

# JPMorgan American Investment Trust plc

Annual Report & Financial Statements for the year ended 31st December 2017



## KEY FEATURES

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### Your Company

#### Investment Objective

To achieve capital growth from North American investments by outperformance of the Company's benchmark.

#### Investment Policies

- To invest in North American quoted companies including, when appropriate, exposure to smaller capitalisation companies.
- To emphasise capital growth rather than income.

Please refer to page 18 for full details of the Company's investment policies.

#### Gearing and Hedging Policies

- To use short and long term gearing to increase potential returns to shareholders. The Company's gearing policy is to operate within a range of 5% net cash to 20% geared in normal market conditions. The Manager is accountable for tactically managing the gearing, within a +/- 2.0% range around a 'normal' gearing level. The normal gearing level, which is set by the Board and kept under review, is currently 10%.
- To hedge the currency risk only in respect of the Company's sterling debenture. All other debt is drawn in dollars.

#### Benchmark Index

The S&P 500 Index expressed in sterling total return terms.

#### Capital Structure

As at 31st December 2017, the Company's share capital comprised 281,633,910 ordinary shares of 5p each, including 50,548,099 shares held in Treasury.

The Company has a £50 million debenture in issue, carrying a fixed interest rate of 6.875%, per annum, repayable in June 2018. The Company currently also has two floating rate debt facilities totalling £65 million.

#### Management and Performance Fees

The management fee was charged at a rate of 0.5% per annum, paid quarterly in arrears, on the Company's total assets less current liabilities until 30th September 2017. With effect from 1st October 2017, the management fee is charged on a tiered basis as follows:

- 0.35% on the first £500 million of net assets;
- 0.30% on net assets above £500 million and up to £1 billion; and
- 0.25% on any net assets above £1 billion.

The performance fee is calculated at the rate of 10% of the difference between the net asset value total return and the total return of the S&P 500 Index. The performance fee is capped in any one year at 0.25% of the cum-income debt at par net asset value at the previous 31st December, and any negative fee resulting from underperformance is deducted from any unpaid fees brought forward from prior years with any remaining amount carried forward until paid in full.

#### Management Company

The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') as its Alternative Investment Fund Manager. JPMF delegates the management of the Company's portfolio to JPMorgan Asset Management (UK) Limited ('JPMAM') which further delegates the management to J.P. Morgan Asset Management, Inc. All of these entities are wholly owned subsidiaries of J.P. Morgan Chase & Co.

#### Financial Conduct Authority ('FCA') regulation of 'non-mainstream pooled investments' and 'complex instruments'

The Company currently conducts its affairs so that the shares issued by the Company 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. The Company's shares are not considered to be 'complex instruments' under the FCA's 'appropriateness' rules and guidance in the Conduct of Business sourcebook.

#### AIC

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

#### Website

The Company's website, which can be found at [www.jpmerican.co.uk](http://www.jpmerican.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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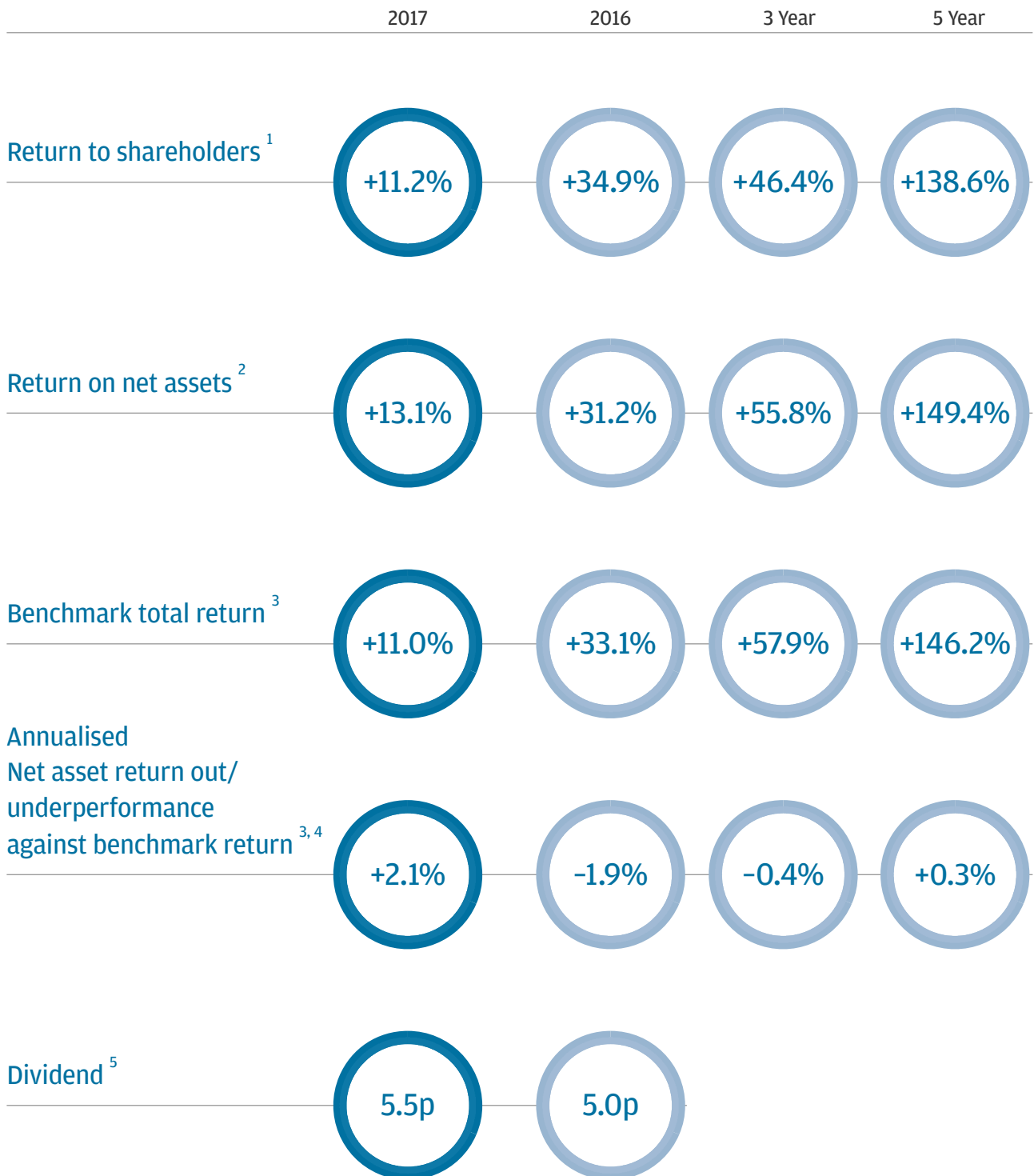
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# Strategic Report

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TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED)



<sup>1</sup> Source: Morningstar.

<sup>2</sup> Source: Morningstar/J.P. Morgan, using cum income net asset value per share, with debt at fair value.

<sup>3</sup> The Company's benchmark index is the S&P 500 Index, net of the appropriate withholding tax, expressed in sterling total return terms.

<sup>4</sup> Annualised returns calculated on a geometric basis.

<sup>5</sup> 2017 total dividend is subject to approval by shareholders at the 2018 Annual General Meeting of the final dividend of 3.25p.

A glossary of terms and alternative performance measures is provided on pages 76 to 78.

# FINANCIAL HIGHLIGHTS

## SUMMARY OF RESULTS

	2017	2016	% change
<b>Total returns for the year ended 31st December</b>			
Return to shareholders <sup>1</sup>	+11.2%	+34.9%	
Return on net assets with debt at fair value <sup>2</sup>	+13.1%	+31.2%	
Return on net assets with debt at par value <sup>2</sup>	+12.8%	+30.8%	
Benchmark return <sup>1,3</sup>	+11.0%	+33.1%	
<b>Net asset value, share price, discount and market data at 31st December</b>			
Net asset value per share with debt at fair value <sup>4</sup>	423.6p	379.3p	+11.7
Net asset value per share with debt at par value	424.3p	381.0p	+11.4
Share price	405.4p	369.2p	+9.8
Share price discount to net asset value per share with debt at fair value	4.3%	2.7%	
Share price discount to net asset value per share with debt at par value	4.5%	3.1%	
Shareholders' funds (£'000)	980,430	985,216	-0.5
Market capitalisation (£'000)	936,822	954,653	-1.9
S&P 500 Index expressed in sterling (capital only) <sup>5</sup>	1,976.4	1,811.9	+9.1
Exchange rate	1 £ = \$ 1.3527	1 £ = \$ 1.2356	+9.5
Shares in issue (excluding shares held in Treasury)	231,085,811	258,573,403	-10.6
<b>Revenue for the year ended 31st December</b>			
Net revenue attributable to shareholders (£'000)	14,280	15,180	-5.9
Return revenue per share	5.93p	5.70p	+4.0
Dividend per share	5.50p	5.00p	+10.0
<b>Gearing at 31st December</b>			
	9.2%	8.5%	
<b>Ongoing Charges</b>			
	0.55%	0.62%	
<b>Ongoing Charges including any performance fee payable</b>			
	0.55%	0.62%	
<b>Management Fee<sup>6</sup></b>			
	0.35%	0.50%	

<sup>1</sup> Source: Morningstar.

<sup>2</sup> Source: Morningstar/J.P. Morgan, using cum income net asset value per share.

<sup>3</sup> The Company's benchmark is the S&P 500 Index expressed in sterling total return terms.

<sup>4</sup> The fair value of the £50m debenture issued by the Company has been calculated using discounted cash flow techniques, using the yield from a similarly dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

<sup>5</sup> Source: Datastream.

<sup>6</sup> The maximum level of the management fee, excluding any performance fee payable. With effect from 1st October 2017, the annual management fee is charged on a tiered basis. Details of the management fee are given in the Directors' Report on page 25.

A glossary of terms and alternative performance measures is provided on pages 76 to 78.



**Dr Kevin Carter**  
Chair

**Over the 15 years of his management, Garrett has delivered material outperformance**

**the allocation to smaller companies greatly assisted the Company's performance this year**

I am very pleased to present my first annual statement as Chair of the Company. The year to 31st December 2017 was another positive one for investors in US equities, as the S&P 500 Index on a total return basis rose a further 21.5% for US investors, or 11.0% for UK investors once the effect of sterling's appreciation against the US dollar is taken into account. The Company has outperformed its benchmark in the 12 months to 31st December 2017 on a net asset value cum-income, with debt at fair value ('NAV') per share basis, returning 13.1%. The discount of the share price to NAV (calculated using the cum-income net asset value, with debt at par) widened marginally, from 3.1% to 4.5%, resulting in a total return to shareholders for the year of 11.2%.

### Performance

The Company's objective is to achieve capital growth from North American investments through outperformance of the Company's benchmark, which is the S&P 500 Index (with both NAV and benchmark measured in sterling total return terms).

This year's NAV growth represents a return to relative outperformance for the mandate, following two years of relative underperformance. As can be seen from the attribution report detailed in the Investment Manager's Report on page 12, the Company's large cap portfolio detracted slightly from performance returns, whilst the small cap allocation significantly outperformed. Gearing was accretive to returns. It is disappointing that the large cap strategy has underperformed for a third year in a row, but the Board is encouraged that recently implemented changes to the investment process, to include reducing the number of holdings in the large cap portfolio and reducing the size of the portfolio tail, will bear fruit over the longer term. It is notable that during 2017 the market rise was significantly concentrated within a relatively narrow range of stocks and sectors. For more details of the Board's review of the investment process and its findings please refer to my predecessor's Chair statement within the Company's 2016 Annual Report.

Garrett Fish became lead manager for the Company's portfolio during 2002. Over the 15 years of his management, Garrett has delivered material outperformance. During the 15 years to 31st December 2017, the Company's share price has risen 437.5% (an annualised return of 11.9%), while the Company's benchmark returned 367.3% (an annualised return of 10.8%). This outstanding result demonstrates the long term benefits of deploying a sound investment process with the structural advantages afforded by the closed end nature of an investment trust.

### Smaller Companies Portfolio

Shareholders will be aware that the Company's mandate permits the Investment Manager to invest in a diversified portfolio of quoted companies including, when appropriate, exposure to smaller capitalisation stocks. The Manager obtains this exposure by replicating the portfolio of the JPMorgan US Small Cap Growth Fund. This fund, which is managed by Eytan Shapiro and his team, invests in US small cap stocks and can only be accessed by US investors. Throughout 2017, the Company's weighting in the smaller companies portfolio ranged between 4.8% and 6.2%. Given that in 2017 US small cap stocks outperformed their larger counterparts for the first time since 2013 and Eytan and his team significantly outperformed the US small cap index, as represented by the Russell 2000, the allocation to smaller companies greatly assisted the Company's performance this year. The ability of the Investment Manager to allocate a proportion of the portfolio to small cap stocks was reviewed in detail by the Board and Manager over the year. Having examined data from 2003 to 2017, it was clear that the allocation to smaller companies stocks, given their growth characteristics, had, in aggregate, been accretive to the Company's performance returns over this timeframe. It was also clear that when small cap stocks are cheap on valuation criteria, they tend to outperform their large cap brethren, and vice versa. Accordingly, shareholders should continue to expect the Company to hold a varying allocation to small cap stocks over time, now with a higher average of around 6.5% of the assets, with an upper bound of 9.5%. Reassuringly, when reviewing the analysis from this exercise, the Board was also satisfied with the source of the Company's small cap exposure; Eytan and his team have demonstrated skill in this area of investment.

### Gearing

Over the year gearing remained within the Board's strategic level of 10%, plus or minus 2%. Our Investment Manager has the ability to hold cash of up to 5% of net assets if it is felt that there is a real risk of long term capital loss.

The ability to gear remains one of the differentiating features of the investment trust structure and, accordingly, the Board is cognisant that gearing should be employed, but in a controlled and risk aware manner. Attribution informs us that the gearing employed by the Company was accretive to performance this year. The Company's gearing is implemented through the use of bank borrowing facilities and a debenture. The debenture was issued in 2000 and carries a fixed interest rate of 6.875%. In the latter half of its life the debenture has proved to be a drag on performance and its maturity in June this year will allow the Company to refinance at a significantly lower rate. Its forthcoming maturity has also provided the Board with an opportunity to conduct a detailed review of the Company's gearing strategy and the structure and sources of borrowing going forward. Shareholders will be informed of the results of this exercise once completed.

### Board Review of the Manager

As in prior years, the Board has visited the Manager's offices in New York where it held meetings with Garrett Fish and the manager of the smaller companies portfolio, Eytan Shapiro. The Board further met with JPMorgan's senior management, members of the behavioural finance team of which Garrett is a member, the corporate engagement and the dealing teams. The Board also travelled to Washington D.C. and met with economic and political commentators, including the British Ambassador, senior Embassy staff and experts at the Brookings Institution, all of which helped put the Investment Manager's views into context, and provide a perspective on Mr Trump's first year as U.S. President.

In addition to managing the portfolio, the Manager provides other services to the Company, including accounting, company secretarial and marketing services. These have been formally assessed through the annual manager evaluation process. The Board concluded that it was generally satisfied with JPMorgan's performance. Thus, taking all factors into account, the Board concluded that the ongoing appointment of the Manager is in the continuing interests of shareholders.

### Management Fees and Other Company Expenses

As reported in my Half Year Statement, and announced in June 2017, the Board confirmed a significant reduction in the Company's fee structure. With effect from 1st October 2017, the annual management fee, which was 0.50% of total assets less current liabilities, with no tiering, is charged at an annual rate as detailed below:

- 0.35% on the first £500 million of net assets;
- 0.30% on net assets above £500 million and up to £1 billion; and
- 0.25% on any net assets above £1 billion.

As reported previously the Board and JPMorgan believe that this new fee structure allows the Company to retain its competitive position against both Exchange Traded Funds ("ETFs") and other quant and smart beta products, while continuing to pursue a core active management strategy with an improved investment process.

The Board continues to focus on costs incurred by the Company across all of its functions, with a view to enhancing shareholder value. Over the year, fee reductions have also been negotiated with each of the Company's Depository, Registrar and Broker. Furthermore, following the implementation of regulatory changes detailed below, JPMorgan has undertaken to pay for all broker research commissions from 1st January 2018. Although only a proportion of the fee reductions achieved are reflected in the Company's Ongoing Charge for 2017, at 0.55%, this figure represents a significant reduction from 2016 at 0.62%. The fee reductions should further reduce the Ongoing Charges in 2018, ensuring that the Company remains on a competitive footing.

