30th November 2018.

Shareholders who invest through J.P. Morgan savings plans will receive confirmation of their holding in the Company in their next statement.

The New Ordinary Shares have been allocated new stock identification codes as follows: SEDOL Code BF7L8P1; and ISIN Code: GB00BF7L8P11, to be effective from the date of Admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange, expected to be 30th November 2018.

The share split will not itself give rise to any liability to UK income tax (or corporation tax on income) for shareholders. For the purposes of UK capital gains tax and corporation tax on chargeable gains, the receipt of the New Ordinary Shares from the share split will be a reorganisation of the share capital of the Company. Accordingly, a shareholder's holding of New Ordinary Shares will be treated as the same asset as a shareholder's holding of Existing Ordinary Shares and as having been acquired at the same time and for the same consideration, as that holding of Existing Ordinary Shares.

(ii) Authority to issue new shares and disapply pre-emption rights (Resolutions 12 and 13)

The Directors will seek renewal of the authority at the AGM to issue up to 5% of the present issued share capital (excluding Treasury shares) or sell shares held in Treasury, other than by a pro-rata issue to existing shareholders. The full text of the resolutions is set out in the Notice of Annual General Meeting on page 69.

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

(iii) Authority to repurchase the Company's ordinary shares (Resolution 14)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2017 AGM, will expire on 27th May 2019. The Board remains committed to a stable discount, but there is a need to balance the short term benefit of buying shares back for cancellation or holding in Treasury with the long term liquidity implications. The Board will therefore seek shareholder approval at the AGM to renew this authority which will last until 27th May 2020 or until the whole of the 14.99% has been acquired, whichever is the earlier.

The full text of the resolution is set out in the Notice of Annual General Meeting on pages 69 and 70. Repurchases will be made at the discretion of the Board, and will only be made in the market at prices below the prevailing NAV per share as and when market conditions are appropriate.

(iv) Investment Objective and Policy (resolution 15)

As noted in the Chairman's Statement on page 6, the Board is proposing certain changes to its investment objective and policy including changing the Company's benchmark to the Numis Smaller Companies plus AIM (excluding Investment Companies) Index. This benchmark is more suitably aligned with the Company's investment guidelines.

The proposed new investment objective and investment policy are set out in full in the Appendix on page 72 of this annual report, with all the amendments to the existing investment objective and investment policy highlighted for ease of reference. The new investment objective and investment policy, if approved, shall come into effect from 1st January 2019.

Recommendation

The Board considers that resolutions 11 to 15 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 24,086 shares representing approximately 0.15% of the voting rights of the Company.

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 35, indicates how the Company has applied the principles of recommended governance of the Financial Reporting Council 2016 UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code, insofar as they are relevant to the Company's business, and with the best practice provisions of the AIC Code throughout the year under review and up to the date of approval of the annual report and financial statements.

Role of the Board

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

The Board has procedures in place to deal with potential conflicts of interest and, following the introduction of The Bribery Act 2010, has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the period under review.

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

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

Board Composition

The Board is chaired by Michael Quicke, and consists of five non executive Directors. All of the Board are regarded as independent of the Company's Manager, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 21.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board comprises entirely non executive directors, this is unnecessary. However, the Chairman of the Audit Committee acts in that role. He leads the evaluation of the performance of the

Chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

It has been agreed that Andrew Impey take over as Chairman of the Company following the retirement of Michael Quicke at the AGM in 2019.

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 appointed by shareholders. Thereafter, a Director's appointment is subject to the performance evaluation carried out each year and the approval of shareholders at each annual general meeting, in accordance with corporate governance best practice. 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 takes into account the ongoing requirements of the UK Corporate Governance Code, including the need to refresh the Board and its Committees.

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.

A schedule of interests for each Director is maintained by the Company and reviewed at every Board meeting. New interests are considered carefully, taking into account the circumstances surrounding them and, if considered appropriate, are approved.

Board Independence

The Board does not believe that tenure of more than nine years effects the independence of a Director. Therefore, the Board considers Michael Quicke and Andrew Robson to be independent and hence there is sufficient independence on the Board. The majority of the Board has served under nine years.

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 below.

Meetings and Committees

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

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Ivo Coulson[1]	1	1	–
Michael Quicke	4	2	1
Andrew Robson	4	2	1
Frances Davies	4	2	1
Andrew Impey	4	2	1
Alice Ryder	4	2	1

[1] Retired 28th November 2017.

Board Committees

Nomination Committee

The Nomination Committee is chaired by Michael Quicke. The Committee consists of all the independent Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender.

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 Lintstock Ltd, 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.

Audit Committee

The report of the Audit Committee is set out on page 29.

Terms of Reference

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

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders half yearly each year by way of the Annual Report and Accounts and the Half Year report. This is 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 AGM at which the Directors and representatives of the Managers are available in person to meet with shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance.

During the year the Company's broker and the Manager held regular discussions with larger shareholders. The Directors are made fully aware of their views. In addition, on a regular basis the Board invites the Company's brokers, who are independent of the manager, to present to the Directors. Through them, the Board not only receives an independent and well informed report on shareholder views, but also is able to offer shareholders meetings with the Chairman or the Directors as and when required to address any queries. The Directors may be contacted through the Company Secretary whose details are shown on page 77 or via the Company's website.

The Company's Annual Report and Financial Statements are published in time to give shareholders at least 20 working days' notice of the AGM. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 77. A formal process is in place for all letters to the Chairman or other Directors to be immediately forwarded to them. 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 AGM.

Risk Management and Internal Control

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 control and to report to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

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

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of risk management and internal control 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 17 and 19). This process has been in place for the year under review and up to the date of approval of the annual report and accounts, and it accords with the Financial Reporting Council's 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 control are as follows:

- **Financial Reporting**

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

- **Management Agreement**

  Appointment of a manager and custodian regulated by the Financial Conduct Authority (FCA), whose responsibilities are clearly defined in a written agreement.

- **Management Systems**

  The Manager's system of risk management and internal control 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 internal control by monitoring the operation of the key operating controls of JPMAM 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 internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed;
- reviews independent reports on the internal controls and the operations of JPMAM; and
- reviews quarterly reports from the Company's depositary.

- **Depositary**

  The Board has appointed BNY as depositary, with responsibilities for safe keeping of custodial assets and oversight of the records and cash flows.

By the means of the procedures set out above, the Board confirms that it has reviewed, and is satisfied with, the effectiveness of the Company's system of internal control for the year ended 31st July 2018, and to the date of approval of this Annual Report and Accounts.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM through the Manager. The following is a summary of the 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 17.

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
Lucy Dina, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

15th October 2018

Audit Committee Report

Composition and Role

The Audit Committee, chaired by Andrew Robson and whose membership is set out on page 21, meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. At least one member of the Committee has recent and relevant financial experience.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code. It examines the effectiveness of the Company's internal control systems. It monitors the Company's key risks and controls relating to those risks. It receives controls reports on the Manager and the custodian and monitors the controls and service levels at the Company's other key third party suppliers. It also receives information from the Manager's Compliance department and also reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditor. The Audit Committee has reviewed the independence and objectivity of the auditor and is satisfied that the auditor is independent. The Audit Committee also has the primary responsibility for making recommendations to the Board on the reappointment and the removal of the external auditor.

