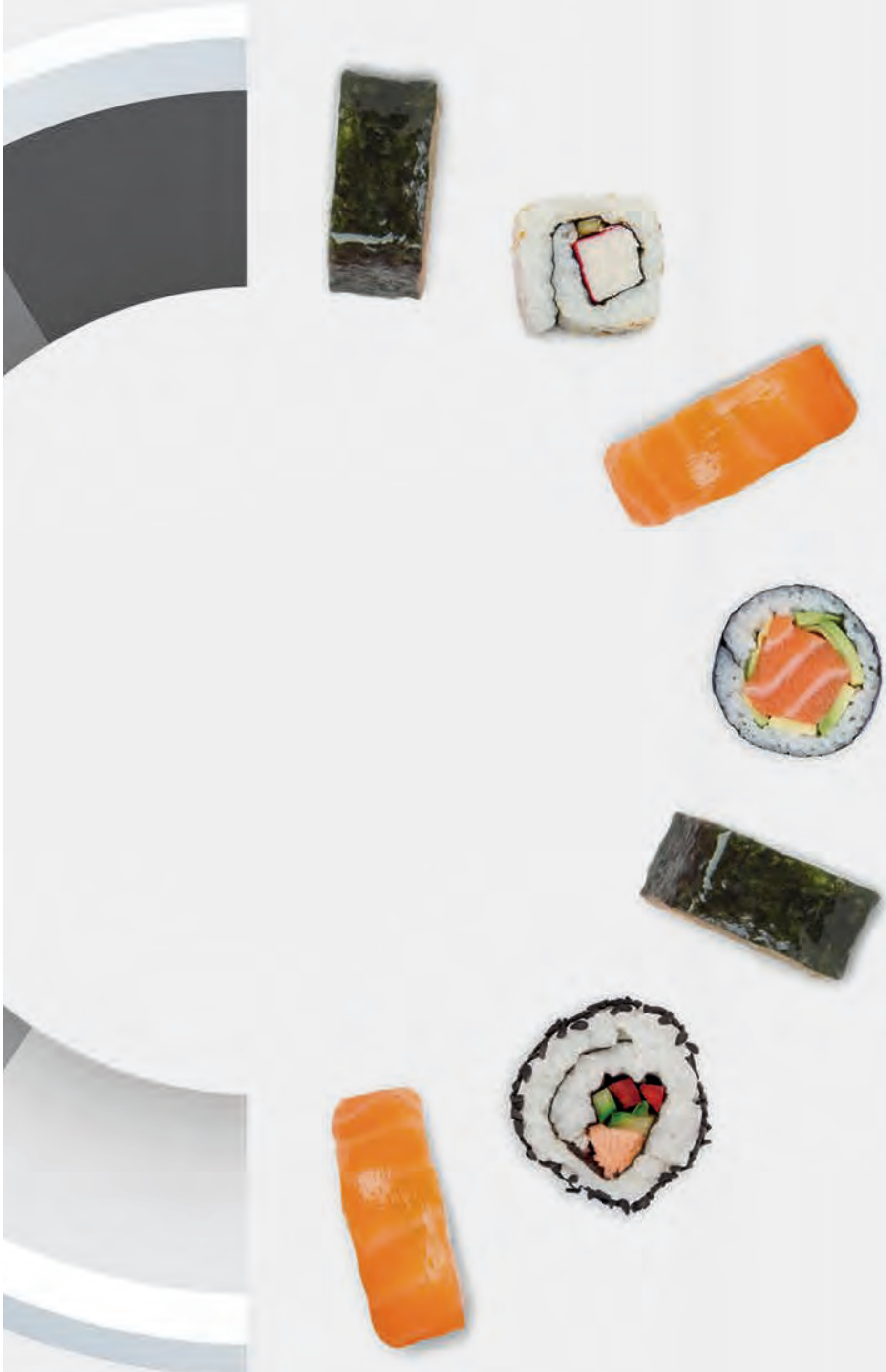
JPMorgan Japan Smaller Companies Trust plc

Annual Report & Financial Statements for the year ended 31st March 2019



J.P.Morgan
Asset Management

Investment Objective

The Company's objective is to achieve long-term capital growth through investment in small-sized and medium-sized Japanese companies. Its benchmark is the S&P Japan SmallCap NR (in sterling terms).