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**The Board also travelled to Washington D.C. and met with the British Ambassador and experts at the Brookings Institution**

The table set out below illustrates the returns generated on the Company's investments, the extent to which the capital base of the Company has grown or shrunk through share issuance and buy-backs, and the full costs of the Company's operations. The Company's biggest cost remains the management fees at £4.6 million (2016: £4.5 million). As this fee is calculated as a percentage of assets it varies with the size of the Company and therefore rose, although since only one quarter of the year reflects the changes in management fee structure, this figure is likely to reduce next year. No performance fee was payable. However, the Company's NAV total return outperformed the total return of the S&P 500 Index resulting in a performance fee calculation of £1,736,492 for 2017. This amount, when added to the negative £3,339,696 performance fee offset brought forward, leaves a total remaining negative offset of £1,603,204. This entire amount will be carried forward and offset against future outperformance. Full details of the mechanics of the performance fee payments are detailed on page 25.

	2017		2016	
	£'000s	Percentage of opening net assets	£'000s	Percentage of opening net assets
Net assets at start of year	985,216	100.00	816,700	100.00
Increase in net assets during the year from investing	97,960	9.94	240,077	29.40
Brokerage fees/commissions and other dealing charges	(226)	(0.02)	(238)	(0.03)
<b>Net investment performance</b>	<b>1,082,950</b>	<b>109.92</b>	<b>1,056,539</b>	<b>129.37</b>
Income received from investing - net of withholding tax	16,594	1.68	17,617	2.16
Interest received	177	0.02	77	0.01
Dividends paid to shareholders	(12,065)	(1.22)	(12,658)	(1.55)
Interest paid on borrowings	(4,545)	(0.46)	(4,016)	(0.49)
Currency gains/(losses) on hedge	2,809	0.29	(7,174)	(0.88)
Currency gains/(losses) on USD loans	4,684	0.48	(5,678)	(0.69)
Management fee	(4,644)	(0.47)	(4,545)	(0.56)
Directors' fees	(173)	(0.02)	(177)	(0.02)
Other costs of the Company	(480)	(0.05)	(625)	(0.08)
Repurchase of shares into Treasury (net of costs)	(104,877)	(10.65)	(54,144)	(6.63)
<b>Net assets at end of year</b>	<b>980,430</b>	<b>99.52</b>	<b>985,216</b>	<b>120.60</b>

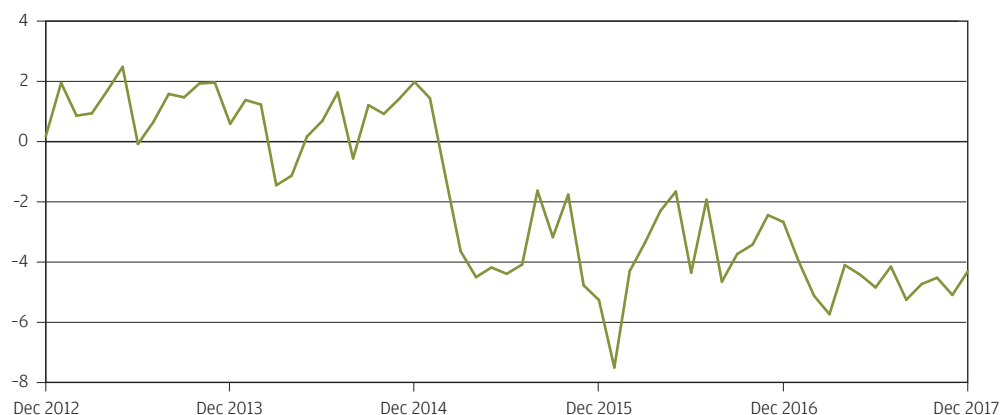
### Share Price and Premium/Discount

Throughout the year, the Company's shares have traded at a discount to the NAV. The Company has continued with its buy back policy, repurchasing 27,487,592 shares into Treasury, at a cost of £104.9 million, representing 10.6% of the Company's issued share capital at the beginning of 2017. These shares were purchased at an average discount to NAV of 4.4%, producing a modest accretion to the NAV for continuing shareholders. Such action reaffirms the Board's commitment to its shareholders to buy shares back when they stand at anything more than a small discount to NAV.

The Company will again be asking shareholders to approve the repurchase of up to 14.99% of the Company's shares at the Annual General Meeting. We will also be seeking shareholder permission to issue shares, where Directors are confident of sustainable market demand. The authority, if approved, will allow

the Company to issue up to 10% of its issued share capital from Treasury. The Company will only issue shares at a price in excess of the estimated NAV including income with the value of the debt deducted at market price.

### (Discount)/Premium level



Source: Morningstar.

— (Discount)/Premium level (month end data calculated with debt at fair value and including income).

### Dividends

The Company paid an interim dividend in respect of the 2017 financial year of 2.25p on 5th October 2017. Subject to shareholder approval at the Annual General Meeting, a final dividend of 3.25p will be paid on 15th May 2018 to shareholders on the register on 13th April 2018, making a total of 5.5p per share, compared with last year's total of 5.0p per share, representing an increase of 10%.

After the payment of the proposed final dividend, we will have a balance in the revenue reserves of £17.8 million (equivalent to 7.7p per share (2016: 6.2p) or 1.4 times (2016: 1.2 times) the current dividend). It is our intention that such reserves be used to support dividend payments when corporate pay outs are less healthy in the short term, or if there are other fluctuations in the revenue account which we assess to be temporary.

### Regulation

As shareholders may be aware, from January this year the Company has become subject to considerable new regulation with additional regulatory changes awaited later in 2018, to include new regulation from the EU to bring data protection legislation in line across Europe. The first new requirements relate to the Packaged Retail and Insurance-based Investment Products ('PRIIPS') and the Markets in Financial Instruments Directive II ('MiFID II') regulations, which came into force on 1st January and 3rd January 2018, respectively.

PRIIPS require Managers, who are deemed to be the manufacturer of investment products (which includes investment trusts), to prepare a Key Information Document ('KID') in respect of the Company. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are tightly prescribed by regulation. The figures in the KID may not reflect future returns for the Company and anticipated performance returns cannot be guaranteed. The KID is available on the Company's website. It is recommended that the KID is not considered in isolation but is read in conjunction with other documents published by the Company and its Manager.

The original MiFID EU regulation, which came into force in 2007, with the aim of creating a common internal market and increasing competition across Europe for investment services and trading activity has been extended through the introduction of MiFID II. MiFID II supplements the existing regulation covering trading and reporting requirements. It is worth highlighting that MiFID II has improved the transparency around research costs that had been paid by clients, which in future will now be absorbed by JPMAM. Considerable work was undertaken by JPMAM to ensure compliance by the Company on the date of implementation.

### The Board

The Board has procedures in place to ensure that the Company complies fully with the AIC Code on Corporate Governance and the UK Corporate Governance Code. In accordance with corporate governance best practice, an externally facilitated board evaluation was completed in respect of 2017 and the results confirmed that all Directors possessed the experience and attributes to support a recommendation to shareholders that they retire and seek re-appointment at the Company's forthcoming Annual General Meeting.

The Board continues to manage succession so that it has an appropriate balance of skills and diverse approaches to its tasks. Having served as a Director since 2005, Sarah Bates retired from the Board in July last year. Robert Talbut joined the Board with effect from 11th May 2017. These changes were described more fully in my Half Year Statement of 3rd August 2017.

The Board will continue to manage succession and refresh its own composition over time.

Directors' fees have not been increased since 1st January 2015. To ensure that the Company can continue to attract good quality candidates and to reflect the increasing workload and responsibilities involved, an increase of £1,000 per Director will be payable from 1st January 2018.

### Annual General Meeting and Shareholder Contact

This year's Annual General Meeting is the Company's 102nd and it will be held on Wednesday, 2nd May 2018 at 2.30 p.m. at 60 Victoria Embankment, London EC4Y 0JP. As in previous years, in addition to the formal part of the meeting, there will be a presentation from Garrett Fish, who will answer questions on the portfolio and performance. There will also be an opportunity to meet the Board, Garrett, and representatives of JPMF after the meeting. I look forward to welcoming as many shareholders as possible to this meeting. Throughout the year and in addition to the opportunity to hear from shareholders at the Annual General Meeting, I very much encourage shareholders to get in touch to share their views. I can be contacted through our Company Secretary, whose details are set out on page 81.

### Outlook

Since the Great Financial Crisis of 2008, unorthodox monetary policies have been followed by the world's leading Central Banks. These policies have succeeded in avoiding a global recession and recapitalising the tenuous balance sheets of the banking sector. But along the way, they have also created asset price inflation. Over this period, the Company's NAV has comfortably more than tripled as the US stockmarket has appreciated in value. We may now be at a point of change. The Federal Reserve, along with other Central Banks, has begun to tighten monetary policy. It remains to be seen how bond and equity markets fare when faced with a headwind of rising short interest rates, but it would seem prudent to expect occasional bouts of market volatility.

The Board takes reassurance from the fact that the Manager constructs the Company's portfolio to have favourable valuation, quality and momentum attributes when compared to the overall market benchmark. While these cannot provide immunity from market declines, over time they are the features which should favour outperformance.

**Dr Kevin Carter**  
Chair

22nd March 2018

**Prudent to  
expect  
occasional  
bouts of market  
volatility**



**Garrett Fish**  
Investment Manager

## Why invest in the JPMorgan American Investment Trust?

“The world’s largest stock market should have a place in every investor’s portfolio. We have the experience and expertise needed to fully capitalise on America’s future growth. The US is home to some of the world’s biggest companies and most recognisable brands, with a stock market that provides direct access to the growth of the world’s largest economy and the chance to benefit from the strength of corporate America. With deep resources and a disciplined investment process at work on your behalf, we believe the JPMorgan American Investment Trust is the ideal actively managed vehicle to offer shareholders participation in the exciting growth story.”

### The Manager’s heritage and team

JPMAM began its life in the United States and has managed US equities for more than 100 years. Today, it manages US equities totalling USD270 billion.

JPMAM's commitment to its home market is borne out in the breadth and depth of its resources. JPMAM's funds benefit from the insight of over 100 dedicated US investment professionals, with an average of 20 years of industry experience.

### The Manager’s Investment Approach

JPMAM believes that markets are not always efficient. Investors exhibit consistent biases and irrational behaviours that result in persistent market inefficiencies, and hence investment opportunities. Taking advantage of these patterns of behaviour, it is possible to outperform over market cycles by creating a portfolio comprised of companies with attractive valuations, high quality management teams and earnings, and improving business trends supported by superior market sentiment.

### The Manager’s investment process blends quantitative and qualitative research



## Market Review

Performance in the US equity markets in 2017 proved to be much stronger than most investors anticipated at the beginning of the year. The newly passed tax reform act, the continued strength in the job market and the resulting hopes for greater capital investment have led Street analysts to raise earnings estimates and lent support to the equity market. The S&P 500 Index finished the year up 11.0% in sterling terms, including dividends, and hit all-time highs 62 times over the course of the year. The median daily market move was just 0.18%, the smallest on record. The largest peak-to-trough drawdown was 2.8%, the mildest year since 1995. To put some context around that number, the average intra-year drawdown since 1980 has been 13.8%.

Growth stocks, those stocks that tend to have a low dividend yield but above average prospects for capital growth, surged this year with the Russell 1000 Growth Index up 30.2% versus 13.7% for the Russell 1000 Value Index, an index that tracks higher yielding, slower growing value stocks. The technology and materials sectors, up 38.8% and 23.8%, respectively led the S&P 500 Index, with the telecom and energy sectors trailing.

The economic environment was robust over the course of the year. The Federal Reserve raised interest rates three times in 2017, bringing the Fed Funds rate to 1.25% - 1.50%. The Fed also increased the cap on the balance sheet run-off, the process by which it plans to shrink its balance sheet as the bonds it acquired in the course of its quantitative easing policy mature, to USD20 billion per month starting in the first quarter of this year. The FOMC decision relied on evidence of underlying strength in the economy and the labour market. However, inflation continues to be muted which means a gradual approach to interest rate policy normalization will be likely. IHS Markit US Manufacturing PMI™ (Purchasing Managers Index) was strong over the course of the year. The December number of 55.1 was the highest since March 2015 and signalled a solid improvement in the health of the industrial sector. US strength coincided with strength around the globe with the J.P. Morgan Global Manufacturing PMI™ rising to 54.5 in December, near a seven-year high.

Legislative reform was perhaps the biggest political consideration of the year for the equity markets. After the failure to pass the American Health Care Act (AHCA) put the proposed tax plan in question, the early optimism around a legislative boost to corporate earnings waned. The eventual signing of the tax reform act in late December resulted in raised earnings estimates for many companies and gave investors renewed hope that 2018 would see an increase in investment spending.

The US Consumer Price Index rose 0.4% in November, and by 2.2% over the last 12 months. This was driven by a strong increase in the energy components of the index. Crude oil (WTI) rose more than 12% over the year supported by a continued drawdown of global inventories late in the year. This tightening in inventory was caused by a number of factors, including supply disruptions caused by the hurricane season, increased compliance of production quotas by OPEC members and strong global demand.

## Overall Asset Allocation and Performance

The Company's NAV rose by 13.1% in total return terms in 2017. The return was above the benchmark, the S&P 500 Index, which rose 11.0% in sterling terms.

The investment management team is responsible for managing the allocation between the large and the small cap portfolios, together with the levels of cash and gearing. In 2017, the Company's gearing ranged between 8.5% and 9.2% of shareholders' funds, with the level at the year-end registering at 9.2%. The level of gearing has been adjusted at regular intervals within the gearing guidelines laid down by the Board. With the market rising last year more than the cost of debt, gearing contributed to relative performance. The weighting in the small cap portfolio ranged between 4.8% and 6.2% and ended the year at 5.0%. We have reduced our number of holdings in the large cap portfolio to improve the performance in this area, to bring greater focus to the core portfolio and to reduce the size of the portfolio tail. We believe that our ability to

**The economic environment was robust over the course of the year**

move between the two segments enhances returns to shareholders over the long term and also helps to balance our overall risk. Attribution data for 2017 in dollar terms, shows that our large cap portfolio modestly detracted for the period, while our smaller companies portfolio was additive. We further enhanced our Small Cap Growth allocation tool to increase our weighting even more when the outlook is more favourable and vice versa in order to capture the strength of the underlying signal.

## Large Companies Portfolio

Our investment methodology continues to focus on investing in high quality, reasonably valued companies. When constructing our portfolio, we use the core tenets of behavioural finance to narrow our investment universe. Behavioural finance theory indicates that on average, high quality, fast growing, cheap stocks with good news-flow outperform lower quality, slow growing, and expensive stocks with bad news-flow.

## PERFORMANCE ATTRIBUTION

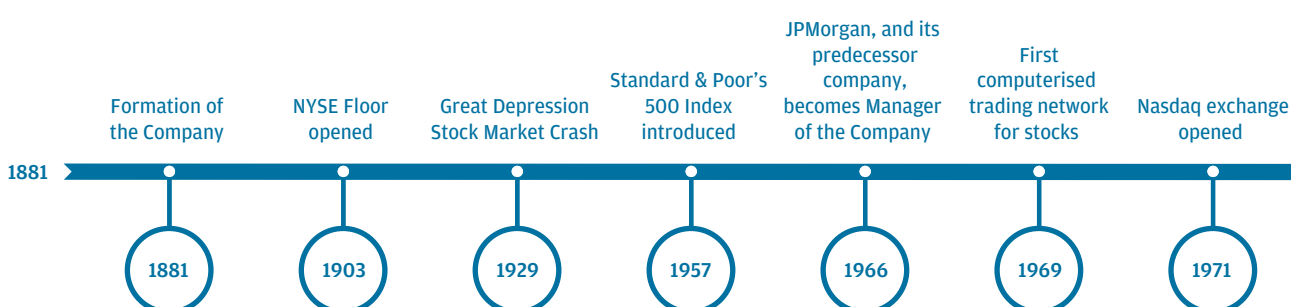
FOR THE YEAR ENDED 31ST DECEMBER 2017

	%	%
Contributions to total returns		
Net asset value total return (in sterling terms)		13.1
Benchmark total return (in sterling terms)		11.0
Excess return		2.1
Contributions to total returns		
Large cap portfolio		-0.6
Allocation effect	1.0	
Selection effect	-1.6	
Small cap portfolio		1.2
Allocation and selection effect	1.2	
Gearing (including change in the fair value of the debenture)		1.8
Cost of debt		-0.5
Currency hedge		0.4
Share issuance/buy back		0.4
Management fee/expenses		-0.6
<b>Total</b>		<b>2.1</b>

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

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

A glossary of terms and alternative performance measures is provided on pages 76 to 78.



**The returns from the broad market were driven by companies with strong momentum characteristics**

Taking this approach, we rank the stocks in our universe to uncover those companies that are high quality, attractively valued and are also exhibiting improving sentiment (momentum). We then undertake fundamental research to validate the rankings. This leads us to invest in companies that exhibit the qualities we think are important; good growth characteristics with growing earnings, strong cash flows and reasonable valuations.