Financial Statements and Significant Accounting Matters

During its review of the Company's financial statements for the year ended 31st July 2018, the Audit Committee considered the following significant issues, including those communicated by the Auditor during their reporting:

Significant issues	How the issues were addressed
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1(b) to the accounts on page 49. Controls are in place to ensure that valuations are appropriate and existence is verified through Custodian reconciliations. Given the portfolio comprises smaller companies, the Audit Committee also considers the liquidity of investee company shares, and any impact that it might have on valuation.
Recognition of Investment Income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the accounts on page 49. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Compliance with Sections 1158 and 1159	Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st August 2013 has been obtained and ongoing compliance with the eligibility criteria is monitored by the Board on a regular basis.

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

Going Concern

The Directors believe that having considered the Company's investment objective (see page 15), risk management policies (see pages 60 to 63), capital management policies and procedures (page 64), the nature of the portfolio and expenditure projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the financial statements.

Risk Management and Internal Control

The Directors' statement on the Company's system of internal control is set out on pages 27 and 28.

Auditor Appointment and Tenure

Representatives of the Company's Auditors attended the Audit Committee meeting at which the draft Annual Report & Financial Statements were considered and also engage with 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 which will be put to shareholders at the forthcoming Annual General Meeting. 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. Details of the auditors fees paid are disclosed in note 6 on page 52. Ernst & Young LLP was appointed at the last AGM following an audit tender. The Company's year ended 31st July 2018 is the current Audit Partner's first of a five year maximum term.

Fair, Balanced and Understandable

Having taken all available information into consideration and having discussed the content of the Annual Report with the AIFM, the Investment Managers, the Company Secretary and other third party service providers, the Committee has concluded that the Annual Report for the year ended 31st July 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and 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 35.

By order of the Board
Lucy Dina, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

15th October 2018

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st July 2018, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditor's opinion is included in their report on pages 37 to 43.

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, remuneration of the Directors is considered by the Nomination Committee on a regular basis. The Committee makes recommendations to the Board as and when appropriate.

Directors' Remuneration Policy

The law requires that the Directors' Remuneration Policy is subject to a triennial binding vote. However, the Board has resolved that for good governance purposes, the policy vote will be put to shareholders every year. Accordingly, a resolution to approve this policy will be put to shareholders at the 2018 AGM. 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. 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.

The Nomination Committee, comprising all Directors, reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager and industry research 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 £33,000 per annum; Chairman of the Audit Committee £26,000 per annum; and, the other Directors £23,000 per annum. Fees were increased with effect from 1st October 2018 to £35,000, £28,000 and £25,000 respectively.

The Company's Articles of Association currently stipulate that aggregate fees must not exceed £200,000 per annum and provide that any increase in the maximum aggregate annual limit on Directors' fees requires both Board and shareholder approval.

The Company has not sought shareholder views on its remuneration policy. The Nomination Committee considers any comments received from shareholders on remuneration policy on an ongoing basis and will take account of these views if appropriate.

The Directors do not have service contracts with the Company. The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's AGM and the Company's registered office. Details of the Board's policy on tenure are set out on page 26.

The Company's Remuneration policy also applies to new Directors.

Remuneration Policy Implementation Report

The Directors' Remuneration Policy Implementation Report is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming AGM. There have been no changes to the policy during this financial year compared with the year ended 31st July 2017 and no changes are proposed for the year ending 31st July 2019.

At the AGM held on 28th November 2017, of votes cast, 99.4% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) the Resolutions to approve both the Directors' Remuneration Policy and the Directors' Remuneration Report and 0.6% voted against both Resolutions.

Details of voting on both the Remuneration Policy and Remuneration Policy Implementation Reports from the 2018 AGM will be given in the annual report for the year ending 31st July 2019.

Details of the implementation of the Company's remuneration policy are given below. No advice from remuneration consultants was received during the year under review.

Single total figure of remuneration

The single total figure of remuneration for the Board as a whole for the year ended 31st July 2018 was £135,521. 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] 2018 £	2017 £
Michael Quicke	£33,000	£33,000
Andrew Robson	£26,000	£26,000
Ivo Coulson[3]	£7,521	£23,000
Frances Davies	£23,000	£23,000
Andrew Impey	£23,000	£23,000
Alice Ryder	£23,000	£11,500
Richard Fitzalan-Howard[4]	–	£7,583
Total	£135,521	£147,083

[1] Audited information. Other subject headings for the single figure table as prescribed by regulations 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 the Company's business.

[3] Retired on 28th November 2017.

[4] Retired on 29th November 2016.

A table showing the total remuneration for the Chairman over the five years ended 31st July 2018 is below:

Remuneration for the Chairman over the five years ended 31st July 2018

Year ended 31st July	Fees	Performance related benefits received as a percentage of maximum payable[1]
2018	£33,000	n/a
2017	£33,000	n/a
2016	£32,000	n/a
2015	£32,000	n/a
2014	£30,000	n/a

[1] In respect of one year period and periods of more than one year.

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 Directors' beneficial shareholdings are detailed below.

Directors' Name	31st July 2018	31st July 2017 or as at date of appointment
Ordinary shares		
Michael Quicke	16,982	13,249
Andrew Robson	3,795	3,795
Ivo Coulson[2,3]	nil	1,400
Frances Davies	809	809
Andrew Impey	1,500	1,500
Alice Ryder	1,000	1,000
Total	24,086	21,753

[1] Audited information.

[2] Non-beneficial holding.

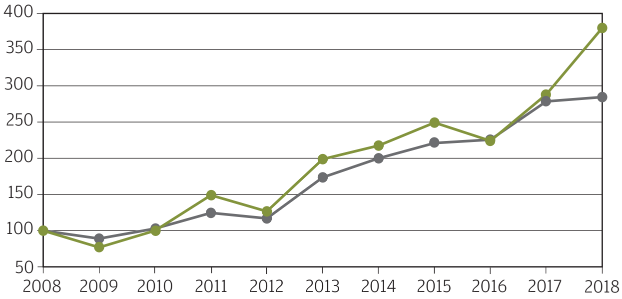
[3] Retired on 28th November 2017.

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

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 FTSE Small Cap Index (excluding investment trusts) over the last ten years, is shown below. The Board believes that this index is the most appropriate for the Company's performance comparison purposes because it most closely reflects the Investment Managers' investment universe.

Ten Year Share Price and Benchmark Total Return Performance to 31st July 2018



Source: Morningstar.

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 July 2018	2017
Remuneration paid to all Directors	£135,521	£147,083
Distribution to shareholders		
– by way of dividend	£3,917,000	£3,055,000
– by way of share repurchases	£12,007,000	£5,906,000

For and on behalf of the Board
Michael Quicke OBE
Chairman

15th October 2018

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' 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 preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the www.jpmsmallercompanies.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 auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditor accepts 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 Strategic Report, a Directors' Report and a Directors' Remuneration Report that comply with that law. The Strategic Report and the Directors' report include a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

Each of the Directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- the Company's financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' 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 Directors consider that the annual report and accounts, 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.