Investment Policy

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio of investments almost wholly invested in Japan, emphasising capital growth rather than income.

To obtain this exposure, investment is permitted in Japanese quoted companies other than the largest 200 measured by market capitalisation, Japanese domiciled unquoted companies, Japanese domiciled companies quoted on a non-Japanese stock exchange and non-Japanese domiciled companies which have at least 75% of their revenues derived from Japan. Investment is also permitted in UK and Japanese government bonds. Borrowings may be utilised to enhance shareholder returns.

Dividend Policy

With effect from 1st April 2018, the Company implemented a dividend policy under which the Company aims to pay, in the absence of unforeseen circumstances, a regular quarterly dividend equal to 1% of the Company's Net Asset Value ('NAV') on the last business day of the preceding financial quarter, being the end of March, June, September and December. Over the year this approximates to 4% of the average NAV. These dividends are paid from a combination of the revenue, capital and other reserves and will fluctuate in line with any rise or fall in the Company's net assets. The Company's investment objective and investment policy remained unchanged following the change in dividend policy.

Investment Restrictions and Guidelines

The Board seeks to manage the Company's risk by imposing various limits and restrictions as follows:

- The Company will not invest more than 5% of its assets in any one individual stock, at the time of its acquisition.
- The Company's current gearing policy is to operate within a gearing range of 5% net cash to 15% geared in normal market conditions with maximum levels of 10% net cash or 25% geared with the Board's agreement.
- The use of derivatives and currency hedging transactions are permitted with the prior approval of the Board. Such transactions, when used, will be for the purposes of efficient portfolio management and not for speculative purposes.

Compliance with investment restrictions and guidelines is monitored by JPMorgan Funds Limited ('JPMF' or the 'Manager') and is reported to the Board on a monthly basis. The benchmark index, as well as the limits and restrictions described above, may be varied by the Board at any time at its discretion, although any material changes to the investment policy must be approved by Shareholders in accordance with the Listing Rules.

Benchmark

S&P Japan SmallCap NR (in sterling terms). Comparison of the Company's performance is made with the benchmark as stated, although investors should note that there is no recognised benchmark that closely reflects the Company's stated investment policy.

Capital Structure

As at 31st March 2019, the Company's issued share capital comprised 55,944,560 Ordinary shares of 10p each, of which 1,434,221 were held in Treasury.

Currency

The Company does not currently hedge the currency exposure that arises from having assets and bank debt denominated in Japanese yen.

Management Company

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

Association of Investment Companies ('AIC')

The Company is a member of the AIC and complies with both the AIC Code of Corporate Governance and the Financial Reporting Council's UK Corporate Governance Code.

Website

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

FCA Regulation of 'Non-Mainstream Pooled Investments' and 'Complex Instruments'

The Company conducts its affairs in a way which enables the shares that it issues to be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority ('FCA') in relation to non-mainstream investment products.

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 ordinary shares are not considered to be 'complex instruments' under the FCA's 'Appropriateness' rules and guidance in the Conduct of Business (COB) sourcebook.

Why invest in JPMorgan Japan Smaller Companies Trust plc?

Targeting income without compromising on Japanese growth opportunities

JPMorgan Japan Smaller Companies Trust plc aims to provide access to the innovative and fast-growing smaller company stocks that are at the core of the Japanese economy by using a stock selection process based on extensive experience and local knowledge of the market.