The S&P 500 Index returned 11.0% in sterling terms, while our Company strategy outperformed by 210 bps. The returns from the broad market were driven by companies with strong momentum characteristics, whereas those companies which we would define as of high quality and attractive from a valuation perspective underperformed. The performance of a portfolio is reflecting in not only the securities within the portfolio, but also the securities not held. In our case several large securities that did not meet our investment thesis found favour with the market and this negatively impacted our performance.

The large companies' portfolio posted a positive return, but marginally underperformed the benchmark over the 12 months to the end of December 2017. This underperformance was mainly driven by unrewarded stock selection within the consumer staples, health care and information technology sectors.

Within consumer staples, our overweights in Walgreens Boots Alliance and CVS were among the largest detractors in the sector. Shares of both companies fell during the period amid fears that Amazon may enter the pharmaceutical industry, which would present a significant headwind for incumbent companies.

More positively, overweight exposure to the information technology stock Apple buoyed relative returns over the period driven by surprisingly positive results for its largest revenue generating product - the iPhone. Most investors expected a large drop in orders ahead of the launch of the 10th anniversary iPhone in the second half of the year, which failed to materialise. Apple's shares remain attractively valued and the next iPhone upgrade cycle is expected to be the largest yet. Similarly, our overweight position in Microsoft boosted performance during the period as the stock rallied on the back of strong earnings, with revenues and earnings that came in better than expected. Among the highlights in its earnings announcement was the strong performance of its cloud computing offering, Azure.

Within information technology, our lack of exposure to Facebook and the specialist chip company NVIDIA detracted. NVIDIA's shares rallied on the back of strong earnings results in the second quarter driven, in part, by high year-on-year growth in their datacentre and gaming segments. At the same time, an overweight position in Qualcomm featured among the portfolio's largest detractors at the individual stock level as the company remained mired in legal disputes with Apple and the Federal Trade Commission.

Within the health care sector, overweight positions in the pharmaceutical stock Allergan and the biotech firms Celgene and Gilead Sciences weighed on performance, reflecting growth concerns regarding new products approvals and pricing. We still believe in their existing products and the future success of their pipeline.

On the other hand, the portfolio benefited from strong stock selection in the financials and consumer discretionary sectors. Here, a greater than benchmark exposure to fast food restaurant chain operator McDonalds added value as the firm reported better-than-expected sales results.

Furthermore, an overweight in Home Depot featured among the top contributors to returns as the stock outperformed in the fourth quarter driven by its strong execution and market share growth. The company announced improved revenue, profit and same-store sales growth figures, propelling its shares higher.

Black Monday  
Stock Market  
Crash

Tech crash

Garrett Fish  
appointed as  
Fund Manager

Credit crisis

Apple becomes  
biggest Company  
in US history

President Trump's  
Tax Cut and  
Reform Bill passed



Another bright spot in performance over the period was within financials. Here, our exposure to MSCI and overweight in Citigroup buoyed relative returns. MSCI is benefiting from prior acquisitions which are enabling it to capture a broad range of growth opportunities. Shares of Citigroup outperformed during the period as investors cheered the prospects of a stronger capital return plan given this year's favourable Comprehensive Capital Analysis and Review (CCAR) results, and interpreted the Treasury Department's recent white paper as indicating a greater likelihood of a more favourable regulatory landscape for financials.

In terms of portfolio positioning, we added to our consumer discretionary and financials sectors, while trimming health care, telecom services and industrials. Consumer staples is now our largest overweight followed by financials and consumer discretionary. On the other hand, we retain our underweight position in the industrials, real estate and materials sectors, as we are less excited about their long term growth prospects and unappealing valuation levels relative to other sectors.

## Smaller Companies Portfolio

The smaller companies' portfolio delivered a standout 2017 with stock selection being materially additive across the majority of the portfolio in 2017. For the calendar year, the smaller companies portfolio returned 29.4% in sterling terms which significantly outpaced the benchmark of the Company. Stock selection in technology was the top contributing sector as our software & video game holdings delivered strong growth throughout the year. A position in video games publisher and distributor Take-Two Interactive featured among the top contributors as shares in the company rallied after it reported strong results. Revenues, earnings and full year guidance all came in above consensus. Market research data was subsequently released that pointed to digital revenue for Grand Theft Auto being up over 40% driven by micro-transactions and users purchasing in-game content.

Health care was also a large driver as a number of our biotech holdings benefited from outstanding clinical data releases. Here, a position in Kite Pharma - a clinical stage biopharmaceutical company which focuses on the development of immunotherapy drugs - was the top contributor at the individual stock level. Shares in the company rallied after the announcement of an acquisition by Gilead Sciences via an all cash offer that equated to a 29% premium. From a strategic perspective the deal provides Gilead with a strong foundation in oncology.

## Outlook

We continue to believe earnings for the S&P 500 Index will grow over the next year. Year-over-year comparisons will be more challenging but tax reform should act as a tailwind to the current late cycle growth environment. The energy sector has continued to stabilise and its improving profitability should contribute to overall earnings. With over 40% of S&P 500 Index earnings coming from overseas, a weaker dollar will be a boost to foreign sales in 2018. Inflation should continue to gently rise, helped by the weaker dollar, higher oil prices and a tightening labour market. This means that the Fed is likely to stay on track for the further rate increases expected by the market.

We do not see a material risk of a recession in the near term, but we continue to monitor a broad range of potential risks that could represent headwinds for US equity markets. The passage of the tax reform act removed one risk to the market, but prudent equity investment will require us to act with flexibility, as the implications of tax reform, trade policy, inflation and rising rates could drive rotations among sectors and styles.

**Garrett Fish**  
Investment Manager

22nd March 2018

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**The smaller companies' portfolio delivered a standout 2017**

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**tax reform should act as a tailwind to the current late cycle growth environment**

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**We do not see a material risk of a recession in the near term**

## TEN LARGEST EQUITY INVESTMENTS

AT 31ST DECEMBER

For a full list of the Company's investments please refer to the Company's website at [www.jpnamerican.co.uk](http://www.jpnamerican.co.uk), where the portfolio is available a month in arrears.

Company	Sector	2017 Valuation		2016 Valuation	
		£'000	% <sup>1</sup>	£'000	% <sup>1</sup>
Apple	Information Technology	68,386	6.4	62,694	5.9
Microsoft	Information Technology	56,618	5.3	57,412	5.4
Citigroup	Financials	44,421	4.2	35,622	3.3
Bank of America <sup>2</sup>	Financials	28,291	2.6	–	–
Wal-Mart Stores	Consumer Staples	27,057	2.5	20,767	2.0
Humana <sup>3</sup>	Health Care	24,691	2.3	17,070	1.6
Walgreens Boots Alliance <sup>3</sup>	Consumer Discretionary	24,686	2.3	16,333	1.5
Amgen	Health Care	22,355	2.1	20,627	1.9
Citizens Financial <sup>2</sup>	Financials	21,633	2.0	–	–
Gilead Sciences	Health Care	21,224	2.0	25,289	2.4
<b>Total</b>		<b>339,362</b>	<b>31.7</b>		

<sup>1</sup> Based on total investments of £1,070.2m (2016: £1,068.8m).

<sup>2</sup> Not included in the total investments at 31st December 2016.

<sup>3</sup> Not included in the ten largest equity investments at 31st December 2016.

At 31st December 2016 the value of the ten largest equity investments amounted to £324.7 million representing 30.4% of total investments.

## INVESTMENT ACTIVITY

DURING THE YEAR ENDED 31ST DECEMBER 2017

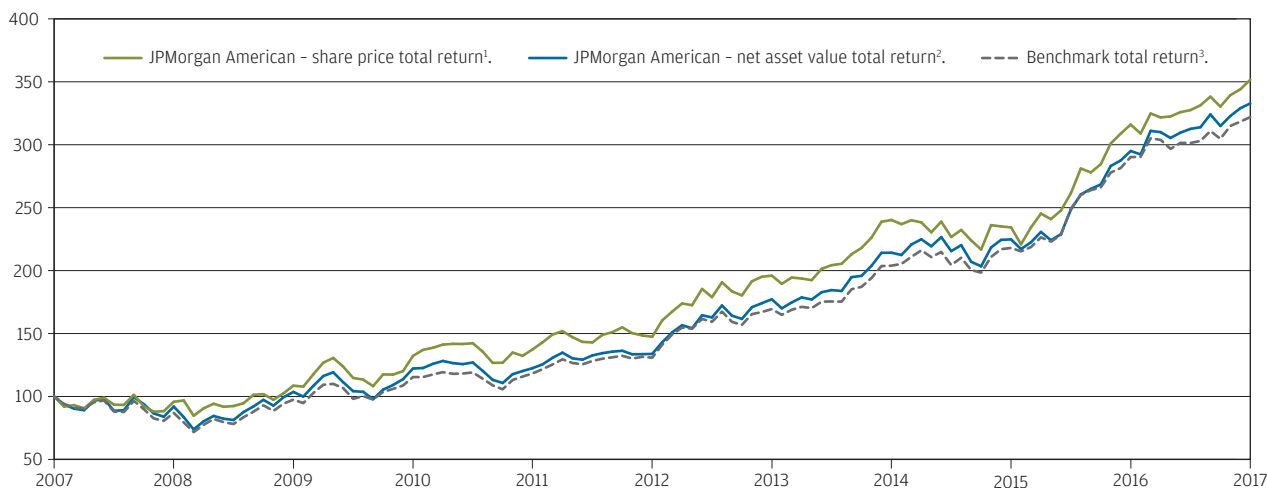
	Value at 31st December 2016		Purchases £'000	Sales £'000	Changes in value £'000	Value at 31st December 2017	
	£'000	% of portfolio				£'000	% of portfolio
Large Companies	1,015,262	95.0	396,142	(476,179)	82,033	1,017,258	95.0
Small Companies <sup>1</sup>	53,586	5.0	41,463	(57,776)	15,712	52,985	5.0
<b>Total investments</b>	<b>1,068,848</b>	<b>100.0</b>	<b>437,605</b>	<b>(533,955)</b>	<b>97,745</b>	<b>1,070,243</b>	<b>100.0</b>

<sup>1</sup> This includes investments in unquoted companies.

Portfolio turnover was 45% (2016: 36%). This is based on the average of purchases and sales expressed as a percentage of average opening and closing portfolio values.

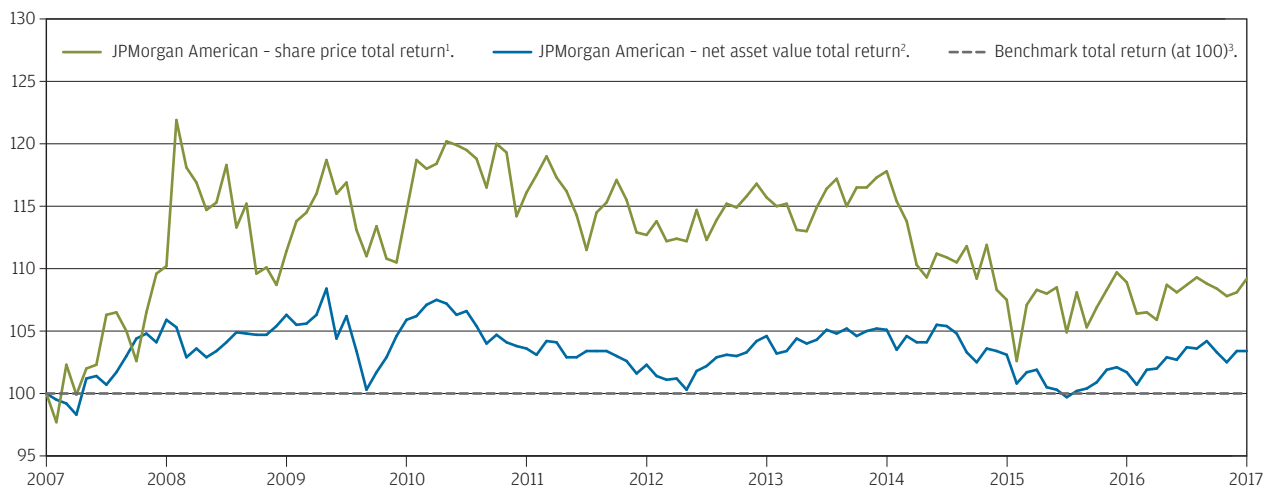
TEN YEAR PERFORMANCE

FIGURES HAVE BEEN REBASED TO 100 AT 31ST DECEMBER 2007



PERFORMANCE RELATIVE TO BENCHMARK

FIGURES HAVE BEEN REBASED TO 100 AT 31ST DECEMBER 2007



<sup>1</sup> Source: Morningstar.

<sup>2</sup> Source: Morningstar/J.P. Morgan using cum income net asset value per share, with debt at fair value. Prior to 30th June 2008, capital only net asset value with debt at par value.

<sup>3</sup> The Company's benchmark index is the S&P 500 Index, net of the appropriate withholding tax, expressed in sterling total return terms.

## TEN YEAR FINANCIAL RECORD

At 31st December	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Shareholders' funds (£m)	321.5	293.7	321.5	374.0	400.4	464.7	642.2	804.2	816.7	985.2	980.4
Net asset value per share with debt at fair value (p) <sup>1</sup>	147.5	132.4	146.3	170.2	168.6	180.9	236.6	283.1	293.4	379.3	423.6
Net asset value per share with debt at par value (p) <sup>1</sup>	150.5	137.5	150.5	174.6	173.3	185.0	239.4	286.1	295.6	381.0	424.3
Share price (p) <sup>1</sup>	133.1	125.2	139.4	167.4	171.8	181.2	238.2	288.7	277.9	369.2	405.4
Share price (discount)/premium with debt at fair value (%)	(9.8)	(5.5)	(4.7)	(1.6)	1.9	0.2	0.7	2.0	(5.3)	(2.7)	(4.3)
Gearing/(net cash) (%)	(2.9)	12.8	11.3	4.2	(2.8)	(0.6)	9.1	8.7	8.4	8.5	9.2
Exchange rate (£1=\$)	1.99	1.44	1.61	1.57	1.55	1.63	1.66	1.56	1.48	1.24	1.35

## Year ended 31st December

Revenue return per share (p) <sup>1</sup>	2.14	2.27	2.13	2.11	2.24	2.76	3.00	3.76	4.64	5.70	5.93
Dividend per share (p) <sup>1</sup>	2.20	2.20	2.20	2.20	2.20	2.50	2.70	3.25	4.00	5.00	5.50
Ongoing charges (%)	0.69	0.71	0.75	0.70	0.69	0.68	0.63	0.62	0.62	0.62	0.55
Ongoing charges (%) including any performance fee payable	0.69	0.82	0.86	0.81	0.69	0.68	0.66	0.64	0.62	0.62	0.55

## Rebased to 100 at 31st December 2007

Share price total return <sup>2</sup>	100.0	95.8	108.6	132.2	137.4	147.4	196.0	240.2	234.3	316.0	351.6
Net asset value per share with debt at fair value - total return <sup>3</sup>	100.0	92.0	103.6	122.2	122.5	133.8	177.2	214.2	224.8	295.0	333.6
Net asset value per share with debt at par value - total return <sup>4</sup>	100.0	92.7	103.5	121.9	122.5	133.0	174.1	210.3	220.2	288.0	324.9
Benchmark total return <sup>5</sup>	100.0	86.9	97.5	115.4	118.3	130.8	169.4	203.9	218.0	290.2	322.0

<sup>1</sup> 2007-2013 comparative figures have been restated due to the sub-division of each existing ordinary share of 25p into five ordinary shares of 5p each on 8th May 2014.

<sup>2</sup> Source: Morningstar/J.P. Morgan.

<sup>3</sup> Source: Morningstar/J.P. Morgan using cum income net asset value per share, with debt at fair value. Prior to 30th June 2008, capital only net asset value with debt at fair value.

<sup>4</sup> Source: Morningstar/J.P. Morgan using cum income net asset value per share, with debt at par value. Prior to 30th June 2008, capital only net asset value with debt at par value.

<sup>5</sup> The Company's benchmark is the S&P 500 Index expressed in sterling total return terms.

A glossary of terms and alternative performance measures is provided on pages 76 to 78.

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.

### Structure and Objective of the Company

JPMorgan American Investment Trust plc is an investment trust and has a premium listing on the London Stock Exchange. Its objective is to provide shareholders with capital growth from North American investments. In seeking to achieve this objective, the Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') which, in turn, delegates portfolio management to JPMorgan Asset Management ('JPMAM') which further delegates to JPMorgan Asset Management, Inc., to manage the Company's assets actively. The Board has determined an investment policy and related guidelines and limits, as described below. It aims to outperform a benchmark, which is the S&P 500 Index, with net dividends reinvested, expressed in sterling terms.

The Company is subject to UK and European legislation and regulations including UK company law, UK Financial Reporting Standards, the UK Listing, Prospectus, Disclosure Guidance and Transparency Rules, the Market Abuse Regulation, taxation law and the Company's own Articles of Association. The Company's underlying investments are also subject to some US regulations.