For and on behalf of the Board
Michael Quicke OBE
Chairman

15th October 2018

Independent Auditors' Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JPMORGAN SMALLER COMPANIES INVESTMENT TRUST PLC

Opinion

We have audited the financial statements of JPMorgan Smaller Companies Investment Trust plc (the 'Company') for the year ended 31st July 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31st July 2018 and of its profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 17 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 17 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 29 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 19 in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

Overview of our audit approach

Key audit matters	• Incomplete or inaccurate revenue recognition, including classification as revenue or capital items in the Income Statement • Incorrect valuation and defective title to the investment portfolio
Materiality	• Overall materiality of £2.27 million which represents 1% of shareholders' funds

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition, including classification as revenue or capital items in the Income Statement (as described on page 29 in the Report of the Audit Committee and as per the accounting policy set out on page 49). The investment income receivable by the Company during the year directly affects the Company's ability to make a dividend payment to shareholders. The total income received for the year to 31st July 2018 was £6.24 million (2017: £5.18 million), with the majority being dividend payments from listed investments, 2018: £6.22 million (2017: £5.13 million). The Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'. During the year, the Company received eight special dividends, with an aggregate value of £0.74 million.	**We have performed the following procedures:** We obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividends by performing a walkthrough in which we evaluated the design and implementation of controls. We agreed a sample of dividend receipts to the corresponding announcement made by the investee company, recalculated the dividend amount receivable and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount. We agreed a sample of investee company dividend announcements from an independent data vendor to the income recorded by the Company to test completeness of the income recorded. For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 31st July 2018. We agreed the dividend rate to corresponding announcements made by the investee company, recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements, We reviewed the income report and the acquisition and disposal report produced by the Administrator to identify special dividends recorded in the year in excess of our testing threshold. There were three special dividends in excess of our testing threshold, for which we confirmed that the classification as revenue or capital was consistent with the underlying nature of the payment.	**The results of our procedures are:** We have no issues to communicate with respect to our assessment of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividends. We agreed the sample of dividend receipts to an independent source, recalculating these amounts and agreeing them to the bank statements and noted no issues. We agreed the sample of investee company announcements to the income entitlements recorded by the Company and noted no issues. We recalculated the accrued dividends, agreeing, where possible, to post year end bank statements, and confirming that the income obligation arose prior to 31st July 2018 and noted no issues. We agreed the accounting treatment adopted with respect to the three special dividend receipts reviewed and noted no issues. We noted no issues with the application of the Company's accounting policies with respect to revenue recognition including special dividends, are in compliance with FRS 102 and the AIC SORP.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	We reviewed the Company's accounting policies with respect to revenue recognition including special dividends to check that these have been applied as stated throughout the year and are in line with FRS 102 and the AIC SORP.	
Incorrect valuation and defective title to the investment portfolio (as described on page 29 in the Report of the Audit Committee and as per the accounting policy set out on page 49). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The valuation of the portfolio at 31st July 2018 was £247.79 million (2017: £224.09 million) consisting of listed equities.	**We performed the following procedures:** We obtained an understanding of the Manager's and Administrator's processes and controls surrounding investment pricing and trade processing by performing a walkthrough. For all listed investments in the portfolio, we compared the market values to an independent source. We reviewed the price exception and stale pricing reports produced by the Administrator to highlight and investigate any unexpected price movements in investments held as at the year-end. We also assessed the liquidity of the investment portfolio through analysing the average trading volume of the investments. We agreed the Company's investments to the independent confirmation received from the Company's custodian and depositary as at 31st July 2018. We agreed a sample of key transaction details of purchases and sales recorded by the Administrator to bank statements.	**The results of our procedures are:** We have no issues to communicate with respect to our assessment of the processes and controls surrounding investment pricing and trade process. For all listed investments, we noted no material differences in market value when compared to an independent source. We did not identify any exceptions in our assessment of the portfolios liquidity and did not identify any stale prices. We noted no differences between the custodian and depositary confirmation and the Company's underlying financial records.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures..

We determined materiality for the Company to be £2.27 million which is 1% of shareholders' funds. We believe that shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance. In the prior year, the predecessor auditors adopted a materiality of £2.07 million representing 1% of net assets.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.04 million. We have set performance materiality at this percentage as this is our first year as auditors of the Company. In the prior year, the predecessor auditors did not adopt a separate performance materiality.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate revenue testing threshold of £0.26 million for the revenue column of the Statement of Comprehensive Income, being 5% of the revenue profit before taxation. In the prior year, the predecessor auditors did not adopt a separate revenue testing threshold.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.11 million which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. In the prior year, the predecessor auditors adopted a reporting threshold of £0.04 million.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 30** – the statement given by the directors that they consider the annual report and financial statements 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, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 29** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 25** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 35, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are FRS 102, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition through incorrect classification of special dividends. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the audit committee we were appointed by the Company at its annual general meeting on 28th November 2017 to audit the financial statements of the Company for the year ending 31st July 2018 and subsequent financial periods.

  Our total period of uninterrupted engagement is 1 year, covering the year ending 31st July 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Caroline Mercer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

15th October 2018

Notes:

1. The maintenance and integrity of the JPMorgan Smaller Companies Investment Trust plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

FOR THE YEAR ENDED 31ST JULY 2018

		2018			2017		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	3	–	32,282	32,282	–	44,934	44,934
Net foreign currency (losses)/gains		–	(17)	(17)	–	22	22
Income from investments	4	6,219	–	6,219	5,133	–	5,133
Interest receivable and similar income	4	25	–	25	50	–	50
Gross return		**6,244**	**32,265**	**38,509**	**5,183**	**44,956**	**50,139**
Management fee	5	(558)	(1,303)	(1,861)	(474)	(1,106)	(1,580)
Other administrative expenses	6	(354)	–	(354)	(452)	–	(452)
Net return on ordinary activities before finance costs and taxation		**5,332**	**30,962**	**36,294**	**4,257**	**43,850**	**48,107**
Finance costs	7	(94)	(220)	(314)	(66)	(154)	(220)
Net return on ordinary activities before taxation		**5,238**	**30,742**	**35,980**	**4,191**	**43,696**	**47,887**
Taxation	8	(233)	–	(233)	(141)	–	(141)
Net return on ordinary activities after taxation		**5,005**	**30,742**	**35,747**	**4,050**	**43,696**	**47,746**
Return per share	9	**30.69p**	**188.53p**	**219.22p**	**24.24p**	**261.48p**	**285.72p**

A final dividend of 27.0p per share (2017: 23.0p per share) is proposed in respect of the year ended 31st July 2018 amounting to £4,303,000 (2017: £3,933,000). Further information on dividends is given in note 10(a) on page 54.

All revenue and capital items in the above statement derive from continuing operations.

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. Net return on ordinary activities after taxation represents the profit for the year and also Total Comprehensive Income.