- Managed by a local team that has both knowledge and long-standing experience of selecting undervalued, high quality smaller companies from across Japan.
- Invests in a changing Japan, with exposure to new products, technologies and markets which are often overlooked by UK investors.
- Provides access to innovative and fast growing smaller Japanese companies, which are the core of the Japanese economy.

Our heritage and our team

JPMorgan first opened its Tokyo office in 1969 and has over 40 years' experience in Japan in seeking out the most attractively valued Japanese sectors.

The Investment Team, based primarily in Tokyo, has a significant depth of experience in Japanese equity investments with an average of over 14 years in the industry. They are supported by JPMorgan Asset Management's extensive resources around the world.

Our Investment Approach

A combination of desk-based research and company meetings inform our rating of a company. We consider the growth opportunity for the industry overall before considering the company's competitive positioning and management. This allows us to assess the company's potential for growth. We then look at financial metrics with a focus on cash flow and balance sheet strength to assess the overall economics of the business. We also consider governance issues such as shareholder returns, management strength and the track record on environmental and social issues. Only then do we consider valuations – we do not buy companies where the short-term valuation looks low if they do not have a strong long-term growth outlook.

40	24	2,000+	400
Years' experience investing in the region	Investment professionals in Japan	Japanese company visits each year	Approximate number of stocks covered

CONTENTS

NOTE: THIS DOCUMENT 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 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in JPMorgan Japan Smaller Companies Trust plc, please forward this document, together with the accompanying documents, immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Strategic Report

TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED) TO 31ST MARCH

	2019	2018	3 Year	5 Year
Return to shareholders[1,A]	-8.9%	+26.5%	+44.3%	+111.4%
Return on net assets[2,A]	-7.9%	+27.8%	+42.3%	+109.0%
Benchmark return[3]	-7.3%	+13.2%	+41.3%	+84.9%
Annual dividend[4]	18.0p			

[1] Source: Morningstar.

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

[3] Source: Morningstar. The Company's benchmark is the S&P Japan SmallCap NR (in sterling terms).

[4] Effective from 1st April 2018, the Company implemented a dividend policy. Further details can be found on page 19.

[A] Alternative Performance Measure ('APM').

A glossary of terms and APMs is provided on pages 75 and 76.

SUMMARY OF RESULTS

	2019	2018	% change
Total returns for the year ended 31st March			
Return to shareholders[1,A]	**–8.9%**	+26.5%	
Return on net assets[2,A]	**–7.9%**	+27.8%	
Benchmark return[3]	**–7.3%**	+13.2%	
Net asset value, share price and discount as at 31st March			
Net asset value per share	**431.3p**	483.1p	**–10.7**
Share price	**376.0p**	427.0p	**–11.9**
Share price discount to net asset value per share[A]	**12.8%**	11.6%	
Shareholders' funds (£'000)	**235,110**	263,350	**–10.7**
Shares in issue, excluding shares held in Treasury	**54,510,339**	54,510,339	
Revenue for the year ended 31st March			
Gross revenue return (£'000)	**4,007**	3,735	+7.3
Net return attributable to shareholders (£'000)	**678**	578	+17.3
Revenue return per share	**1.24p**	1.06p	+17.0
Dividend per share[4]	**18.0p**	–	
Gearing as at 31st March[A]	**7.9%**	**6.3%**	
Ongoing Charges[A]	**1.10%**	**1.09%**	

[1] Source: Morningstar.

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

[3] Source: Morningstar. The Company's benchmark is the S&P Japan SmallCap NR (in sterling terms).

[4] Effective from 1st April 2018, the Company implemented a dividend policy. Further details can be found on page 19.

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Robert White
Chairman

Dear Shareholders,

This is my first report to you as Chairman following the retirement of Alan Clifton after our Annual General Meeting ('AGM') held in July last year.

Investment Performance

The Company's total return on net assets for the year ended 31st March 2019 was -7.9%, compared with -7.3% returned by the benchmark. The total return to ordinary shareholders was -8.9%, reflecting a slight widening of the share price discount to net asset value from 11.6% at the beginning of the financial year to 12.8% at 31st March 2019.