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

### Investment Policies and Risk Management

In order to achieve its investment objectives and to seek to manage risk, the Company mainly invests in a diversified portfolio of quoted companies including, when appropriate, exposure to smaller capitalisation stocks. The Company currently has separate portfolios dedicated to larger capitalisation and smaller capitalisation companies. The number of investments in the larger capitalisation portfolio will normally range between 60-100 stocks representing between 91.5-99% (31st December 2017: 95.0%) of the Company's equity portfolio. The number of investments in the smaller capitalisation portfolio will normally range between 100-120 stocks representing between 1-9.5% (31st December 2017: 5.0%) of the Company's equity portfolio. The Company may invest in pooled funds to achieve its aims.

The Board reviews a range of risk indicators to assess whether the level of risk taken by the Manager is consistent with the achievement of the investment objective.

### Investment Limits and Restrictions (all at time of investment)

- The Company will not normally invest more than 8% of its gross assets in any one individual stock.
- The Company will normally limit its five largest investments to 40% of its gross assets (31st December 2017: 21.0%).
- The Company will not invest more than 10% of its gross assets in liquidity funds in normal market conditions (31st December 2017: 1.3%).
- The Company will not invest more than 10% of gross assets in companies that themselves may invest more than 15% of gross assets in listed closed-ended funds.
- The Company will not invest more than 15% of its gross assets in other listed closed-ended funds (31st December 2017: Nil).
- The Company will use gearing when appropriate to increase potential returns to shareholders. The Company's gearing policy is to operate within a range of 5% net cash to 20% geared in normal market conditions. The Manager is accountable for tactically managing the gearing, within a +/-2.0% range around a 'normal' gearing level. The normal gearing level, which is set by the Board and kept under review, is currently 10% (31st December 2017: 9.2%).
- The Company only hedges its currency risk in respect of the full value of the sterling debenture.

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

### Performance

In the year ended 31st December 2017, the Company produced a total return to shareholders of +11.2% and a total return on net assets of +12.8%. This compares with the return on the Company's benchmark in sterling terms of +11.0%. At 31st December 2017, the value of the Company's investment portfolio was £1,070.2 million. The Investment Manager's Report on pages 10 to 14 includes a review of developments during the year as well as information on investment activity within the Company's portfolio and the factors likely to affect the future performance of the Company.

## Total Return, Revenue and Dividends

As detailed on page 46, gross total return for the year amounted to £124.7 million (2016: £247.6 million) and net total return after deducting finance costs, administrative expenses and taxation, amounted to £112.2 million (2016: £235.3 million). Distributable income for the year totalled £14.3 million (2016: £15.2 million).

The Company paid an interim dividend of 2.25p per share on 5th October 2017. Directors recommend a final dividend of 3.25p per share, payable on 15th May 2018 to shareholders on the register at the close of business on 13th April 2018. The total dividend distribution for 2017 of 5.5p per share represents an increase of 10.0% on last year's 5.0p distribution. These distributions total £12.8 million (2016: £13.0 million). After payment of the final dividend the revenue reserve will amount to £17.8 million (2016: £16.0 million).

## 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 an important KPI by which performance is judged.  
  
Please refer to the graphs on page 16 for details of the Company's performance relative to its benchmark index over 10 years.
- **Performance against the Company's peers**  
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors performance relative to a broad range of appropriate competitor funds both in the UK and the US.
- **Performance attribution**  
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation, gearing and stock selection. Details of the attribution analysis for the year ended 31st December 2017 are given in the Investment Manager's Report on page 12.
- **Share price relative to net asset value ('NAV') per share with debt at fair value**  
The Board has adopted a share issuance and repurchase policy that seeks to address imbalances in supply of and demand for the Company's shares in the market. In the year to 31st December 2017, the shares traded between a discount of 2.5% and 6.8% (daily figures calculated with debt at fair

value and including income). Please refer to the Chair's Statement on pages 7 and 8 for further information.

- **Ongoing charges**

The ongoing charges represent the Company's management fee and all other operating expenses, excluding finance costs and any performance fee payable, expressed as a percentage of the average daily net assets during the year. The ongoing charges excluding any performance fee for the year ended 31st December 2017 were 0.55% (2016: 0.62%). Since no performance fee was payable in 2017 (2016: Nil) the ongoing charges including performance fee payable for the year ended 31st December 2017 were also 0.55% (2016: 0.62%).

## Share Capital

The Company has authority to both purchase shares for cancellation or holding in Treasury, and issue new shares in the market for cash at a premium to net asset value.

During the financial year, the Company repurchased 27,487,592 shares, into Treasury, for a total consideration of £104.9 million. Since the year end, the Company has repurchased 4,615,462 shares, into Treasury, for a total consideration of £18.3 million.

No shares were issued during the year or since the year end.

Special Resolutions to renew the authorities to issue and repurchase shares will be put to shareholders for approval at the Annual General Meeting.

## Board Diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. Diversity is important in bringing an appropriate range of skills and experience to the Board and an assessment is made of the qualities and skills of the existing Board before appointing new directors. When completing a review of the skills and experience of Directors, the Board feels that they are equipped with the necessary attributes required for the sound stewardship of the Company and that their knowledge sets allow for lively and engaging debates. Full details of the skills and experience of the Directors can be found on page 24. At 31st December 2017, there were four male Directors and one female Director on the Board. Please refer to pages 28 and 29 for more information on the workings of the Nomination and Remuneration Committee.

## 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 being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes JPMAM's policy statements in respect of Social, Community, Environmental and Human Rights issues, as outlined below, in italics. The Board also discusses JPMAM's policies in this area with corporate engagement personnel during the course of its annual visits to the Manager's New York office.

*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.*

### 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>

### Greenhouse Gas Emissions

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. *JPMAM is also a signatory to Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.*

### Criminal Corporate Offence

The Company has zero tolerance for tax evasion. Shares in the Company are purchased through intermediaries or brokers and no funds flow directly into the Company. 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.

### 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. The risks identified and the ways in which they are managed or mitigated are summarised below.

With the assistance of JPMF, the Risk Committee has drawn up a risk matrix, which identifies the key risks to the Company. These are reviewed and noted by the Board. These key risks fall broadly under the following categories:

- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. This market risk comprises three elements - equity market risk, currency risk and interest rate risk. The Board considers the split in the portfolio between small and large companies, sector and stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMF. The Board monitors the implementation and results of the investment process with the Manager. However, the fortunes of the portfolio are significantly determined by market movements in US equities, the rate of exchange between the US dollar and sterling and interest rate changes. This is a risk that investors take having invested into a single country fund.
- **Investment and Strategy:** An inappropriate investment strategy, poor asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and its peer companies, resulting in the Company's shares trading on a wider discount. The Board mitigates this risk by insisting on diversification of investments through its investment restrictions and guidelines which are monitored and reported on regularly by the Managers. JPMF provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the investment manager, who attends the majority of Board meetings, and reviews data

which details the portfolio's risk profile. The investment manager employs the Company's gearing within a strategic range set by the Board.

- Operational and Cybercrime:** Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the custodian's or depository's records could prevent accurate reporting and monitoring of the Company's financial position. On 1st July 2014, the Company appointed BNY Mellon Trust & Depository (UK) Limited to act as its depository, 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 and its associates and the key elements designed to provide effective internal control are included in the Internal Control section of the Corporate Governance 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 Board has received the cyber security policies for its key third party service providers and JPMF has assured the Directors that the Company benefits directly or indirectly from all elements of JPMorgan's Cyber Security programme. The information technology controls around the physical security of JPMorgan's data centres, security of its networks and security of its trading applications are tested by independent reporting accountants and reported every six months against the AAF Standard.
- Loss of Investment Team or Investment Manager:** The sudden departure of the investment manager or several members of the wider investment management team could result in a short term deterioration in investment performance. The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team based approach. The Board continues to stress to JPMF the importance of retaining the current investment manager.
- Share Price Relative to Net Asset Value ('NAV') per Share:** If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. Throughout 2017, the Company's shares traded at a discount. The Board monitors the Company's premium/discount level and, although the rating largely depends upon the relative attractiveness of the trust, the Board will seek, where deemed prudent, to address imbalances in the supply and demand of the Company's shares through a programme of share issuance and buybacks.
- Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158

of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given on page 18. Were the Company to breach Section 1158, it might lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by JPMF and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 2006 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure & 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 could result in the Company's shares being suspended from listing, which in turn would breach Section 1158. The Directors seek to comply with all relevant regulation and legislation in the UK, Europe and the US and rely on the services of its Company Secretary, JPMF, and its professional advisers to monitor compliance with all relevant requirements.

- Political and Economic:** Changes in legislation, including in the US, UK and the European Union, may adversely affect the Company either directly or because of restrictions or enforced changes on the operations of the Manager. JPMF makes recommendations to the Board on accounting, dividend and tax policies and the Board seeks external advice where appropriate. In addition, the Company is subject to political risks, such as the imposition of restrictions on the free movement of capital. The Company is therefore at risk from changes to the regulatory, legislative and taxation framework within which it operates, whether such changes were designed to affect it or not. The Board will continue to keep under review the impact of the UK's decision to leave the European Union. The negotiations between the UK and European Union will likely introduce further currency volatility to the Company's affairs.

## Long Term Viability

The Company was established in 1881 and has now been in existence for 137 years. The Company is an investment trust and has the objective of achieving long term capital growth investing in US equities. The Company has been investing over many economic cycles and some difficult market conditions.

Although past performance and a long historic track record is no guide to the future, the Directors believe the Company is a good long term investment proposition. Unfortunately, it is impossible to look too far into the future, so the Directors have adopted a somewhat shorter time horizon to assess the Company's viability, which is five years. This is regarded by many as the minimum

## LONG TERM VIABILITY

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time for investing in equities. This exceeds the terms of the Company's indebtedness.

The Directors have considered the Company's prospects, principal risks and the outlook for the US economy, its equity market and the market for investment trusts. They have examined the robustness of these base case estimates using further more cautious scenarios, including in one case repeating some of the returns data for the (1929-1934) Wall Street Crash.

The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years until 31st December 2022.

By order of the Board  
Alison Vincent, for and on behalf of  
JPMorgan Funds Limited,  
Secretary

22nd March 2018



## BOARD OF DIRECTORS



**Dr Kevin Carter** †

Director since 2014.

Last reappointed to the Board: 2017.

Remuneration: £37,742.

Currently Chairman and Director of Murray International Trust PLC, a Director of Lowland Investment Company plc, and Aspect Capital Limited, Chairman of the Investment Committee and a trustee director of the BBC Pension Scheme. He is also a trustee director of Universities Superannuation Scheme Limited and Chairman of its Investment Committee. Dr Carter is a CFA charter holder and has a doctorate awarded in mathematical statistics with a research subject in financial economics.

Shared appointments with other Directors: None



**Simon Bragg (Chair of the Audit Committee)\* †**

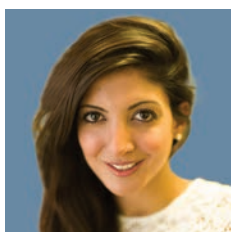
A Director since 2012.

Last reappointed to the Board: 2017.

Remuneration: £34,500.

Mr Bragg is Chief Executive of JSB Energy Partners Limited, non-executive Director of Intralink Limited and Bridge Petroleum 1 Limited. Having qualified as a Chartered Accountant at KPMG, Mr Bragg previously worked at Hoare Govett, Cargill, HSBC, Oriel Securities and Stifel.

Shared directorships with other Directors: None.



**Nadia Manzoor\*** †

A Director since 2016.

Last reappointed to the Board: 2017.

Remuneration: £28,500.

Ms Manzoor is a Partner, Head of Business Development and General Counsel for S.W. Mitchell Capital, a specialist European equities investment management house. Ms Manzoor commenced her career as a corporate lawyer at Slaughter & May in 2009. During this time she worked in London, Hong Kong and also spent six months seconded to a FTSE 100 client. Ms Manzoor is a law scholar of Downing College, Cambridge University.

Shared directorships with other Directors: None.



**Sir Alan Collins (Chair of the Risk Committee and Senior Independent Director)\* †**

A Director since 2012.

Last reappointed to the Board: 2017.

Remuneration: £32,500.

Sir Alan had a successful career in the British Diplomatic Service where he held a number of Ambassador and High Commissioner appointments and was until August 2011 the Consul General New York and the Director General for Trade and Investment USA. He was also the managing director in United Kingdom Trade and Investment responsible for the business legacy from the London 2012 Olympic and Paralympic Games, having been part of the team that won the bid to bring the Olympics to London. He is now a non-executive Director of Prudential Assurance Singapore Ltd and ICICI Bank UK plc. He is also an advisor to a number of other limited companies, including St. James's Place plc, and a member of the Advisory Council of the London Philharmonic Orchestra.

Shared directorships with other Directors: None.



**Robert Talbut\*** †

A Director since 2017.

Last reappointed to the Board: N/A.

Remuneration: £18,243.

Mr Talbut was, until 2014, the Chief Investment Officer of Royal London Asset Management and has over 30 years of financial services experience. He has represented the asset management industry through the chairmanship of both the ABI Investment Committee and the Asset Management Committee of the Investment Association. He has also been a member of the Audit & Assurance Council of the Financial Reporting Council and the Financial Conduct Authority's Listing Authority Advisory Panel. He is currently a non-executive director of Schroder UK Mid Cap Fund plc, Shires Income plc, EFG Asset Management (UK) Limited and Pacific Assets Trust plc.

Shared directorships with other Directors: None.

\* Member of the Audit Committee.

† Member of the Risk Committee.

**All Directors are considered independent by the Board and are members of the Nomination & Remuneration and Risk Committees.**

The Directors present their Annual Report and the Audited Financial Statements for the year ended 31st December 2017.

### Management of the Company

The Manager and Company Secretary is JPMorgan Funds Limited ('JPMF'), a company authorised and regulated by the Financial Conduct Authority ('FCA'). JPMF is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides marketing, banking and dealing services to the Company. Custodian services are provided by a JPMorgan Chase Bank subsidiary, via a contract with the Company's depository.

The Manager is employed under a contract which can be terminated on six months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

The Board conducts a formal evaluation of the Manager on an annual basis. The evaluation includes consideration of the investment strategy and the process of the Manager, performance against the benchmark and a relevant peer group over the long term and the support the Company receives from the Manager. As a result of the evaluation process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interest of shareholders as a whole.

### The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF is the Company's alternative investment fund manager ('AIFM'). JPMF has been 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 JPMorgan Asset Management (UK) Limited ('JPMAM') which further delegates the management to JPMorgan Asset Management, Inc.. The Company has appointed BNY Mellon Trust and Depository (UK) Limited ('BNY') as its depository. BNY has appointed JPMorgan Chase Bank, N.A. as the Company's custodian. BNY remains 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.jpnamerican.co.uk](http://www.jpnamerican.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 pages 70 and 71.

### Management and Performance Fees

The management fee was charged at a rate of 0.5% per annum, paid quarterly in arrears, on the Company's total assets less current liabilities until 30th September 2017. With effect from 1st October 2017, the management fee is charged on a tiered basis as follows:

- 0.35% on the first £500 million of net assets;
- 0.30% on net assets above £500 million and up to £1 billion; and
- 0.25% on any net assets above £1 billion.

The basic management fee is calculated and paid quarterly in arrears. Investments in funds on which the Manager or any of its associated companies earn a management fee are excluded from the calculation and therefore attract no further fee. In addition, a performance fee may be payable. The Company's investment in the JPMorgan US Dollar Liquidity Fund is not subject to a management fee and therefore not excluded from the calculation.

The performance fee is calculated at the rate of 10% of the difference between the cum-income debt at par net asset value total return and the total return of the S&P 500 Index, expressed in sterling terms. The performance fee due in respect of any single year is divided into equal parts payable over three years.

Any negative fee resulting from underperformance is deducted from any unpaid fees brought forward from prior years with any remaining amount of the negative fee carried forward to be absorbed in future years.

The performance fee paid in any one year will not exceed 0.25% of the cum-income debt at par net asset value at the Company's latest year end, with any unpaid excess being carried forward until paid in full.

In the year ended 31st December 2017 the Company's cum-income debt at par net asset value total return over-performed the total return of the S&P 500 Index, expressed in sterling terms, by 1.8 percentage points. This resulted in a positive performance fee calculation of £1,736,492. This amount when added to the £3,339,696 performance fee offset brought forward from 2016 leaves a negative balance of £1,603,204, which will be carried forward and offset against any future outperformance.

### Directors

The Directors of the Company who held office at the end of the year are detailed on page 24. In accordance with corporate governance best practice, all Directors will retire by rotation at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment. The Nomination and

Remuneration 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. For further details on the experience and skills of each Director please refer to page 24.