The notes on pages 49 to 64 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST JULY 2018

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve[1] £'000	Total £'000
At 31st July 2016	**4,236**	**18,242**	**2,437**	**131,019**	**4,699**	**160,633**
Repurchase and cancellation of the Company's own shares	(172)	–	172	(5,906)	–	(5,906)
Conversion of Subscription shares into Ordinary shares	(1)	1	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	215	7,652	–	–	–	7,867
Cancellation of Subscription shares	(3)	–	–	3	–	–
Net return on ordinary activities	–	–	–	43,696	4,050	47,746
Dividends paid in the year (note 10)	–	–	–	–	(3,055)	(3,055)
At 31st July 2017	**4,275**	**25,895**	**2,609**	**168,812**	**5,694**	**207,285**
Repurchase and cancellation of the Company's own shares	(290)	–	290	(12,007)	–	(12,007)
Net return on ordinary activities	–	–	–	30,742	5,005	35,747
Dividends paid in the year (note 10)	–	–	–	–	(3,917)	(3,917)
At 31st July 2018	**3,985**	**25,895**	**2,899**	**187,547**	**6,782**	**227,108**

[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 49 to 64 form an integral part of these financial statements.

AT 31ST JULY 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	247,785	224,092
Current assets	12		
Debtors		1,941	738
Cash and cash equivalents		3,817	8,649
		5,758	**9,387**
Current liabilities	13		
Creditors: amounts falling due within one year		(26,435)	(26,194)
Net current liabilities		**(20,677)**	**(16,807)**
Total assets less current liabilities		**227,108**	**207,285**
Net assets		**227,108**	**207,285**
Capital and reserves			
Called up share capital	14	3,985	4,275
Share premium	15	25,895	25,895
Capital redemption reserve	15	2,899	2,609
Capital reserves	15	187,547	168,812
Revenue reserve	15	6,782	5,694
Total shareholders' funds		**227,108**	**207,285**
Net asset value per Ordinary share	**16**	**1,424.9p**	**1,212.2p**

The financial statements on pages 45 to 64 were approved and authorised for issue by the Directors on 15th October 2018 and signed on their behalf by:

Michael Quicke
Chairman

The notes on pages 49 to 64 form an integral part of these financial statements.

The Company is registered in England and Wales No.2515996.

FOR THE YEAR ENDED 31ST JULY 2018

	Notes	2018 £'000	2017 £'000
Net cash outflow from operations before dividends and interest	17	(2,309)	(1,956)
Dividends received		5,907	4,696
Interest received		96	21
Interest paid		(305)	(220)
Taxation recovered		–	2
Net cash inflow from operating activities		**3,389**	**2,543**
Purchases of investments		(80,826)	(77,062)
Sales of investments		85,868	70,724
Settlement of foreign currency contracts		(12)	(2)
Net cash inflow/(outflow) from investing activities		**5,030**	**(6,340)**
Dividends paid		(3,917)	(3,055)
Repurchase and cancellation of the Company's own shares		(12,334)	(5,941)
Issue of Ordinary shares on exercise of Subscription shares		–	7,867
Drawdown of loans		3,000	3,000
Net cash (outflow)/inflow from financing activities		**(13,251)**	**1,871**
Decrease in cash and cash equivalents		**(4,832)**	**(1,926)**
Cash and cash equivalents at start of year		8,649	10,575
Cash and cash equivalents at end of year		3,817	8,649
Decrease in cash and cash equivalents		**(4,832)**	**(1,926)**
Cash and cash equivalents consist of:			
Cash and short-term deposits		250	370
Cash held in JPMorgan Sterling Liquidity Fund		3,567	8,279
Total		**3,817**	**8,649**

The notes on pages 49 to 64 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST JULY 2018

1. Accounting policies

(a) Basis of accounting

The financial statements are prepared under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including 'the Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') 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 and updated in February 2018.

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 29 of the Audit Committee Report form part of these financial statements.

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

(b) 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.

(c) Accounting for reserves

Gains and losses on sales of investments are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end are accounted for in capital reserves within 'Investment holding gains and losses'.

The cost of repurchasing ordinary shares including stamp duty and transaction costs are included in the Statement of Changes in Equity and dealt with in capital reserves within 'Gains and losses on sales of investments'.

(d) 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.

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

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up.

Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

Interest receivable is taken to revenue on an accruals basis.

Interest from non-convertible fixed interest debt securities is recognised on an accounts basis using the effective interest basis which takes account of the amortisation of any discount or premium arising on the purchase price, compared to the final maturity value, over the remaining life of the security.

1. Accounting policies *continued*

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue 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; and
- Expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 55.

(f) Finance costs

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

(g) 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 amortised cost. They are initially measured at proceeds net of direct issue costs and subsequently measured at amortised cost using the effective interest rate method. Interest payable on the bank loan is accounted for on an accruals basis in the Statement of Comprehensive Income.

(h) 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.

(i) 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.

(j) 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.

(k) Dividends

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

(l) 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'.

(m) Repurchase of shares into Treasury

The cost of repurchasing shares into Treasury, including the related stamp duty and transaction 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. Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into capital redemption reserve.

Should shares held in Treasury be reissued, the sales proceeds will be treated as a realised profit up to the amount of the purchase price of those shares and will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

(n) Share issue costs

The costs of issuing shares are charged against the share premium account.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements on occasion requires the Directors 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.

The Directors 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 on investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Gains on investments held at fair value through profit or loss based on historic cost	18,559	7,166
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(14,673)	(3,226)
Gains on sales of investments based on the carrying value at the previous balance sheet date	3,886	3,940
Net movement in investment holding gains and losses	28,406	41,008
Other capital charges	(10)	(14)
Total capital gains on investments held at fair value through profit or loss	**32,282**	**44,934**

4. Income

	2018 £'000	2017 £'000
Income from investments		
UK dividends	5,040	4,054
Overseas dividends	965	913
Property income distribution	34	39
UK interest[1]	71	–
Scrip dividends	109	127
	6,219	5,133
Interest receivable and similar income		
Underwriting commission	–	34
Interest from liquidity fund	25	16
	25	50
Total income	6,244	5,183

[1] Includes £69,000 relating to amortisation of the holding in Constellation Healthcare Technologies Inc. (Letter of Entitlement) calculated using the effective interest method, as outlined in note 1(d), with the other side of the transaction being in Investments held at fair value through profit or loss (note 11).

5. Management fee

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Management fee	558	1,303	1,861	474	1,106	1,580

Details of the management fee are given in the Directors' Report on page 22.

6. Other administrative expenses

	2018 £'000	2017 £'000
Directors' fees[1]	136	147
Depositary fees[2]	34	37
Auditor's remuneration for audit services[3]	30	29
Printing costs	26	25
Professional fees	9	21
AIC Subscription	15	17
Registrar fees	14	26
Irrecoverable VAT	12	15
Postage	10	16
Broker fees	18	14
Savings scheme costs[4]	(3)	54
Administrative expenses	53	51
	354	452

[1] Full disclosure is given in the Directors' Remuneration Report on pages 32 and 33.
[2] Includes £6,000 (2017: £6,000) irrecoverable VAT.
[3] Includes £5,000 (2017: £5,000) irrecoverable VAT.
[4] Refunded by/paid to the Manager for marketing and administration of saving scheme products. Includes £nil (2017: £9,000) irrecoverable VAT.