After starting the year with a sense of optimism, Japanese equity markets experienced significant volatility during the financial year as macro-economic and political concerns, including the US-China trade dispute, intensified globally.

The long-term performance of the Company continues to be strong with both the net asset value and share price having outperformed the benchmark over three and five years.

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

Dividends Policy and Discount Management

The Company implemented a new dividend policy with effect from 1st April 2018, under which the Company aims to pay, in the absence of unforeseen circumstances, a regular quarterly dividend equal to 1% of the Company's NAV on the last business day of the preceding financial quarter, being the end of March, June, September and December. Over the year this would approximate to 4% of the average NAV. These dividends are paid from a combination of the revenue, capital and other reserves. In respect of the quarters to 30th June 2018, 30th September 2018, 31st December 2018 and 31st March 2019, dividends of 4.9p, 4.9p, 3.9p and 4.3p per share respectively were declared. This totalled 18.0p per share for the year, amounting to 4.5% of average share price for the year and 4.2% of average NAV over the year.

It is important for investors to note that there has been no change in the Company's investment policy, or in the Investment Managers' approach to investment or the benchmark as a result of the new dividend policy.

Since the introduction of the new dividend policy, it is pleasing to note some narrowing of the Company's discount rate driven by new demand and positive press commentary. Following the Company's year end, the discount levels have narrowed further. The Board will keep the dividend policy, as well as its expected positive impact on both demand for the Company's shares and the discount level, under constant review. The Board may also use share buy-backs alongside the new dividend policy. It is expected that a combination of a higher yield and the use of buy-backs will be effective over time in tightening the discount at which your Company's shares trade. At the time of writing, the discount level was 11.6%.

A Resolution to approve the Company's dividend policy will be put to shareholders at the forthcoming Annual General Meeting.

Fund Managers

Eiji Saito, who is responsible for the management of all mid- and small-cap Japanese funds, including the investments in your portfolio, is assisted by Naohiro Ozawa and Michiko Sakai. Shoichi Mizusawa, who leads the Japanese research and investment management team of over twenty people in Tokyo, continues to have oversight of the Company's investments, but is not involved in the day-to-day investments decisions and is therefore no longer shown in this respect.

Gearing and Borrowing

Gearing is regularly discussed between the Board and the Investment Managers and its level is reviewed by the Directors at each Board meeting.

The Company has in place a two-year revolving floating rate loan of Yen 4.0 billion with Scotiabank until October 2019 at which time it will be reviewed and replaced as appropriate. The credit facility is flexible and provides the Investment Managers with the ability to gear tactically. The Company's investment policy permits gearing within a range of 10% net cash to 25% geared. However, the Board requires the Investment Managers, in normal market conditions, to operate in the range of 5% cash to 15% geared.

During the year, the Company's gearing level ranged between 10.6% and 3.9%, and finished the financial year at 7.9%.

The Board

Having had the privilege of serving as a director of the Company since 2008 and of chairing the Board since July 2018, I sadly and very reluctantly, due to health reasons, plan to retire from the Board at the conclusion of the forthcoming AGM on 29th July 2019. I am pleased to inform you that Alexa Henderson has agreed to replace me as chairman of the Board and of the Nomination Committee when I step down. I am delighted that Martin Shenfield and Tom Walker will be joining the Board immediately after the AGM as the result of a recruitment process that involved an independent consultant to identify candidates. Both Martin and Tom bring a wealth of experience and different skill sets, and I am sure they will make a strong contribution to the Board. Tom will replace Alexa as chairman of the Audit Committee. Following the AGM the Board will consist of five non-executive directors and will continue to have an appropriate balance of skills and diversity.

It has been a pleasure to serve on this Company's Board and I would like to thank my Board colleagues for all their help and support over the years. I should like to thank all shareholders for supporting the Board over the period during which I have been involved. The Board's top priority continues to be to deliver the best possible returns for shareholders and I wish my colleagues every success in the future.