### Director Indemnification and Insurance

As permitted by the Articles of Association, the Directors have the benefit of an 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.

During the year an insurance policy has been 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 they ought to have taken as a Director in order to make themselves aware of any relevant audit information (as defined) 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 S418(2) of the Companies Act 2006.

### Independent Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor to the Company and a resolution proposing its reappointment and authorising the Directors to determine its remuneration for the ensuing year will be put to shareholders at the Annual General Meeting.

### Capital Structure and Voting Rights

#### Capital Structure

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

#### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of Annual General Meeting on page 75.

### Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%
Brewin Dolphin Limited	33,330,941	14.7
Old Mutual plc	18,425,064	8.1
Investec Wealth & Investment Limited	17,918,304	7.9
Rathbone Brothers PLC	12,239,189	5.4

The Company is also aware that approximately 3.7% of the Company's total voting rights are held by individuals through savings products managed by JPMAM, 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 the Manager 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 repurchase the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements 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 the 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 report.

### Annual General Meeting

**Note: This section is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.**

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

**(i) Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 11 and 12)**

At the Annual General Meeting the Directors will seek authority to issue up to 22,647,034 new shares or shares held in Treasury for cash up to an aggregate nominal amount of £1,132,351 (such amount being equivalent to 10% of the issued share capital) and disapply pre-emption rights upon such issues. The full text of the resolutions is set out in the Notice of Meeting on pages 73 to 75. This authority will expire at the conclusion of the Annual General Meeting of the Company in 2019 unless renewed at a prior general meeting.

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

**(ii) Authority to repurchase the Company's shares (Resolution 13)**

At the Annual General Meeting held on 11th May 2017, shareholders gave authority to the Company to purchase up to 14.99% of its then issued share capital. At that time, shareholders were informed that this authority would expire on 10th October 2018 but could be renewed by shareholders at any time at a general meeting of the Company. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying net asset value ('NAV') enhances the NAV of the remaining shares. Resolution 13 gives the Company authority to buy back its own issued shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum of 33,947,905 shares representing approximately 14.99% of the Company's issued shares as at 21st March 2018 (being the latest practicable date prior to the publication of this document). The authority also sets minimum and maximum prices.

If resolution 13 is passed at the Annual General Meeting, shares repurchased might not be cancelled but rather held as Treasury shares. The Company does not have authority to re-issue shares from Treasury at a discount to NAV, therefore any reissue of shares from Treasury would be at a premium to the prevailing NAV.

The full text of the resolution is set out in the Notice of Meeting on pages 73 to 75. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares as and when market conditions are appropriate.

**Recommendation**

The Board considers that resolutions 11 to 13 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 111,863 shares representing approximately 0.1% of the existing issued share capital 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 36, indicates how the Company has applied the principles of good governance of the Financial Reporting Council's UK Corporate Governance Code (the 'UK Corporate Governance Code') and the 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 the AIC Code throughout the year under review.

**Role of the Board**

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

The Board met six 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. Further information on meetings and committees can be found on page 28.

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 year under review.

There is an agreed procedure for Directors to take independent professional advice in the furtherance of their duties 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 adherence to Board procedures and compliance with applicable rules and regulations.

### Board Composition

The Board consists of five non-executive Directors, chaired by Dr Kevin Carter, all of whom are considered to be independent of the Company's Manager. The Directors have a breadth of investment knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 24.

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. Sir Alan Collins, the Senior Independent Director, leads the evaluation of the performance of the Chair and is available to shareholders if they have concerns that cannot be resolved through discussion with the Chair.

### Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for Directors to seek annual reappointment 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 will take into account the ongoing requirements of the UK Corporate Governance Code, including the need to refresh the Board and its Committees.

A list of potential conflicts of interest for each Director is maintained by the Company. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved.

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

### Induction and Training

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

relevant to investment trusts. Regular reviews of the Directors' training needs are carried out by the Board 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 24.

The table below details the number of formal Board and Committee meetings attended by each Director. During the year there were six Board meetings, including a meeting devoted to strategy and a private meeting of the Directors to evaluate the Manager. In addition, two Audit Committee meetings, two Risk Committee meetings and three Nomination & Remuneration Committee meetings were held.

Director	Board	Audit	Risk	Nomination &
	Meetings Attended	Committee Meetings Attended	Committee Meetings Attended	Remuneration Committee Meetings Attended
Dr Kevin Carter	6	2	2	3
Sarah Bates <sup>1</sup>	4	2	2	3
Simon Bragg	6	2	2	3
Sir Alan Collins	6	2	2	3
Nadia Manzoor	6	2	2	3
Robert Talbut <sup>2</sup>	3	1	1	–

<sup>1</sup> Retired from the Board on 26th July 2017.

<sup>2</sup> Joined the Board on 11th May 2017.

As well as the formal meetings detailed above, the Board communicates frequently by email or telephone to deal with day to day matters as they arise. Directors also visited the investment management team in New York and spent time with a number of longer term strategists as well as with senior management, governance personnel and the dealing desk in JPMAM's offices.

### Board Committees

#### Nomination & Remuneration Committee

The Nomination & Remuneration Committee, chaired by Dr Kevin Carter, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. A variety of sources, including external search consultants, may be used to ensure that a wide range of candidates is considered. In relation to the appointment of Robert Talbut, the Board engaged a recruitment consultant, Tim Stephenson Associates, a firm with no other connections to the Company. Open advertising was not used as part of the process as the use of a recruitment consultant was deemed sufficient.

The Board's policy on diversity, including gender, is to take account of the benefits of this during the appointment process. The Board remains committed to appointing the most appropriate

candidate and seeks to ensure that it does not unwittingly exclude any group. Therefore, no targets have been set against which to report.

The Directors commissioned Lintstock, a firm of independent consultants, to externally facilitate the evaluation of the Board. The process involved the completion of questionnaires by the Board. The resulting written report was discussed by Directors under the remit of the Nomination & Remuneration Committee in the presence of a representative from Lintstock. The evaluation of individual Directors is led by the Chair and the Chair is evaluated by the Senior Independent Director.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when required.

#### Risk Committee

The Risk Committee, chaired by Sir Alan Collins, consists of all the Directors and meets at least twice each year. The Committee discusses the Company's overall risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment. It further reviews the Company's key risks and identifies and manages any new risks that arise during the year. Finally, the Committee reviews compliance with the Company's investment restrictions and guidelines.

#### Audit Committee

The report of the Audit Committee is set out on page 31.

#### Terms of Reference

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

#### Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a 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.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the investment manager who reviews the Company's performance. During the year the investment management team, JPMF and the Company's brokers

held regular discussions with larger shareholders. The Directors are made aware of their views. The Chair further writes to the Company's largest shareholders each year to offer a meeting with himself and other members of the Board, with or without representatives from the Manager. The Chair met independently with shareholders in 2017. The Chair and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 81.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 81.

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

#### 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 to include 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 JPMorgan and its associates, the Company's system of risk management and internal control mainly comprises monitoring the services provided by JPMorgan 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 20 and 21). The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMF which reports any material failings or weaknesses. 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* - Evaluation and 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 JPMorgan's Compliance department which regularly monitors compliance with FCA rules and reports to the Board.

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

The Board keeps under review the effectiveness of the Company's system of risk management and internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- the Board, through the Audit Committee, reviews the terms of the management agreement and receives regular reports from JPMorgan's Compliance department;
- the Board reviews a report, which is also independently reviewed, on the internal controls and the operations of its custodian, JPMorgan Chase Bank;
- the Board reviews every six months a report from the Company's Depositary, BNY Mellon Trust and Depositary (UK) Limited, which summarises the activities performed by the Depositary during the reporting period; and
- the Board reviews every six months an independent report on the internal controls and the operations of JPMF's investment trust department.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31st December 2017, and to the date of approval of this Annual Report and Accounts.

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

### Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following information in italics is a summary of JPMAM's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details on social and environmental issues are included in the Strategic Report on pages 19 and 20.

#### Corporate Governance

*JPMAM believes that corporate governance is integral to its investment process. As part of its commitment to delivering superior investment performance to clients, it expects and encourages the companies in which it invests to demonstrate the highest standards of corporate governance and best business practice. JPMAM examines the share structure and voting structure of the companies in which it invests, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of JPMAM's 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 reasonable judgement of what will best serve the financial interests of clients. So far as is practicable, JPMAM will vote at all of the meetings called by companies in which it is invested.*

#### Stewardship/Engagement

*JPMAM recognises its wider FRC 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 FRC 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  
Alison Vincent, for and on behalf of  
JPMorgan Funds Limited,  
Secretary

22nd March 2018

**Audit Committee Report**

The Audit Committee, chaired by Simon Bragg, consists of all Directors, except the Chair of the Board, and meets at least twice each year. The Chair of the Board attends by invitation of the Committee. The members of the Audit Committee consider that at least one member has recent and relevant financial experience and that the Committee as a whole has competency relevant to the sector in which the Company operates.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual report & financial statements and the Company's compliance with the UK Corporate Governance Code. It examines the effectiveness of the Company's internal control systems, 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 auditors. The Audit Committee has reviewed the independence and objectivity of the auditors and is satisfied that the auditors are independent. The Audit Committee also has the primary responsibility for making recommendations to the Board on the reappointment and the removal of external auditors.

**Financial Statements and Significant Accounting Matters**

During its review of the Company's financial statements for the year ended 31st December 2017, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting

Significant issue	How the issue was addressed
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1 to the accounts. The Company has appointed BNY Mellon Trust and Depository (UK) Limited ('BNY') as its depository. BNY has appointed JPMorgan Chase Bank, N.A., as the Company's custodian. BNY remains responsible for the oversight of the custody of the Company's assets.
Calculation of management and performance fees	The management and performance fees are calculated in accordance with the Investment Management Agreement. The Board reviews controls reports, expense schedules and the performance fee calculation.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the accounts. Income recording is conducted by the Manager and the methodology is reported upon to the Board within a six monthly independent report on the operations of the Manager.
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 October 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis by the Manager, who reports on a monthly basis to the Board on the Company's continuing compliance.

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 18), risk management policies (see pages 62 to 67), capital management policies and procedures (see page 68), 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. They have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of these financial statements.

**Auditor Appointment and Tenure**

Representatives of the Company's Auditors, Deloitte LLP, 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. No non-audit work was carried out by the auditors this year. Details of the auditors fees paid for audit and non-audit services are disclosed in note 6 on page 53.

The current tenure of the external auditor dates from 10th August 2006. The Company's year ended 31st December 2017 is the current Audit Partner's third of a five year maximum term. The Board opened the external auditor position up to tender in 2015 and reappointed Deloitte LLP, following presentations from three firms to include the incumbent. Based upon existing legislation, another tender process would not be required until 2025. The Company is therefore in compliance with the provisions of 'The Statutory Audit Services for Large Companies Market Investigation' (Mandatory use of competitive tender processes and audit committee responsibilities) Order 2014 as issued by the Competition & Markets Authority.

**Fair, Balanced and Understandable**

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31st December 2017, 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 36.

Simon Bragg  
Audit Committee Chair

22nd March 2018



## Introduction

The Board presents the Directors' Remuneration Report for the year ended 31st December 2017 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 38 to 44.

## 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 the policy will be put to shareholders at the 2018 Annual General Meeting. The policy, subject to the vote, is set out in full below and is currently in force.

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

The Nomination and Remuneration 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 includes research carried out by third parties on the level of fees paid to the Directors of the Company's peers and within the investment trust industry generally. The involvement of remuneration consultants has not been deemed necessary as part of this review.

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.

In the year under review, Directors' fees were paid at the following rates: Chair £43,000; Audit Committee Chair £34,500 and £28,500 for other Directors. The roles of Senior Independent Director and Chair of the Risk Committee both attract an additional fee of £2,000 per role. From 1st January 2018,

Directors fees will be paid at the following rates: Chair £44,000; Audit Committee Chair £35,500 and £29,500 for other Directors.

The Company's Articles of Association stipulate that aggregate fees must not exceed £225,000 per annum. Any increase in this maximum aggregate amount requires both Board and shareholder approval.

The Company has no Chief Executive Officer and no employees and therefore there was no consultation of employees, and there is no employee comparative data to provide, in relation to the setting of the remuneration policy for Directors.

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 Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 28.

## Directors' Remuneration Policy Implementation

The Directors' Remuneration 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 Annual General Meeting. There have been no changes to the policy compared with the year ended 31st December 2016 and no changes are proposed for the year ending 31st December 2018.

At the Annual General Meeting held on 11th May 2017, of votes cast, 99.8% of votes cast were in favour of (or granted discretion to the Chair who voted in favour of) both the remuneration policy and the remuneration report and 0.2% voted against. Votes withheld were the equivalent of less than 0.1% of votes cast.

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 and expenses for the Board as a whole for the year ended 31st December 2017 was £174,111. The single total figure of remuneration for each Director is detailed below together with the prior year comparative.

There are no performance targets in place for the Directors of the Company and there are no benefits for any of the Directors which will vest in the future. There are no benefits, pension, bonus, long term incentive plans, exit payments or arrangements in place on which to report.

# DIRECTORS' REMUNERATION REPORT

## Single total figure table<sup>1</sup>

Directors' Name	2017		2016		2015	
	Taxable Fees expenses <sup>2</sup>		Total	Taxable Fees expenses <sup>2</sup>		Total
	£	£		£	£	
Sarah Bates <sup>3</sup>	21,522	–	21,522	43,000	–	43,000
Kate Bolsover <sup>4</sup>	–	–	–	21,375	506	21,881
Simon Bragg	34,500	–	34,500	34,500	–	34,500
Dr Kevin Carter <sup>5</sup>	37,742	–	37,742	28,500	–	28,500
Sir Alan Collins	32,500	916	33,416	32,500	1,160	33,660
Nadia Manzoor <sup>6</sup>	28,500	188	28,688	16,625	280	16,905
Robert Talbut <sup>7</sup>	18,243	–	18,243	–	–	–
<b>Total</b>	<b>173,007</b>	<b>1,104</b>	<b>174,111</b>	<b>176,500</b>	<b>1,946</b>	<b>178,446</b>

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

<sup>2</sup> Taxable travel and subsistence expenses incurred in attending Board and Committee meetings.

<sup>3</sup> Stood down as Chair on 11th May 2017 and retired from the Board on 26th July 2017.

<sup>4</sup> Retired from the Board on 30th September 2016.

<sup>5</sup> Became Chair on 12th May 2017.

<sup>6</sup> Joined the Board on 1st June 2016.

<sup>7</sup> Joined the Board on 11th May 2017.

## Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st December	
	2017	2016
Remuneration paid to all Directors	£174,111	£178,446
Percentage of remuneration paid to Directors of Shareholders' funds	0.02%	0.02%
Distributions to shareholders		
by way of dividends paid	£12,065,000	£12,658,000
by way of share repurchases	£104,877,000	£54,144,000

A table showing the total remuneration for the Chair over the five years ended 31st December 2017 is below:

## Remuneration for the Chair over the five years ended 31st December 2017

Year ended 31st December	Fees
2017	£43,000
2016	£43,000
2015	£43,000
2014	£37,500
2013	£37,500

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

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

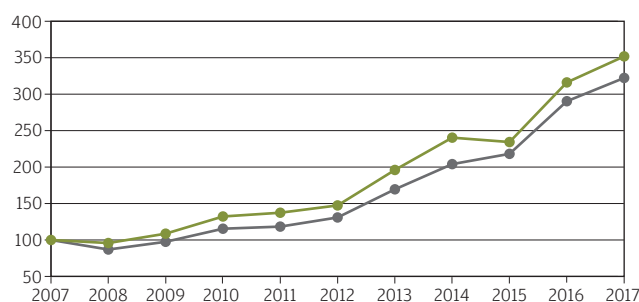
	31st December 2017	1st January 2017
Dr Kevin Carter	24,000	24,000
Simon Bragg	75,732	74,565
Sir Alan Collins	5,586	5,493
Nadia Manzoor	2,631	nil
Robert Talbut	3,914	nil

<sup>1</sup> Audited information.

All of the holdings of the Directors are beneficial.

A graph showing the Company's share price total return compared with its benchmark index, the S&P 500 Index expressed in sterling total returns terms, over the last ten years is shown below:

## Ten Year Ordinary Share Price and Benchmark Total Returns to 31st December 2017



Source: Morningstar.

— Share price total return.

— Benchmark total return.

For and on behalf of the Board

Dr Kevin Carter

Chair

22nd March 2018



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that, taken as a whole, the annual report and accounts are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

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

and the Directors confirm that they have done so.

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

The accounts are published on the [www.jpmanmerican.co.uk](http://www.jpmanmerican.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 Directors' Report, Strategic Report, Statement of Corporate Governance and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed on page 24 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return or loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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

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

For and on behalf of the Board  
Dr Kevin Carter  
Chair

22nd March 2018



## TO THE MEMBERS OF JPMORGAN AMERICAN INVESTMENT TRUST PLC

### Report on the audit of the financial statements

#### Opinion

##### In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of JPMorgan American Investment Trust plc (the 'Company') 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 24.