7. Finance costs

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Interest on bank loans and overdrafts	94	220	314	66	154	220

8. Taxation

(a) Analysis of tax charge in the year

	2018 £'000	2017 £'000
Overseas withholding tax	233	141
Total tax charge for the year	**233**	**141**

(b) Factors affecting total tax charge for the year

The tax charge for the year is lower (2017: lower) than the Company's applicable rate of corporation tax of 19.00% (2017: 19.67%) The factors affecting the total tax charge for the year are as follows:

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Net return on ordinary activities before taxation	5,238	30,742	35,980	4,191	43,696	47,887
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 19.00% (2017: 19.67%)	995	5,841	6,836	824	8,595	9,419
Effects of:						
Non taxable capital gains	–	(6,130)	(6,130)	–	(8,843)	(8,843)
Non taxable UK dividends	(958)	–	(958)	(797)	–	(797)
Non taxable overseas dividends	(49)	–	(49)	(84)	–	(84)
Non taxable scrip dividends	(21)	–	(21)	(25)	–	(25)
Double taxation relief expensed	(20)	–	(20)	(73)	–	(73)
Unrelieved expenses	53	289	342	155	248	403
Overseas withholding tax	233	–	233	141	–	141
Total tax charge for the year	**233**	**–**	**233**	**141**	**–**	**141**

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £5,409,000 (2017: £5,122,000) based on a prospective corporation tax rate of 17% (2017: 17%). The UK corporation tax rate is enacted to fall to 17% effective on 1st April 2020. 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.

9. Return per share

	2018 £'000	2017 £'000
Revenue return	5,005	4,050
Capital return	30,742	43,696
Total return	**35,747**	**47,746**
Weighted average number of shares in issue during the year	16,306,641	16,710,754
Revenue return per share	30.69p	24.24p
Capital return per share	188.53p	261.48p
Total return per share	**219.22p**	**285.72p**

10. Dividends

(a) Dividends paid and proposed

	2018 £'000	2017 £'000
Dividend paid		
2017 final dividend of 23.0p (2016: 18.3p) per share	3,917	3,055
Dividend proposed		
2018 final dividend proposed of 27.0p (2017: 23.0p) per share	4,303	3,933

All dividends paid and proposed in the period have been and will be funded from the revenue reserve.

The dividend proposed in respect of the year ended 31st July 2017 amounted to £3,933,000. However the amount paid amounted to £3,917,000 due to shares repurchased after the balance sheet date but prior to the share register record date.

The dividend proposed in respect of the year ended 31st July 2018 is subject to shareholder approval at the forthcoming AGM. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 31st July 2019.

(b) Dividend 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 £5,005,000 (2017: £4,050,000). The revenue reserve after payment of the final dividend will amount to £2,479,000 (2017: £1,761,000).

	2018 £'000	2017 £'000
2018 final dividend of 27.0p (2017: 23.0p) per share	4,303	3,933

11. Investments

	2018 £'000	2017 £'000
Investments listed on a recognised stock exchange	247,785	224,092

	2018 Listed £'000	2018 Unlisted £'000	2018 Total £'000	2017 Listed £'000	2017 Unlisted £'000	2017 Total £'000
Opening book cost	163,619	–	163,619	146,581	534	147,115
Opening investment holding gains/(losses)	60,473	–	60,473	22,691	–	22,691
Opening valuation	224,092	–	224,092	169,272	534	169,806
Movements in the year:						
Purchases at cost	78,514	–	78,514	80,165	–	80,165
Sales - proceeds	(87,182)	–	(87,182)	(70,827)	–	(70,827)
Effective Interest Rate (EIR) Adjustment[1]	69	–	69	–	–	–
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	3,886	–	3,886	3,940	–	3,940
Transfer to/from unquoted investments (cost)	–	–	–	534	(534)	–
Net movement in investment holding gains and losses	28,406	–	28,406	41,008	–	41,008
	247,785	**–**	**247,785**	**224,092**	**–**	**224,092**
Closing book cost	173,510	–	173,510	163,619	–	163,619
Closing investment holding gains	74,275	–	74,275	60,473	–	60,473
Total investments held at fair value through profit or loss	**247,785**	**–**	**247,785**	**224,092**	**–**	**224,092**

[1] This relates to amortisation of the holding in Constellation Healthcare Technologies Inc. (Letter of Entitlement) calculated using the effective interest method, (see note 1(d)), with the income side of the being included within UK Interest (see note 4).

Transaction costs on purchases during the year amounted to £316,000 (2017: £360,000) and on sales during the year amounted to £80,000 (2017: £75,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding losses amounting to £14,673,000 have been transferred to gains on sales of investments as disclosed in note 15.

12. Current assets

Debtors

	2018 £'000	2017 £'000
Securities sold awaiting settlement	1,610	306
Dividends and interest receivable	317	404
Overseas tax recoverable	–	14
Other debtors	14	14
	1,941	**738**

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.

13. Current liabilities

	2018 £'000	2017 £'000
Creditors: amounts falling due within one year		
Bank loan	25,000	22,000
Securities purchased awaiting settlement	1,311	3,732
Repurchase of the Company's own shares awaiting settlement	–	327
Loan interest payable	25	16
Other creditors	99	119
	26,435	**26,194**

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

The Company has a £25.0 million unsecured loan facility with Scotiabank which expires in April 2019. Under the terms of this agreement the Company may draw down up to £25.0 million, or the equivalent in euros, at an interest rate of the interbank offer rate for the relevant currency and period, plus a margin per annum, plus the mandatory cost, which is the lender's cost of complying with certain regulatory requirements of the Bank of England, FCA, or the European Central Bank. There is also a further option to increase the facility commitment amount by £10.0 million to £35.0 million in two increments of £5.0 million subject to certain conditions. At 31st July 2018, the Company had £25.0 million drawn down on the facility at an interest rate of 1.41%.

14. Called up share capital

	2018 £'000	2017 £'000
Ordinary shares allotted and fully paid:		
Opening balance of 17,099,806 (2017: 16,930,024) shares of 25p each	4,275	4,232
Repurchase and cancellation of 1,161,205 (2017: 689,992) shares	(290)	(172)
Issue of nil (2017: 859,774) shares on exercise of Subscription shares	–	215
Closing balance of 15,938,601 (2017: 17,099,806) shares of 25p each	**3,985**	**4,275**
Opening balance of nil (2017: 3,555,679) shares of 0.1p each	–	4
Exercise of nil (2017: 859,774) Subscription shares into Ordinary shares	–	(1)
Cancellation of nil (2017: 2,695,905) shares at their expiry date	–	(3)
Closing balance of nil (2017: nil) subscription shares	**–**	**–**
Total called up share capital	**3,985**	**4,275**

Further details of transactions in the Company's shares are given in the Business Review on page 16.