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

#### 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.

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 listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

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

#### Summary of our audit approach

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<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>• Valuation and ownership of investments</li><li>• Recognition of investment income</li><li>• Calculation of performance fees</li></ul> The key audit matters within this report are in line with the prior year.
<b>Materiality</b>	The materiality that we used in the current year was £9,800,000 which was determined on the basis of 1% of net assets at 31st December 2017.
<b>Scoping</b>	Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	No significant changes in our approach from the prior year.

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## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the directors' statement in note 1(a) to 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 Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 20-21 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 20 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; or
- the directors' explanation on pages 20-21 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Valuation and ownership of fixed asset investments

**Key audit matter description** The fixed asset investments of the Company at 31st December 2017 were £1,084 million (2016: £1,078 million).

There is a risk that investments within the portfolio may not be actively traded and the prices quoted may not be reflective of fair value or that they may not represent the property of the Company.

See Accounting policy at note 1(b) and detailed disclosures at note 11.

This key audit matter was included as a significant issue in the Audit Committee Report on page 31.

**How the scope of our audit responded to the key audit matter**

We evaluated the design and implementation of controls over the ownership and valuation of fixed asset investments by reviewing the J.P. Morgan Investor Services (J.P. Morgan) and J.P. Morgan Asset Management internal control reports.

We agreed 100% of the Company's year-end fixed asset investments to confirmations received directly from the custodian, JP Morgan Chase Bank.

We agreed 100% of the bid prices of fixed asset investments on the investment ledger at year end to closing bid prices published by an independent pricing source, which includes a variety of pricing sources with Bloomberg as the primary source.

We made enquiries of the Manager and Directors regarding their assessment of the portfolio pricing and liquidity, and sample tested for reasonableness.

**Key observations**

No misstatements were identified which required reporting to those charged with governance.

## Recognition of investment income

**Key audit matter description** Investment income for the year was £25.6 million (2016: £20.5 million).

Dividends are accounted for as investment income on an ex-dividend basis, except where, in the opinion of the Manager and the Board, the dividend is capital in nature, in which case it is treated as a return of capital.

There is a risk that investment income is incomplete or that it is incorrectly allocated between investment income and capital accounts. We also identified this key audit matter as a potential fraud risk.

See Accounting policy at note 1(d) and detailed disclosures at note 4.

This key audit matter was included as a significant issue in the Audit Committee Report on page 31.

**How the scope of our audit responded to the key audit matter**

We evaluated the design and implementation of key controls over investment income recognition by reviewing the J.P. Morgan Investor Services and J.P. Morgan Asset Management internal control reports.

We tested 100% of dividends recorded during the year by recalculating the dividend entitlement on each security held throughout the year using independent revenue history market data and the expected holding at the ex-dividend date.

We developed an understanding of managements' control on allocation of income, and for a sample of special dividends and corporate actions, we assessed the Manager's rationale for the classification between revenue and capital.

We assessed the accounting policies for investment income recognition against the requirements of FRS 102 and AIC SORP and tested 100% of the investment income recorded to review their application during the year.

**Key observations**

No misstatements were identified which required reporting to those charged with governance.

## Calculation of Performance Fees

<b>Key audit matter description</b>	<p>There is no performance fee payable in the current period (2016: £nil). See Accounting policy at note 1(e).</p> <p>Performance fees or the performance provision are calculated based on the difference in the return between the Company and its benchmark, the S&amp;P 500 index over 10%. As this is a complex calculation, there is a risk the performance fee may be calculated incorrectly and not in line with the Investment Management Agreement. There is also a risk that the performance fee calculation has not been reviewed and approved by the Board of directors.</p> <p>This key audit matter was included as a significant issue in the Audit Committee Report on page 31.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We evaluated the design and implementation of key controls over performance fee calculation by reviewing the J.P. Morgan Investor Services and J.P. Morgan Asset Management internal control reports.</p> <p>We re-performed the calculation of the performance fee to confirm that no performance fee was payable in the current period as per the terms of the signed investment management agreement.</p> <p>To evaluate whether performance fee calculation has been subject to Board approval, we have obtained and reviewed the minutes for all Board and sub-committee meetings in the year ended 31st December 2017.</p>
<b>Key observations</b>	<p>We have not identified any misstatements which required reporting to those charged with governance in the calculation of the performance fee for the year end 31st December 2017. Furthermore we have reviewed the Board minutes for the year then ended and confirmed this calculation has been subject to Board approval.</p>

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

<b>Materiality</b>	£9,800,000 (2016: £9,852,000).
<b>Basis for determining materiality</b>	1% of net assets as at the year end. This basis was also used in the prior year.
<b>Rationale for the benchmark applied</b>	The key driver of shareholder value for the investment Company is net asset value, as such we have considered this the most appropriate benchmark for determining a materiality threshold.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £50,000 (2016: £50,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

There were no changes to the scope of our audit since prior year. Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work designed to respond to the risks of material misstatement was performed directly by the audit engagement team.

As part of our audit we assessed the controls in place at the administrator who prepares the financial statements of the Company by reviewing a controls report over their activities.

### Other information

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The directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report and the Directors Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* - 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 position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* - 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* - 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.

We have nothing to report in respect of these matters.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

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

## 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.

## Report on other legal and regulatory requirements

### 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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

## INDEPENDENT AUDITOR'S REPORT

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

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#### ***Adequacy of explanations received and accounting records***

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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#### ***Directors' remuneration***

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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### Other matters

#### **Auditor tenure**

Following the recommendation of the Audit Committee, we were appointed by the Board on 10th January 2007 to audit the financial statements for the year ending 31st December 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ending 31st December 2006 to 31st December 2017.

#### **Consistency of the audit report with the additional report to the Audit Committee**

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Andrew Partridge, CA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor,

London, United Kingdom

22nd March 2018

# Financial Statements

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# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31ST DECEMBER 2017

	Notes	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
<b>Gains on investments held at fair value through profit or loss</b>	3	–	97,734	97,734	–	239,839	239,839
Net foreign currency gains/(losses) <sup>1</sup>		–	7,493	7,493	–	(12,852)	(12,852)
Income from investments	4	19,317	–	19,317	20,533	–	20,533
Interest receivable	4	177	–	177	77	–	77
<b>Gross return</b>		<b>19,494</b>	<b>105,227</b>	<b>124,721</b>	<b>20,610</b>	<b>226,987</b>	<b>247,597</b>
Management fee	5	(929)	(3,715)	(4,644)	(909)	(3,636)	(4,545)
Other administrative expenses	6	(653)	–	(653)	(802)	–	(802)
<b>Net return on ordinary activities before finance costs and taxation</b>		<b>17,912</b>	<b>101,512</b>	<b>119,424</b>	<b>18,899</b>	<b>223,351</b>	<b>242,250</b>
Finance costs	7	(909)	(3,636)	(4,545)	(803)	(3,213)	(4,016)
<b>Net return on ordinary activities before taxation</b>		<b>17,003</b>	<b>97,876</b>	<b>114,879</b>	<b>18,096</b>	<b>220,138</b>	<b>238,234</b>
Taxation	8	(2,723)	–	(2,723)	(2,916)	–	(2,916)
<b>Net return on ordinary activities after taxation</b>		<b>14,280</b>	<b>97,876</b>	<b>112,156</b>	<b>15,180</b>	<b>220,138</b>	<b>235,318</b>
<b>Return per share</b>	9	<b>5.93p</b>	<b>40.67p</b>	<b>46.60p</b>	<b>5.70p</b>	<b>82.66p</b>	<b>88.36p</b>

<sup>1</sup> Includes gains and losses on forward currency contracts which are used to hedge the currency risk in respect of the geared portion of the portfolio. Details of the Company's hedging strategy are given in note 22(a)(i) on pages 62 and 63.

The dividends payable in respect of the year ended 31st December 2017 amount to 5.5p (2016: 5.0p) per share, costing £12,778,000 (2016: £13,043,000). Details of dividends paid and proposed are given in note 10 on page 55.

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies.

The net return on ordinary activities after taxation represents the profit for the year and also the total comprehensive income.

The notes on page 50 to 68 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31ST DECEMBER 2017

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves <sup>1</sup> £'000	Revenue reserve <sup>1</sup> £'000	Total £'000
<b>At 31st December 2015</b>	<b>14,082</b>	<b>151,850</b>	<b>8,151</b>	<b>622,025</b>	<b>20,592</b>	<b>816,700</b>
Repurchase of shares into Treasury	–	–	–	(54,144)	–	(54,144)
Net return on ordinary activities	–	–	–	220,138	15,180	235,318
Dividends paid in the year (note 10)	–	–	–	–	(12,658)	(12,658)
<b>At 31st December 2016</b>	<b>14,082</b>	<b>151,850</b>	<b>8,151</b>	<b>788,019</b>	<b>23,114</b>	<b>985,216</b>
Repurchase of shares into Treasury	–	–	–	(104,877)	–	(104,877)
Net return on ordinary activities	–	–	–	97,876	14,280	112,156
Dividends paid in the year (note 10)	–	–	–	–	(12,065)	(12,065)
<b>At 31st December 2017</b>	<b>14,082</b>	<b>151,850</b>	<b>8,151</b>	<b>781,018</b>	<b>25,329</b>	<b>980,430</b>

<sup>1</sup> These reserves form the distributable reserves of the Company and may be used to fund distribution of profits to investors via dividend payments.

The notes on pages 50 to 68 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

## FOR THE YEAR ENDED 31ST DECEMBER 2017

	Notes	2017 £'000	2016 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	11	1,070,243	1,068,848
<b>Current assets</b>	12		
Derivative financial assets		1,359	358
Debtors		919	921
Cash and cash equivalents		13,689	10,114
		<b>15,967</b>	<b>11,393</b>
<b>Current liabilities</b>	13		
<b>Creditors:</b> amounts falling due within one year		(87,299)	(558)
<b>Net current (liabilities)/assets</b>		<b>(71,332)</b>	<b>10,835</b>
<b>Total assets less current liabilities</b>		<b>998,911</b>	<b>1,079,683</b>
<b>Creditors:</b> amounts falling due after more than one year	14	(18,481)	(94,467)
<b>Net assets</b>		<b>980,430</b>	<b>985,216</b>
<b>Capital and reserves</b>			
Called up share capital	15	14,082	14,082
Share premium	16	151,850	151,850
Capital redemption reserve	16	8,151	8,151
Capital reserves	16	781,018	788,019
Revenue reserve	16	25,329	23,114
<b>Total shareholders' funds</b>		<b>980,430</b>	<b>985,216</b>
<b>Net asset value per share</b>	17	<b>424.3p</b>	<b>381.0p</b>

The financial statements on pages 46 to 49 were approved and authorised for issue by the Directors on 22nd March 2018 and signed on their behalf by:

Simon Bragg  
Director

The notes on pages 50 to 68 form an integral part of these financial statements.

The Company's registration number is 15543.

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31ST DECEMBER 2017

Notes	2017 £'000	2016 £'000	
<b>Net cash outflow from operations before dividends and interest</b>	18	(6,558)	(3,234)
Dividends received		16,829	17,283
Interest received		166	70
Overseas tax recovered		(259)	354
Interest paid		(4,596)	(4,020)
<b>Net cash inflow from operating activities</b>		<b>5,582</b>	<b>10,453</b>
Purchases of investments		(437,710)	(313,586)
Sales of investments		533,956	370,087
Settlement of forward currency contracts		3,073	(11,753)
<b>Net cash inflow from investing activities</b>		<b>99,319</b>	<b>44,748</b>
Dividends paid		(12,065)	(12,658)
Repayment of bank loans		(3,858)	(41,283)
Draw down of bank loans		19,474	44,627
Repurchase of shares into Treasury		(104,877)	(54,562)
<b>Net cash outflow from financing activities</b>		<b>(101,326)</b>	<b>(63,876)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>3,575</b>	<b>(8,675)</b>
Cash and cash equivalents at the start of the year		10,114	18,789
Cash and cash equivalents at the end of the year		13,689	10,114
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>3,575</b>	<b>(8,675)</b>
<b>Cash and cash equivalents consist of:</b>			
Cash and short term deposits		19	10
Cash held in JPMorgan US Dollar Liquidity Fund		13,670	10,104
<b>Total</b>		<b>13,689</b>	<b>10,114</b>

The notes on pages 50 to 68 form an integral part of these financial statements.

## FOR THE YEAR ENDED 31ST DECEMBER 2017

### 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, in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in November 2014 and updated in January 2017.

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

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

#### (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.

Overseas dividends are included gross of any withholding tax.

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

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

Interest receivable from debt securities together with any premiums or discounts on purchase are allocated to revenue on a time apportionment basis so as to reflect the effective interest rate of those securities.

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

**(e) Expenses**

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

- any performance fee is allocated 100% to capital.
- the management fee is allocated 20% to revenue and 80% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 56.

**(f) Finance costs**

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

Finance costs are allocated 20% to revenue and 80% 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.

Forward foreign currency contracts are included in the Statement of Financial Position as derivative financial instruments and are carried at fair value, which is the cost of closing out those contracts. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Bank loans and debentures are classified as financial liabilities at amortised cost. They are initially measured at proceeds net of direct issue costs and subsequently measured at amortised cost. Interest payable on bank loans is accounted for on an accruals basis in the Statement of Comprehensive Income. The amortisation of direct issue costs are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest method.

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.

**(h) Taxation**

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

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.

**1. Accounting policies** *continued*

**(j) Functional 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 and 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 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 payable**

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

**(l) 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.

**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 significant 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**

	2017 £'000	2016 £'000
Gains on investments held at fair value through profit or loss based on historical cost	165,656	81,561
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(153,939)	(51,898)
Gains on sales of investments based on the carrying value at the previous balance sheet date	11,717	29,663
Net movement in investment holding gains and losses	86,028	210,186
Other capital charges	(11)	(10)
<b>Total capital gains on investments held at fair value through profit or loss</b>	<b>97,734</b>	<b>239,839</b>

#### 4. Income

	2017 £'000	2016 £'000
<b>Income from investments</b>		
Overseas dividends	19,317	20,533
<b>Interest receivable and similar income</b>		
Interest from liquidity fund	175	77
Deposit interest	2	–
	177	77
<b>Total income</b>	<b>19,494</b>	<b>20,610</b>

#### 5. Management fee

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Management fee	929	3,715	4,644	909	3,636	4,545

Details of the management fee are given in the Directors' Report on page 25.

#### 6. Other administrative expenses

	2017 £'000	2016 £'000
Administration expenses	307	300
Directors' fees <sup>1</sup>	173	177
Depository fees <sup>2</sup>	146	161
Auditor's remuneration for audit services <sup>3</sup>	24	25
Auditor's remuneration for other services <sup>4</sup>	3	8
Savings scheme costs <sup>5</sup>	–	131
	<b>653</b>	<b>802</b>

<sup>1</sup> Full disclosure is given in the Directors' Remuneration Report on page 34.

<sup>2</sup> Includes £8,000 (2016: £8,000) irrecoverable VAT.

<sup>3</sup> Includes £1,000 (2016: £1,000) irrecoverable VAT.

<sup>4</sup> Comprises the Company's contribution to the review of the Manager's control procedures amounting to £nil (2016: £5,000), plus fees payable for the review of the debenture compliance certificate amounting to £3,000 (2016: £3,000). With effect from 1st October 2016, PwC took over the review of the Manager's control procedures.

<sup>5</sup> Paid to the Manager for the administration of saving scheme products. Includes £nil (2016: £6,000) irrecoverable VAT. From 1st October 2016 these fees are paid by the Manager.

#### 7. Finance costs

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Bank loans and overdraft interest	229	915	1,144	121	485	606
Debenture interest	680	2,721	3,401	682	2,728	3,410
	<b>909</b>	<b>3,636</b>	<b>4,545</b>	<b>803</b>	<b>3,213</b>	<b>4,016</b>

## 8. Taxation

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

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Overseas withholding tax	2,723	–	2,723	2,916	–	2,916
<b>Total tax charge for the year</b>	<b>2,723</b>	<b>–</b>	<b>2,723</b>	<b>2,916</b>	<b>–</b>	<b>2,916</b>

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

The tax charge for the year is lower (2016: lower) than the Company's applicable rate of corporation tax of 19.25% (2016: 20.00%).