15. Capital and reserves

				Capital reserves			
	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Gains and losses on sales of investments £'000	Investment holding gains and losses £'000	Revenue reserve[1] £'000	Total £'000
Opening balance	**4,275**	**25,895**	**2,609**	**108,339**	**60,473**	**5,694**	**207,285**
Net foreign currency losses on cash and cash equivalents	–	–	–	(17)	–	–	(17)
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	3,886	–	–	3,886
Net movement in investment holding gains and losses	–	–	–	–	28,406	–	28,406
Transfer on disposal of investments	–	–	–	14,673	(14,673)	–	–
Repurchase and cancellation of the Company's own shares	(290)	–	290	(12,007)	–	–	(12.007)
Management fee and finance costs charged to capital	–	–	–	(1,523)	–	–	(1,523)
Other capital charges	–	–	–	(10)	–	–	(10)
Dividend paid in the year	–	–	–	–	–	(3,917)	(3,917)
Retained revenue for the year	–	–	–	–	–	5,005	5,005
Closing balance	**3,985**	**25,895**	**2,899**	**113,341**	**74,206**	**6,782**	**227,108**

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

16. Net asset value per share

	2018	2017
Net assets (£'000)	227,108	207,285
Number of shares in issue	15,938,601	17,099,806
Net asset value per Ordinary share	**1,424.9p**	**1,212.2p**

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

	2018 £'000	2017 £'000
Net return on ordinary activities before finance costs and taxation	36,294	48,107
Less capital return on ordinary activities before finance costs and taxation	(30,962)	(43,850)
Scrip dividends included in income	(109)	(127)
Decrease/(increase) in accrued income and other debtors	87	(150)
(Decrease)/increase in accrued expenses	(20)	19
Effective Interest Rate (EIR) Adjustment[1]	(69)	–
Management fee charged to capital	(1,303)	(1,106)
Tax on unfranked investment income	(219)	(156)
Dividends received	(5,907)	(4,696)
Interest received	(96)	(21)
Realised (loss)/gain on foreign exchange transactions	(5)	24
Net cash outflow from operations before dividends and interest	**(2,309)**	**(1,956)**

[1] This relates to amortisation of the holding in Constellation Healthcare Technologies Inc. (Letter of Entitlement) (see note 1(d)). As this is a non-cash item, this is removed for the preparation of the Statement of Cash Flows.

18. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2017: nil).

19. Transactions with the Manager and related parties

Details of the management contract are set out in the Directors' Report on page 22. The management fee payable to the Manager for the year was £1,861,000 (2017: £1,580,000) of which £nil (2017: £nil) was outstanding at the year end.

During the year £3,000 was refunded by (2017: £54,000 including VAT, was paid to) the Manager for the administration of savings scheme products, of which £6,000 (2017: £16,000) was outstanding at the year end.

Included in administration expenses in note 6 on page 52 are safe custody fees amounting to £4,000 (2017: £3,000) payable to JPMorgan Chase of which £1,000 (2017: £1,000) 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 £1,000 (2017: £3,000) of which £nil (2017: £nil) was outstanding at the year end.

The Company also holds cash in the JPMorgan Sterling Liquidity Fund, which is managed by JPMorgan. At the year end this was valued at £3.6 million (2017: £8.3 million). Interest amounting to £25,000 (2017: £16,000) was receivable during the year of which £nil (2017: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £10,000 (2017: £14,000) were payable to JPMorgan Chase during the year of which £3,000 (2017: £3,000) was outstanding at the year end.

At the year end, total cash of £250,000 (2017: £370,000) was held with JPMorgan Chase. A net amount of interest of £49 (2017: £167) was receivable by the Company during the year from JPMorgan Chase of which £6 (2017: £85) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 33 and in note 6 on page 52.

20. Disclosures regarding financial instruments measured at fair value

The fair value hierarchy disclosures required by FRS 102 are given below.

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

(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

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

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 49.

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

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	247,785	–	224,092	–
Total	**247,785**	**–**	**224,092**	**–**

	2017	
	Equity investments £'000	Total £'000
Level 3		
Opening balance	534	534
Transfers out of Level 3	(534)	(534)
Closing balance	**–**	**–**

21. 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 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 financial instruments are as follows:

- investments in equity and preference shares of UK companies, 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; and
- loan facilities, the purpose of which are to finance the Company's operations.

(a) Market risk

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

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits, 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.

Interest rate exposure

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.

	2018 £'000	2017 £'000
Exposure to floating interest rates		
JPMorgan Sterling Liquidity Fund	3,567	8,279
Cash and short-term deposits	250	370
Bank loan	(25,000)	(22,000)
Total exposure	**(21,183)**	**(13,351)**

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2017: same). The target interest earned on the JPMorgan Sterling Liquidity Fund is the 7 day Sterling London Interbank Bid Rate. Details of the bank loan are given in note 13 on page 56.

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2017: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be 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.

	2018		2017	
	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	(37)	37	20	(20)
Capital return	(175)	175	(154)	154
Total return after taxation for the year	(212)	212	(134)	134
Net assets	**(212)**	**212**	**(134)**	**134**

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 facility.

(ii) 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 July comprises its holdings in equity investments as follows:

	2018 £'000	2017 £'000
Investments held at fair value through profit or loss	247,785	224,092

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

Concentration of exposure to market price risk

An analysis of the Company's investments is given on page 12. This shows that all of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However, it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

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

(a) Market risk *continued*

(ii) Other price risk *continued*

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% (2017: 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.

	2018		2017	
	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	(52)	52	(47)	47
Capital return	24,657	(24,657)	22,299	(22,299)
Total return after taxation for the year	24,605	(24,605)	22,252	(22,252)
Net assets	**24,605**	**(24,605)**	**22,252**	**(22,252)**

(b) Liquidity risk

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

Management of the risk

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

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

	2018			
	Three months or less £'000	More than three months but no more than one year £'000	More than one year £'000	Total £'000
Creditors:				
Securities purchased awaiting settlement	1,311	–	–	1,311
Other creditors	99	–	–	99
Bank loan including interest	25,089	–	–	25,089
	26,499	**–**	**–**	**26,499**

	2017			
	Three months or less £'000	More than three months but no more than one year £'000	More than one year £'000	Total £'000
Creditors:				
Securities purchased awaiting settlement	3,732	–	–	3,732
Repurchase of the Company's own shares awaiting settlement	327	–	–	327
Other creditors	119	–	–	119
Bank loan including interest	69	22,093	–	22,162
	4,247	22,093	–	26,340

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 Delivery Versus Payment ('DVP') 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.

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 Bank, N.A. were to cease trading. The Depositary, Bank of New York Mellon (International) 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.

(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.

22. Capital management policies and procedures

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

	2018 £'000	2017 £'000
Debt:		
Bank loan	25,000	22,000
Equity:		
Called up share capital	3,985	4,275
Reserves	223,123	203,010
Total debt and equity	**252,108**	**229,285**

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 10% net cash to 15% geared.

	2018 £'000	2017 £'000
Investments held at fair value through profit or loss	247,785	224,092
Net assets	227,108	207,285
Gearing	**9.1%**	**8.1%**

The Company does not have any external capital requirements.

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 for cancellation, which takes into account the share price discount or premium; and
- the opportunity for issue of new shares.