The factors affecting the total tax charge for the year are as follows:

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Net return on ordinary activities before taxation	17,003	97,876	114,879	18,096	220,138	238,234
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 19.25% (2016: 20.00%)	3,273	18,841	22,114	3,619	44,028	47,647
Effects of:						
Non taxable overseas dividends	(3,721)	–	(3,721)	(4,140)	–	(4,140)
Non taxable capital gains	–	(20,256)	(20,256)	–	(45,398)	(45,398)
Overseas withholding tax	2,723	–	2,723	2,916	–	2,916
Income tax timing difference	1	–	1	(1)	–	(1)
Unrelieved expenses	447	1,415	1,862	522	1,370	1,892
<b>Total tax charge for the year</b>	<b>2,723</b>	<b>–</b>	<b>2,723</b>	<b>2,916</b>	<b>–</b>	<b>2,916</b>

### (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £14,781,000 (2016: £13,137,000) based on a prospective corporation tax rate of 17% (2016: 17%). The UK Government announced in July 2015 that the corporation tax rate is set to be cut to 19% in 2017 and 18% in 2020. In March 2016 a further cut to 17% in 2020 was announced. These reductions in the standard rate of corporation tax were substantively enacted on 15th September 2016 and became effective from 1st April 2017. 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

	2017 £'000	2016 £'000
Revenue return	14,280	15,180
Capital return	97,876	220,138
<b>Total return</b>	<b>112,156</b>	<b>235,318</b>
Weighted average number of shares in issue during the year	240,684,981	266,333,049
Revenue return per share	5.93p	5.70p
Capital return per share	40.67p	82.66p
<b>Total return per share</b>	<b>46.60p</b>	<b>88.36p</b>

10. Dividends

(a) Dividends paid and proposed

	2017 £'000	2016 £'000
<b>Dividends paid</b>		
Unclaimed dividends refunded to the Company	(4)	(2)
2016 Final dividend of 2.75p (2015: 2.5p)	6,801	6,728
2017 Interim dividend of 2.25p (2016: 2.25p)	5,268	5,932
<b>Total dividends paid in the year</b>	<b>12,065</b>	<b>12,658</b>
<b>Dividends proposed</b>		
2017 Final dividend of 3.25p (2016: 2.75p)	7,510	7,111

All dividends paid and declared in the period have been funded from the Revenue Reserve.

The dividend proposed in respect of the year ended 31st December 2016 amounted to £7,111,000. However the amount paid amounted to £6,801,000 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 December 2017 is subject to shareholder approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 31st December 2018.

(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 £14,280,000 (2016: £15,180,000).

	2017 £'000	2016 £'000
2017 Interim dividend of 2.25p (2016: 2.25p)	5,268	5,932
2017 Final dividend of 3.25p (2016: 2.75p)	7,510	7,111
<b>Total</b>	<b>12,778</b>	<b>13,043</b>

The revenue reserve after payment of the final dividend will amount to £17,826,000 (2016: £16,003,000).

**11. Investments**

	2017 £'000	2016 £'000
Investments listed on a recognised stock exchange	1,070,243	1,067,400
Unquoted investments	–	1,448
	<b>1,070,243</b>	<b>1,068,848</b>

	2017			2016		
	Listed overseas £'000	Unquoted £'000	Total £'000	Listed overseas £'000	Unquoted £'000	Total £'000
Opening book cost	705,531	116	705,647	680,354	116	680,470
Opening investment holding gains	361,869	1,332	363,201	203,815	1,098	204,913
Opening valuation	1,067,400	1,448	1,068,848	884,169	1,214	885,383
Movements in the year:						
Purchases at cost	437,605	–	437,605	313,691	–	313,691
Sales - proceeds	(531,111)	(2,844)	(533,955)	(370,075)	–	(370,075)
Gains on sales of investments based on the carrying value at the previous balance sheet date	10,321	1,396	11,717	29,663	–	29,663
Net movement in investment holding gains and losses	86,028	–	86,028	209,952	234	210,186
<b>Closing valuation</b>	<b>1,070,243</b>	<b>–</b>	<b>1,070,243</b>	<b>1,067,400</b>	<b>1,448</b>	<b>1,068,848</b>
Closing book cost	774,928	25	774,953	705,531	116	705,647
Closing investment holding gains	295,315	(25)	295,290	361,869	1,332	363,201
<b>Total investments held at fair value through profit or loss</b>	<b>1,070,243</b>	<b>–</b>	<b>1,070,243</b>	<b>1,067,400</b>	<b>1,448</b>	<b>1,068,848</b>

Transaction costs on purchases during the year amounted to £115,000 (2016: £104,000) and on sales during the year amounted to £111,000 (2016: £134,000). These costs comprise mainly brokerage commission and stamp duty.

During the year, prior year investment holding gains amounting to £153,939,000 have been transferred to gains on sales of investments as disclosed in note 16.

At the comparative year end, the Company held 10% or more of a class of the issued share capital of the following company, which is valued in the financial statements at the Company's share of net assets. This holding was sold during the year.

	2017 %	2016 %
Kane Holdings	–	15.8

The Company did not exercise significant influence over the operating and financial policies of the above company, which was therefore not considered to be an associated company.

## 12. Current assets

### Derivative financial assets

	2017 £'000	2016 £'000
Forward foreign currency contracts	1,359	358

### Debtors

	2017 £'000	2016 £'000
Securities sold awaiting settlement	–	11
Dividends and interest receivable	836	807
Overseas tax recoverable	25	19
Other debtors	58	84
	<b>919</b>	<b>921</b>

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

	2017 £'000	2016 £'000
<b>Creditors: amounts falling due within one year</b>		
Securities purchased awaiting settlement	–	105
£50,000,000 6.875% debenture June 2018	49,986	–
Bank loan - Scotiabank	36,962	–
Debenture interest payable	216	282
Other creditors and accruals	98	119
Loan interest payable	37	52
	<b>87,299</b>	<b>558</b>

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

The £50 million debenture, which the Company has in issue, carries a fixed interest rate of 6.875% until the repayment date in June 2018. The debenture is secured by a floating charge over the assets of the Company, and is being fair valued at amortised cost.

The £40 million two year floating rate debt facility with Scotiabank which has an interest rate of LIBOR as quoted in the market for the loan period, plus a margin of 0.95%, plus mandatory costs. Any undrawn amounts under the facility attract an interest rate of 0.35% if less than 50% of the facility is drawn or 0.25% if more than 50% of the facility is drawn. The facility is subject to covenants and restrictions which are customary for a facility of this nature, all of which have been met during the year. This facility expires in November 2018.

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

	2017 £'000	2016 £'000
Bank loan - National Australia Bank ('NAB')	18,481	8,093
Bank loan - Scotiabank	–	36,418
£50,000,000 6.875% debenture June 2018	–	49,956
	<b>18,481</b>	<b>94,467</b>

The £25 million five year floating rate debt facility with NAB, has an interest rate of LIBOR as quoted in the market for the loan period, plus a margin of 1.05%, plus mandatory costs. Any undrawn amounts attract a commitment fee of 0.32%. The facility is subject to covenants and restrictions which are customary for a facility of this nature, all of which have been met during the year. This facility expires in April 2020.

**15. Called up share capital**

	2017 £'000	2016 £'000
<b>Ordinary shares allotted and fully paid:</b>		
Opening balance of 258,573,403 (2016: 276,283,026) shares excluding shares held in Treasury	12,929	13,814
Repurchase of 27,487,592 (2016: 17,709,623) shares into Treasury	(1,374)	(885)
Subtotal of 231,085,811 (2016: 258,573,403) shares of 5p each excluding shares held in Treasury	11,555	12,929
50,548,099 (2016: 23,060,507) shares held in Treasury	2,527	1,153
<b>Closing Balance of 281,633,910 (2016: 281,633,910) shares of 5p each including shares held in Treasury</b>	<b>14,082</b>	<b>14,082</b>

During the year, 27,487,592 shares of 5p were repurchased from the market into Treasury at an average price of 382.4p per share, for a total net consideration of £104,877,000.

Further details of transactions in the Company's shares are given in the Strategic Report on page 19.

## 16. Capital and reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves <sup>1</sup>		Revenue reserve <sup>1</sup> £'000	Total £'000
				Gains and losses on sales of investments £'000	Investment holding gains and losses £'000		
Opening balance	14,082	151,850	8,151	425,315	362,704	23,114	985,216
Net foreign currency gains on cash and cash equivalents	–	–	–	1,450	–	–	1,450
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	11,717	–	–	11,717
Net movement in investment holding gains and losses	–	–	–	–	86,028	–	86,028
Transfer on disposal of investments	–	–	–	153,939	(153,939)	–	–
Unrealised gain on forward foreign currency contracts	–	–	–	–	1,359	–	1,359
Unrealised gain on forward foreign currency contracts from prior period now realised	–	–	–	358	(358)	–	–
Repurchase of shares into Treasury	–	–	–	(104,877)	–	–	(104,877)
Unrealised currency gains on loans	–	–	–	–	4,469	–	4,469
Realised currency gains on repayment of loans	–	–	–	215	–	–	215
Transfer on loans repaid in period	–	–	–	(19)	19	–	–
Management fee and finance costs charged to capital	–	–	–	(7,351)	–	–	(7,351)
Other capital charges	–	–	–	(11)	–	–	(11)
Dividends paid in the year	–	–	–	–	–	(12,065)	(12,065)
Retained revenue for the year	–	–	–	–	–	14,280	14,280
<b>Closing balance</b>	<b>14,082</b>	<b>151,850</b>	<b>8,151</b>	<b>480,736</b>	<b>300,282</b>	<b>25,329</b>	<b>980,430</b>

<sup>1</sup> These reserves form the distributable reserves of the Company and may be used to fund distribution of profits to investors via dividend payments.

## 17. Net asset value per share

	2017 £'000	2016 £'000
Net assets (£'000)	980,430	985,216
Number of shares in issue	231,085,811	258,573,403
<b>Net asset value per share</b>	<b>424.3p</b>	<b>381.0p</b>

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

	2017 £'000	2016 £'000
Net return on ordinary activities before finance costs and taxation	119,424	242,250
Less capital return on ordinary activities before finance costs and taxation	(101,512)	(223,351)
Increase in accrued income and other debtors	(3)	(16)
Decrease in accrued expenses	(22)	(25)
Management fee charged to capital	(3,715)	(3,636)
Overseas withholding tax	(2,470)	(3,273)
Dividends received	(16,829)	(17,283)
Interest received	(166)	(70)
Realised loss on foreign exchange transactions	(81)	(46)
Exchange (loss)/gain on liquidity funds	(1,184)	2,216
<b>Net cash outflow from operations before dividends and interest</b>	<b>(6,558)</b>	<b>(3,234)</b>

**19. Contingent liabilities and capital commitments**

At the balance sheet date there were no contingent liabilities or capital commitments (2016: same).

**20. Transactions with the Manager and related parties**

Details of the management contract are set out in the Directors' Report on page 25. The management fee payable to the Manager for the year was £4,644,000 (2016: £4,545,000) of which £nil (2016: £nil) was outstanding at the year end.

The performance fee for the year was £nil (2016: £nil) and £nil (2016: £nil) was outstanding at the year end.

During the year £nil (2016: £131,000), including VAT, was payable to the Manager for the administration of savings scheme products, of which £nil (2016: £nil) was outstanding at the year end.

Included in administration expenses in note 6 on page 53 are safe custody fees amounting to £9,000 (2016: £9,000) payable to JPMorgan Chase Bank N.A. of which £2,000 (2016: £2,000) 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 £nil (2016: £nil) of which £nil (2016: £nil) was outstanding at the year end.

The Company also holds cash in the JPMorgan US Dollar Liquidity Fund, which is managed by JPMF. At the year end this was valued at £13.7 million (2016: £10.1 million). Income amounting to £175,000 (2016: £77,000) was receivable during the year of which £18,000 (2016: £7,000) was outstanding at the year end.

Handling charges on dealing transactions amounting to £11,000 (2016: £10,000) were payable to JPMorgan Chase Bank N.A. during the year of which £3,000 (2016: £2,000) was outstanding at the year end.

At the year end, total cash of £19,000 (2016: £10,000) was held with JPMorgan Chase Bank N.A.. A net amount of interest of £2,000 (2016: £nil) was receivable by the Company during the year from JPMorgan Chase of which £nil (2016: £nil) was outstanding at the year end.

Full details of Directors' remuneration can be found on page 34 and in note 6 on page 53.

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

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

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

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

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

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

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

**(3) Inputs are unobservable (i.e.: for which market data is unavailable) for the asset or liability**

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

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

Details of the valuation techniques used by the Company are given in note 1(b) on page 50.

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

	2017		2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	1,070,243	–	1,067,400	–
Level 2 <sup>1</sup>	1,359	–	358	–
Level 3 <sup>2</sup>	–	–	1,448	–
<b>Total</b>	<b>1,071,602</b>	<b>–</b>	<b>1,069,206</b>	<b>–</b>

<sup>1</sup> Includes forward foreign currency contracts.

<sup>2</sup> Includes investment in Kane Holdings held at the comparative year end which had a market value at 31st December 2016 of £1,448,000. Kane Holdings was sold during the year.

There were no transfers between Level 1, 2 or 3 during the year (2016: nil).

A reconciliation of the fair value measurements in Level 3 is set out below.

	2017		2016	
	Equity Investments £'000	Total £'000	Equity Investments £'000	Total £'000
Level 3				
Opening balance	1,448	1,448	1,214	1,214
Sale	(2,844)	(2,844)	–	–
Net movement in investment holding gain during the year	1,396	1,396	234	234
<b>Closing balance</b>	<b>–</b>	<b>–</b>	<b>1,448</b>	<b>1,448</b>

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

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

These financial risks include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

The Directors' policy for managing these risks is set out below.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments are as follows:

- investments in US equity shares, which are held in accordance with the Company's investment objective;
- cash held within a liquidity fund;
- short term debtors, creditors and cash arising directly from its operations;
- a debenture issued by the Company and bank loans, the purpose of which is to finance the Company's operations;
- forward foreign currency contracts, the purpose of which is to manage the currency risk arising from the Company's investment activities.

#### (a) Market risk

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

##### (i) Currency risk

The majority of the Company's assets and income are denominated in US dollars. Sterling is the Company's functional currency and the currency in which it reports. As a result, movements in exchange rates will affect the sterling value of those items.

##### Management of currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least five occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed.

The Company has a £50 million debenture in issue which is repayable in June 2018. It is the Company's policy to hedge the currency risk in respect of this geared portion of the portfolio using three month forward contracts. At 31st December 2017 the Company held a number of open contracts with UBS, HSBC, Goldman Sachs and Citibank. The net effect of these contracts is to purchase £50 million for settlement in US dollars and the latest settlement date of these contracts was 23rd January 2018.

Upon maturity, these contracts were rolled over with ANZ, Morgan Stanley, Toronto Dominion and State Street and the settlement date of these new contracts is 24th April 2018.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

## NOTES TO THE FINANCIAL STATEMENTS

### Foreign currency exposure

The fair value of the Company's monetary items that have foreign currency exposure at 31st December are shown below.

Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2017			2016		
	US Dollar £'000	Euro £'000	Total £'000	US Dollar £'000	Euro £'000	Total £'000
Current assets	15,894	3	15,897	11,295	3	11,298
Creditors	–	–	–	(105)	–	(105)
Bank loans	(55,443)	–	(55,443)	(44,511)	–	(44,511)
Foreign currency exposure on net monetary items	(39,549)	3	(39,546)	(33,321)	3	(33,318)
Investments held at fair value through profit or loss	1,070,243	–	1,070,243	1,068,848	–	1,068,848
<b>Total net foreign currency exposure</b>	<b>1,030,694</b>	<b>3</b>	<b>1,030,697</b>	<b>1,035,527</b>	<b>3</b>	<b>1,035,530</b>

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

### Foreign currency sensitivity

The following table illustrates the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and the income receivable in foreign currency and assumes a 10% (2016: 20%) appreciation or depreciation in sterling against the US Dollar which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

	2017		2016	
	If sterling strengthens by 10% £'000	If sterling weakens by 10% £'000	If sterling strengthens by 20% £'000	If sterling weakens by 20% £'000
Statement of Comprehensive Income - return after taxation				
Revenue return	(1,949)	1,949	(4,122)	4,122
Capital return	3,955	(3,995)	6,664	(6,664)
Total return after taxation for the year	2,006	(2,006)	2,542	(2,542)
<b>Net assets</b>	<b>2,006</b>	<b>(2,006)</b>	<b>2,542</b>	<b>(2,542)</b>

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the whole year.

**22. Financial instruments' exposure to risk and risk management policies** *continued*
**(a) Market risk** *continued*
**(ii) Interest rate risk**

Interest rate movements may affect the level of income receivable on cash deposits and the liquidity fund. The Company's exposure to floating interest rates, giving cash flow interest rate risk when rates are reset, is as follows:

	2017 £'000	2016 £'000
Exposure to floating interest rates		
Cash and short term deposits	19	10
JPMorgan US Dollar Liquidity Fund	13,670	10,104
Bank loans	(55,443)	(44,511)
<b>Total exposure</b>	<b>(41,754)</b>	<b>(34,397)</b>

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2016: same).

The target interest earned on the JPMorgan US Dollar Liquidity Fund is the 7 day US dollar London Interbank Bid Rate.

Details of the bank loans are given in notes 13 and 14 on pages 57 and 58.

**Interest rate sensitivity**

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1.0% (2016: 0.5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2017		2016	
	1.0% Increase in rate £'000	1.0% Decrease in rate £'000	0.5% Increase in rate £'000	0.5% Decrease in rate £'000
Statement of Comprehensive Income - return after taxation				
Revenue return	26	(26)	6	(6)
Capital return	(444)	444	(178)	178
Total return after taxation	(418)	418	(172)	172
<b>Net assets</b>	<b>(418)</b>	<b>418</b>	<b>(172)</b>	<b>172</b>

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances, cash held in the liquidity fund and amounts drawn down on the Company's loan facilities.

**(iii) Other price risk**

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

**Management of other price risk**

The Board considers on a regular basis the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

**Other price risk exposure**

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

	2017 £'000	2016 £'000
Investments held at fair value through profit or loss	1,070,243	1,068,848

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

**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% (2016: 10%) in the market values. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2017		2016	
	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	(54)	57	(107)	107
Capital return	106,810	(106,795)	106,457	(106,457)
Total return after taxation	106,756	(106,738)	106,350	(106,350)
<b>Net assets</b>	<b>106,756</b>	<b>(106,738)</b>	<b>106,350</b>	<b>(106,350)</b>

**(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.

**22. Financial instruments' exposure to risk and risk management policies** *continued*
**(b) Liquidity risk** *continued*
**Liquidity risk exposure**

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

	2017			Total £'000
	Three months or less £'000	More than three months but less than one year £'000	One year or more £'000	
<b>Creditors:</b>				
Other creditors and accruals	98	–	–	98
Bank loans - Scotiabank, including interest	233	37,529	–	37,762
Debenture, including interest	–	51,719	–	51,719
Bank loans - National Australia Bank ('NAB'), including interest	111	294	18,985	19,390
	<b>442</b>	<b>89,542</b>	<b>18,985</b>	<b>108,969</b>
	2016			Total £'000
	Three months or less £'000	More than three months but less than one year £'000	One year or more £'000	
<b>Creditors:</b>				
Securities purchased awaiting settlement	105	–	–	105
Other creditors and accruals	119	–	–	119
Bank loans, including interest	262	642	45,519	46,423
Debenture, including interest	–	3,438	51,718	55,156
	<b>486</b>	<b>4,080</b>	<b>97,237</b>	<b>101,803</b>

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 were to cease trading.

The Depositary, BNY Mellon Trust and Depositary (UK) Limited, is responsible for the safekeeping of all custodial assets of the Company and for verifying and maintaining a record of all other assets of the Company. However, no absolute guarantee can be given on the protection of all the assets of the Company.

**Credit risk exposure**

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

**(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 except for the debenture which the Company has in issue. The fair value of this debenture has been calculated using discounted cash flow techniques using the yield on a similarly dated gilt plus a margin based on the five year average yield for the AA Barclays Sterling Corporate Bond.

	2017		2016	
	Accounts value £m	Fair value £m	Accounts value £m	Fair value £m
£50 million 6.875% debenture June 2018	50.0	51.5	50.0	54.3

### 23. Capital management policies and procedures

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

	2017 £'000	2016 £'000
<b>Debt:</b>		
Bank loans	55,443	44,511
£50 million 6.875% debenture June 2018	50,000	50,000
	105,443	94,511
<b>Equity:</b>		
Equity share capital	14,082	14,082
Reserves	966,348	971,134
	980,430	985,216
<b>Total debt and equity</b>	<b>1,085,873</b>	<b>1,079,727</b>

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

The Board's gearing policy is to operate within a range of 5% net cash to 20% geared in normal market conditions.

	2017 £'000	2016 £'000
Investments held at fair value through profit or loss	1,070,243	1,068,848
Net assets	980,430	985,216
<b>Gearing</b>	<b>9.2%</b>	<b>8.5%</b>

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

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

### 24. Subsequent events

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

# Regulatory Disclosures

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## ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ('AIFMD') DISCLOSURE (UNAUDITED)

### 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 can be 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 is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD, at 31st December 2017, which gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum limit	200%	200%
Actual	111%	111%

<sup>1</sup> The above figures are theoretical and are calculated in accordance with the methodology prescribed by the AIFMD.

### JPMF Remuneration

JPMorgan Funds Limited (the '**Management Company**') is the authorised manager of JPMorgan American 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 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 2 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 (\$'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<sup>1</sup>.

### SECURITIES FINANCING TRANSACTIONS REGULATION ('SFTR') DISCLOSURE (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-sell 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 December 2017.

<sup>1</sup> For 2017 the AIFMD Identified Staff disclosures includes employees of companies to which portfolio management has been formally delegated, in line with the latest ESMA guidance.



Notice is hereby given that the one hundred and second Annual General Meeting of JPMorgan American Investment Trust plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Wednesday, 2nd May 2018 at 2.30 p.m. for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditor's Report for the year ended 31st December 2017.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st December 2017.
4. To declare a final dividend on the ordinary shares of 3.25 pence per share.
5. To reappoint Dr Kevin Carter as a Director of the Company.
6. To reappoint Simon Bragg as a Director of the Company.
7. To reappoint Sir Alan Collins as a Director of the Company.
8. To reappoint Nadia Manzoor as a Director of the Company.
9. To reappoint Robert Talbut as a Director of the Company.
10. To reappoint Deloitte LLP as auditor to the Company and to authorise the Directors to determine Deloitte LLP's remuneration.

### Special Business

To consider the following resolutions:

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

11. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £1,132,351, representing approximately 10% of the Company's issued ordinary share capital as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting 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 relevant securities – Special Resolution

12. THAT subject to the passing of Resolution 11 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 11 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 £1,132,351, representing approximately 10% of the issued ordinary share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 11 above, save that the Company may before such expiry make offers, or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, or agreements as if the power conferred hereby had not expired.

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

13. 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 in the capital of the Company ('ordinary shares').

PROVIDED ALWAYS THAT

- (i) the maximum number of shares hereby authorised to be purchased shall be that number of shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for a share shall be the nominal value of the share;
- (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 a 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 contracted to be purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

## NOTICE OF ANNUAL GENERAL MEETING

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- (iv) any purchase of shares will be made in the market for cash or prices below the prevailing net asset value per share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 1st October 2019 unless the authority is renewed at the Company's Annual General Meeting in 2019 or at any other general meeting prior to such time; and
- (vi) the Company may make or contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

By order of the Board  
Alison Vincent, for and on behalf of  
JPMorgan Funds Limited,  
Secretary

29th March 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 Chair, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chair or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If the 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.
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the meeting (the 'specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the meeting or adjourned meeting.
6. Entry to the above Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.

7. A corporation, which is a shareholder, may appoint individuals to act as its representatives and to vote in person at the meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.  
  
Representatives should bring to the meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with 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. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website [www.jpmerican.co.uk](http://www.jpmerican.co.uk).
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hard copy Form of Proxy/Voting Instruction Form, you can appoint a proxy or proxies electronically by visiting [www.sharevote.co.uk](http://www.sharevote.co.uk). You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Direction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at [www.shareview.co.uk](http://www.shareview.co.uk). Full instructions are given on both websites.
16. As at 21st March 2018 (being the latest business day prior to the publication of this Report), the Company's issued share capital consists of 226,470,349 shares, (carrying one vote each). Therefore the total voting rights in the Company are 226,470,349.

#### **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.

### Return to Shareholders (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	2017	2016	
Opening share price as at 31st December	4	369.2p	277.9p	
Closing share price as at 31st December	4	405.4p	369.2p	(a)
Reinvestment of dividend paid during the financial year				
Final dividend	55	2.75p	2.5p	(b)
Share price on ex-dividend date 13th April 2017 (2016: 14th April 2016)		377.1p	299.0p	(c)
Final dividend adjustment factor (d = b / c + 1)		1.007292	1.008361	(d)
Interim dividend	55	2.25p	2.25p	(e)
Share price on ex-dividend date 31st August 2017 (2016: 8th September 2016)		390.0p	325.8p	(f)
Total dividend adjustment factor (h = (d x e / f) + d)		1.013104	1.015325	(g)
Adjusted closing share price (h = a x g)		410.7p	374.9p	(h)
<b>Total return to shareholder</b>		<b>11.2%</b>	<b>34.9%</b>	

### Return on Net Assets with Debt at Fair Value (APM)

The Company's debt (debenture) is valued in the Statement of Financial Position (on page 48) at amortised cost, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as 'Debt at Par Value'. The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the 'Debt at Fair Value'. This fair value is explained in note 22(d) (on page 67) of the financial statements. The difference between fair and par values of the debt is subtracted from the NAV to derive the NAV with debt at fair value. The fair value of the £50.0 million Debenture issued by the Company has been calculated using discounted cash flow techniques, using the yield from similar dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread. As at 31st December 2017, the cum-income NAV with debt at fair value was £978,936,000 (2016: £980,870,000) or 423.6p (2016: 379.3p) per share.

Total return calculation	Page	2017	2016	
Opening cum-income NAV per share with debt at fair value as at 31st December	4	379.3p	293.4p	
Closing cum-income NAV per share with debt at fair value as at 31st December	4	423.6p	379.3p	(a)
Reinvestment of dividend paid during the financial year				
Final dividend	55	2.75p	2.5p	(b)
Cum-income NAV per share on ex-dividend date 13th April 2017 (2016: 14th April 2016)		391.3p	308.5p	(c)
Final dividend adjustment factor (d = b / c + 1)		1.007028	1.008104	(d)
Interim dividend	55	2.25p	2.25p	(e)
Cum-income NAV per share on ex-dividend date 31st August 2017 (2016: 8th September 2016)		411.6p	337.4p	(f)
Total dividend adjustment factor (e = (d x e / f) + d)		1.012533	1.014827	(g)
Adjusted closing cum-income NAV per share (h = a x g)		428.9p	384.9p	(h)
<b>Total return on net assets with debt at fair value</b>		<b>13.1%</b>	<b>31.2%</b>	

**Return on Net Assets with Debt at Par Value (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	2017	2016	
Opening cum-income NAV per share with debt at par value as at 31st December	4	381.0p	295.6p	
Closing cum-income NAV per share with debt at par value as at 31st December	4	424.3p	381.0p	(a)
Reinvestment of dividend paid during the financial year				
Final dividend	55	2.75p	2.5p	(b)
Cum-income NAV per share on ex-dividend date 13th April 2017 (2016: 14th April 2016)		393.1p	311.1p	(c)
Final dividend adjustment factor ( $d = b / c + 1$ )		1.006995	1.008037	(d)
Interim dividend	55	2.25p	2.25p	(e)
Cum-income NAV per share on ex-dividend date 31st August 2017 (2016: 8th September 2016)		412.9p	339.6p	(f)
Total dividend adjustment factor ( $g = (d \times e / f) + d$ )		1.012483	1.014716p	(g)
Adjusted closing cum-income NAV per share ( $h = a \times g$ )		429.6p	386.6p	(h)
<b>Total return on net assets with debt at par value</b>		<b>12.8%</b>	<b>30.8%</b>	

**Benchmark Return**

Total return on the benchmark, on a closing-market value to closing-market value basis, assuming that all dividends received were reinvested, without transaction costs, 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 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

**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	2017 £'000	2016 £'000	
Investments held at fair value through profit or loss	48	1,070,243	1,068,848	(a)
Net assets	48	980,430	985,216	(b)
<b>Gearing (<math>c = a / b - 1</math>)</b>		<b>9.2%</b>	<b>8.5%</b>	(c)

### Ongoing Charges (APM)

The ongoing charges represent the Company's management fee and all other operating expenses excluding finance costs payable and excluding/including performance fee 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	2017 £'000	2016 £'000	
Management Fee	53	4,644	4,545	
Other administrative expenses	53	653	802	
Total management fee and other administrative expenses		5,297	5,347	(a)
Performance fee payable		–	–	
Total management fee, other administrative expenses and performance fee payable		5,297	5,347	(b)
Average daily cum-income net assets		971,643	864,945	(c)
Ongoing charges excluding performance fee payable (d = a / c)		0.55%	0.62%	(d)
Ongoing charges including performance fee payable (e = b / c)		0.55%	0.62%	(e)

### Share Price Discount/Premium to Net Asset Value ('NAV') per 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. The discount is shown as a percentage of the NAV per share (see page 4).

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.

### Portfolio Turnover

Portfolio turnover is based on the average equity purchases and sales expressed as a percentage of average opening and closing portfolio values (excluding liquidity funds).

### Performance Attribution

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

#### Performance Attribution Definitions:

- **Allocation Effect**  
Measures the effect of allocating assets to sectors or asset types differently to the weighting in the benchmark.
- **Selection Effect**  
Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are excluded from the benchmark.
- **Gearing/(Net Cash)**  
Measures the impact of borrowings or cash balances on the Company's performance relative to its benchmark.
- **Currency Hedge**  
Measures the effect on the Company's performance of a gain or loss arising from the Company's hedging activities.
- **Management Fee/Expenses**  
The payment of fees and expenses reduces the level of total assets and therefore has a negative effect on the Company's relative performance.
- **Shares Issuance**  
The issue of shares at a price in excess of the net asset value per share, has a positive effect on the Company's relative performance.

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](http://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 2017/18 tax year, from 6th April 2017 and ending 5th April 2018, 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](http://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](http://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](http://fca.org.uk)

## Be ScamSmart

### Investment scams are designed to look like genuine investments

#### Spot the warning signs

Have you been:

- contacted out of the blue and told the investment is safe
- promised tempting returns
- called repeatedly, or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

#### Avoid investment fraud

##### 1 Reject cold calls

If you've received unsolicited contact about an investment opportunity, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

##### 2 Check the FCA Warning List

The FCA Warning List is a list of firms and individuals we know are operating without our authorisation.

##### 3 Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

**Remember: if it sounds too good to be true, it probably is!**

#### Report a Scam

If you suspect that you have been approached by fraudsters please tell the FCA using the reporting form at [www.fca.org.uk/consumers/report-scam-unauthorised-firm](http://www.fca.org.uk/consumers/report-scam-unauthorised-firm). You can also call the FCA Consumer Helpline on **0800 111 6768**

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at [www.actionfraud.police.uk](http://www.actionfraud.police.uk)

Find out more at [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)



## FINANCIAL CALENDAR

Financial year end	31st December
Final results announced	March
Half year end	30th June
Half year results announced	August
Dividend on ordinary shares paid	May/October
Interest payments on 6.875% debenture stock 2018	June/December
Annual General Meeting	May

### History

The Company has its origins in the Alabama, New Orleans, Texas and Pacific Junction Railways Company Limited which was formed in 1881 to acquire interests in, and to undertake the completion of, three American railroads - the Vicksburg and Meridian, the Vicksburg, Shreveport and Pacific and the New Orleans and North Eastern. In 1917 the Company was reorganised, a proportion of the railroad interests were sold, and the investment powers were widened enabling its assets to be invested in several countries including the United Kingdom. To reflect the new objectives the name was changed to The Sterling Trust. The Company's investment policy reverted to North American securities in 1982 when the name was changed to The Fleming American Investment Trust plc. The name was changed to JPMorgan Fleming American Investment Trust plc in April 2002 and to its present form in 2006. JPMorgan, and its predecessor company, has been the Company's manager and secretary since 1966.

### Company Numbers

Company registration number: 15543  
 Country of registration: England and Wales  
 London Stock Exchange number: 08456505  
 ISIN: GB00BKZGVH64  
 SEDOL Code: BKZGVH6  
 Bloomberg code: JAM LN  
 LEI: 549300QNAI4XRPEB4G65

### Market Information

The Company's net asset value ('NAV') is published daily via the London Stock Exchange. The Company's shares are listed on the London Stock Exchange and the price is noted daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman and on the J.P. Morgan website at [www.jpmerican.co.uk](http://www.jpmerican.co.uk), where the share price is updated every 15 minutes during trading hours.

### Website

[www.jpmerican.co.uk](http://www.jpmerican.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](http://jpmorgan.co.uk/online)

### Manager and Company Secretary

JPMorgan Funds Limited



The Association of  
Investment Companies

A member of the AIC

### Company's Registered Office

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

For company secretarial and administrative matters, please contact Alison Vincent.

### Depository

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

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

### Registrars

Equiniti Limited  
 Reference 1077  
 Aspect House  
 Spencer Road  
 West Sussex BN99 6DA  
 Telephone number: 0371 384 2316

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 1077.

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

### Independent Auditors

Deloitte LLP  
 Statutory Auditor  
 2 New Street Square  
 London EC4A 3ZB

### 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.

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

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**CONTACT J.P. MORGAN**

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

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