23. 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

Leverage

For the purposes of the Alternative Investment Fund Managers Directive ('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 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's maximum and actual leverage levels at 31st July 2018 are shown below:

	Gross Method	Commitment Method
Leverage exposure		
Maximum limit	175%	175%
Actual	110%	111%

JPMorgan Funds Limited (the '**Management Company**') is the authorised manager of JPMorgan Smaller Companies Investment Trust plc (the '**Company**') and is part of the J.P. Morgan Chase & Co. group of companies. In this section, the terms 'J.P. Morgan' or 'Firm' refer to that group, and each of the entities in that group globally, unless otherwise specified.
This section of the annual report has been prepared in accordance with the Alternative Investment Fund Managers' Directive (the 'AIFMD'), the European Commission Delegated Regulation supplementing the AIFMD, and the 'Guidelines on sound remuneration policies' issued by the European Securities and Markets Authority under the AIFMD.

This section has also been prepared in accordance with the relevant provisions of the Financial Conduct Authority Handbook (FUND 3.3.5).

Remuneration Policy

A summary of the Remuneration Policy currently applying to the Management Company (the '**Remuneration Policy Statement**') can be found at https://am.jpmorgan.com/gb/en/asset-management/gim/per/legal/emea-remuneration-policy. This Remuneration Policy Statement includes details of how remuneration and benefits are calculated, including the financial and non-financial criteria used to evaluate performance, the responsibilities and composition of the Firm's Compensation and Management Development Committee, and the measures adopted to avoid or manage conflicts of interest. A copy of this policy can be requested free of charge from the Management Company.

The Remuneration Policy applies to all employees of the Management Company, including individuals whose professional activities may have a material impact on the risk profile of the Management Company or the Alternative Investment Funds it manages ('**AIFMD Identified Staff**'). The AIFMD Identified Staff include members of the Board of the Management Company (the '**Board**'), senior management, the heads of relevant Control Functions, and holders of other key functions. Individuals are notified of their identification and the implications of this status on at least an annual basis.

The Board reviews and adopts the Remuneration Policy on an annual basis, and oversees its implementation, including the classification of AIFMD Identified Staff. As at 31st December 2017, the Board last reviewed and adopted the Remuneration Policy in June 2017 with no material changes and was satisfied with its implementation.

Quantitative Disclosures

The table below provides an overview of the aggregate 2017 total remuneration paid to staff of the Management Company and the number of beneficiaries. These figures include the remuneration of all staff of JP Morgan Asset Management (UK) Ltd (the relevant employing entity) and the number of beneficiaries, both apportioned to the Management Company on an Assets Under Management ('AUM') weighted basis.

Due to the Firm's operational structure, the information needed to provide a further breakdown of remuneration attributable to the Company is not readily available and would not be relevant or reliable. However, for context, the Management Company manages 32 Alternative Investment Funds and two UCITS (with 38 sub-funds), with a combined AUM as at 31st December 2017 of £13,204 million and £15,004 million respectively.

	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
All staff (USD $'000s)	14,845	9,801	24,646	117

The aggregate 2017 total remuneration paid to AIFMD Identified Staff was USD $65,309,308, of which USD $7,505,126 relates to Senior Management and USD $57,804,181 relates to other Identified Staff.

SECURITIES FINANCING TRANSACTIONS REGULATION ('SFTR') DISCLOSURES (UNAUDITED)

The Company does not engage in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-selling back transactions or sell-buy back transactions and margin lending transactions) or Total Return Swaps. Accordingly, disclosures required by Article 13 of the Regulation are not applicable for the year ended 31st July 2018.

Shareholder Information

Notice is hereby given that the twenty eighth Annual General Meeting of JPMorgan Smaller Companies Investment Trust plc will be held at 60 Victoria Embankment, London EC4Y 0JP at 3.00 p.m. on Wednesday, 28th November 2018 for the following purposes.

1. To receive the Directors' Report, the Annual Accounts and the Independent Auditor's Report for the year ended 31st July 2018.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st July 2018.
4. To approve a final dividend of 27.0p per Ordinary share.
5. To reappoint Frances Davies a Director of the Company.
6. To reappoint Michael Quicke a Director of the Company.
7. To reappoint Andrew Robson a Director of the Company.
8. To reappoint Andrew Impey a Director of the Company.
9. To reappoint Alice Ryder a Director of the Company.
10. To reappoint Ernst & Young LLP as Auditor of the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider the following resolutions:

Authority for sub-division of existing ordinary shares – Ordinary Resolution

11. THAT each of the issued ordinary shares of 25 pence each in the capital of the Company be sub-divided into five ordinary shares of 5 pence each (the 'New Ordinary Shares') having the rights and being subject to the restrictions and obligations set out in the articles of association of the Company, such sub-division to be conditional on the New Ordinary Shares being admitted to the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange (expected to be 8.00 a.m. on 30th November 2018).

Authority to allot new shares – Ordinary Resolution

12. 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 of the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £199,091, representing approximately 5% of the Company's issued share capital (excluding Treasury shares) as at the date of this notice provided that this authority shall expire at the conclusion of the AGM of the Company to be held in 2019 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

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

13. THAT subject to the passing of Resolution 12 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573, of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of Section 560 of the Act) pursuant to the authority conferred by Resolution 12 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 £199,091, representing approximately 5% of the issued share capital as at the date of this notice 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 12 above, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

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

    PROVIDED ALWAYS THAT

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 2,387,499 (11,937,495 Ordinary Shares should Resolution 11 be passed), or if less, that 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;

(iii) the maximum price which may be paid for a 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 Share is purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

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

(v) the authority hereby conferred shall expire on 27th May 2020 unless the authority is renewed at the Company's AGM in 2019 or at any other general meeting prior to such time; and

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

Investment Objective and Policy – Ordinary Resolution

15. THAT the new investment objective and investment policy as set out in the Appendix to the Company's Annual Report and Financial Statements for the year ended 31st July 2018 and produced to the meeting, be and is hereby approved in substitution for the Company's existing investment objective and investment policy.

By order of the Board
Lucy Dina, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

22nd October 2018

Notes

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

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.

2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.

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 3.00 p.m. two business days prior to the meeting (ie. 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 sent shall be treated as replacing and revoking the other or others.

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.

6. Entry to the Meeting will be restricted to shareholders, 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 (as amended by the Shareholder Rights Directive 2009, each such representative(s) may exercise 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 auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an auditor of the company ceasing to hold office since the previous AGM; which the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditor no later than the time it makes its statement available on the website.

9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting; no answer need be given if it is undesirable in the interests of the Company or the good order of the meeting.

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

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

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

13. The register of interests of the Directors and connected persons in the share capital of the Company is available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the AGM.

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 Direction 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 Direction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.

16. As at 15th October 2018 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 15,927,282 Ordinary shares of 25 pence each, carrying one vote each. Therefore the total voting rights in the Company are 15,927,282.

Electronic appointment – CREST members

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

Appendix

Proposed Changes to Investment Objective and Policy

The proposed new investment objective and policy for the Company, as proposed in resolution 15 on page 70 of this report, are set out below. Changes to the existing investment objective and investment policy at the time of publication of this document are marked in black-line.

Structure and Objective of the Company

JPMorgan Smaller Companies Investment Trust plc is an investment trust company that has a premium listing on the London Stock Exchange. The Company's objective is to achieve capital growth from UK listed smaller companies by out-performance of the Company's benchmark index, the ~~FTSE Small Cap Index (excluding investment trusts)~~ Numis Smaller Companies plus AIM (excluding Investment Companies) Index and a rising share price over the longer term by taking carefully controlled risks.

In seeking to achieve this objective the Company employs JPMF to actively manage the Company's assets. The Board has determined an investment policy and related guidelines and limits as described below.

The Company is subject to UK and European legislation and regulations including UK company law, Financial Reporting Standards, the UKLA Listing, Prospectus, Disclosure Guidance and Transparency Rules, Market Abuse Regulation, 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) for the year ended 31st July 2013 and future years. The Directors have no reason to believe that approval will not continue to be obtained. The Company is not a close company for taxation purposes.

Investment Policy

In order to achieve the investment objective, the Company invests in a diversified portfolio of small companies, emphasising capital rather than income growth.

Investment risks are managed by investing in a diversified portfolio of UK listed smaller companies. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to stocks and sectors.

The Company invests in smaller companies which tend to be more volatile than larger companies and the investment policy should therefore be regarded as carrying greater than average risk. Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company makes use of borrowings to increase returns.

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 UK listed closed-ended investment funds and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed closed-ended investment funds at the time of acquisition.

Investment Restrictions and Guidelines

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

- No investment in the portfolio will be greater than 10% of the Company's gross assets.
- The Company will not normally invest in unlisted securities.
- The Company will not normally invest in derivative instruments.
- The Company will not normally invest greater than 50% of its gross assets in AIM stocks.
- The number of investments in the portfolio will normally range between 60 and 120.
- The Company's gearing policy is to operate within a range of –10% to +15% invested in normal markets.
- The maximum exposure to an investment will normally range between +/–5% relative to the benchmark index.
- The maximum exposure to an ICB (Industry Classification Benchmark) sector will range between +/–20% (previously +/–10%) relative to the benchmark index.
- ~~No investments in new companies with a capitalisation greater than £1 billion will be made without consultation with the Board.~~

Return to Shareholders (Alternative Performance Measures (APM))

Total return to the shareholder, on a last traded price to last traded 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.

Total return calculation	Page	2018	2017	
Opening share price as at 31st July (p)	4	942.0	750.0	(a)
Closing share price as at 31st July (p)	4	1215.0	942.0	(b)
Total dividend adjustment factor[1]		1.022115	1.024400	(c)
Adjusted closing share price (p) (d = b x c)		1241.9	965.0	(d)
Total return to shareholder (e = d / a – 1)		**31.8%**	**28.7%**	(e)

[1] The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the last traded price quoted at the ex-dividend date.

Return on Net Assets (APM)

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, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Total return calculation	Page	2018	2017	
Opening cum-income NAV per share as at 31st July (p)	4	1212.2	942.9	(a)
Closing cum-income NAV per share as at 31st July (p)	4	1424.9	1212.2	(b)
Total dividend adjustment factor[2]		1.018168	1.018881	(c)
Adjusted closing cum-income NAV per share price (p) (d = b x c)		1450.8	1235.1	(d)
Total return on net assets (e = d / a – 1)		**19.7%**	**31.0%**	(e)

[2] The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum-income NAV at the ex-dividend date.

Benchmark return

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

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

Share Price Discount/Premium to Net Asset Value (‘NAV’) per Ordinary Share (APM)

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, meaning there are more sellers than buyers. 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 (see page 4).

Gearing/Net cash (APM)

Gearing represents the excess amount above shareholder’s funds of total investments, expressed as a percentage of the shareholders’ funds. If the amount calculated is negative, this is shown as a ‘net cash’ position.

Gearing calculation	Page	2018 £’000	2017 £’000	
Investments held at fair value through profit or loss	47	47,785	24,092	(a)
Net assets	47	227,108	207,285	(b)
Gearing/(Net cash) (c = a / b – 1)		**9.1%**	**8.1%**	(c)

Ongoing charges (APM)

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

Ongoing charges calculation	Page	2018 £’000	2017 £’000	
Management Fee	45	1,861	1,580	
Other administrative expenses	45	354	452	
Total management fee and other administrative expenses		2,215	2,032	(a)
Average daily cum-income net assets		214,297	181,162	(b)
Ongoing charges (c = a / b)		**1.03%**	**1.12%**	**(c)**

Performance attribution

Analysis of how the Company achieved its recorded performance relative to its benchmark (see page 8).

Performance Attribution Definitions:

Stock/Sector selection

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.

Gearing/Net Cash

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

Management fee/Other expenses

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

Repurchase of shares

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.

You can invest in a J.P. Morgan investment trust through the following;

1. Directly from J.P. Morgan

Investment Account

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

Stocks & Shares Individual Savings Accounts (ISA)

The Company's shares are eligible investments within a J.P. Morgan ISA. For the 2018/19 tax year, from 6th April 2018 and ending 5th April 2019, the total ISA allowance is £20,000. The shares are also available in a J.P. Morgan Junior ISA. Details are available from J.P. Morgan Asset Management free on 0800 20 40 20 or via its website at am.jpmorgan.co.uk/investor

2. Via a third party provider

Third party providers include;

AJ Bell	Hargreaves Lansdown
Alliance Trust Savings	Interactive Investor
Barclays Stockbrokers	James Brearley
Bestinvest	James Hay
Charles Stanley Direct	Selftrade
FundsNetwork	The Share Centre

Please note this list is not exhaustive and the availability of individual trusts may vary depending on the provider. These websites are third party sites and J.P. Morgan Asset Management does not endorse or recommend any. Please observe each site's privacy and cookie policies as well as their platform charges structure.

3. Through a professional adviser

Professional advisers are usually able to access the products of all the companies in the market and can help you find an investment that suits your individual circumstances. An adviser will let you know the fee for their service before you go ahead. You can find an adviser at unbiased.co.uk

You may 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 fca.org.uk

FINANCIAL CALENDAR

Financial year end	31st July
Final results announced	October
Half year end	31st January
Half year results announced	March
Dividend on ordinary shares paid	December
Annual General Meeting	November/December

History

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

Company Numbers

Company registration number: 2515996
London Stock Exchange code: 0741600
Bloomberg code: JMI LN
Reuters code: JMI.L
LEI: 549300PXALXKUMU9JM18

Market Information

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

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

Website

www.jpmsmallercompanies.co.uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan Junior ISA. These products are all available on the online service at 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 and administrative matters please contact Lucy Dina.

Depositary

The Bank of New York Mellon (International) Limited
1 Canada Square
London E14 5AL

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

Registrars

Equiniti Limited
Reference 1139
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone number: 0371 384 2341

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 1139. Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Independent Auditors

Ernst & Young LLP
Statutory Auditor
Atria One
144, Morrison Street
Edinburgh EH3 8EX

Brokers

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

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.

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The Association of Investment Companies

A member of the AIC

www.jpmsmallercompanies.co.uk

CONTACT J.P. MORGAN

Freephone 0800 20 40 20 or +44 (0) 1268 444470.
Telephone lines are open Monday to Friday,
9.00am to 5.30pm.

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

J.P.Morgan
Asset Management