Annual General Meeting

My fellow Directors and I invite you to attend the Company's AGM which will be held at 60 Victoria Embankment, London EC4Y 0JP on 29th July 2019 at 11.30 a.m. An investment presentation will be made at the meeting by the Investment Managers via telepresence. There will be an opportunity for shareholders to meet the Board and representatives of JPMorgan after the meeting. I look forward to welcoming as many of you as possible to this meeting.

If you have any detailed or technical questions, please submit these in advance of the meeting in writing, or via the Company's website, to the Company Secretary whose contact details are shown on page 79 of this report. Shareholders who are unable to attend the AGM are encouraged to use their proxy votes. Proxy votes may be lodged electronically, whether shares are held through CREST or in certificate form, and full details are set out on the form of proxy.

Outlook

Whilst global economic growth is slowing and earnings expectations are being downgraded, the Investment Managers expect a slow down rather than a recession. Valuations of Japanese equities are low by historic levels, as well as relative to other major markets. On the policy front, Japan continues to make progress in corporate governance, employment laws, free trade and in improving relationships with many countries. Mr Shinzo Abe is likely to become Japan's longest serving prime minister since the birth of Japan's parliamentary system in the 1880s, providing a period of stability which is in contrast to the situation in many other countries. The positive corporate governance story in Japan continues to develop and this increasingly looks structural in nature. The market is likely to reward companies with improving governance policies overall, including areas such as shareholder returns, board structure and disclosure.

It is encouraging to note that the fundamental outlook for Japanese smaller companies remains positive despite some of Japan's key structural challenges, particularly demographics. The Company's Tokyo-based research and portfolio management team has been able in the past number of years to identify attractive Japanese smaller companies with strong growth potential, healthy balance sheets and attractive cash generation prospects. The Board believes that this approach will continue to serve the Company's shareholders well over the medium and longer term.

Robert White
Chairman 19th June 2019

Eiji Saito
Investment Manager

Naohiro Ozawa
Investment Manager

Michiko Sakai
Investment Manager

Market Review

Over the twelve months to March 2019, the Company's benchmark, the Standard & Poor's Japan SmallCap NR (in sterling terms), produced in sterling terms a total return of -7.3%. The Company's net assets underperformed the index by 0.6 percentage points over the same period, delivering a total return of -7.9%. The Company's share price performance is ahead of the benchmark by 0.4 percentage points per annum over three years and by 3.1 percentage points per annum over five years.

The Japanese stock market as a whole experienced a volatile year and ended the period with a negative return, principally driven by weakness during calendar Q4 2018. A major source of this volatility was US-China trade friction and associated concerns about the outlook for global growth. During the same quarter, the Japanese yen declined against the US dollar. This provided some support to Japanese equity prices, particularly those with overseas earnings.

Investment Philosophy

We aim to invest in companies that we believe will be able to compound earnings growth over the long term, supported by sustainable competitive advantages and good management teams. While it is possible, even likely, that they may face occasional short-term setbacks caused by either wider economic issues or more company-specific challenges, we believe their strong and durable competitive positions will allow them to substantially increase their intrinsic value over the long term. Companies exhibiting these attributes combine to form a portfolio with a bias towards quality and growth. At the aggregate level, the companies in which we have invested have returns on equity considerably above the benchmark, with significantly lower leverage. Their historic earnings growth has been faster than that of the benchmark and we expect these portfolio attributes to endure.

Our research process is conducted in Tokyo by a team of over 20 investment professionals. Many stocks in Japan have little or no third-party research coverage, particularly mid-and smaller-capitalisation stocks. We have internal resources that allow us to identify investment opportunities in areas of the market which are generally under-researched and are therefore potentially under-appreciated by many market participants.

Investing Responsibly

An increasingly broad spectrum of investors now rightly focus not simply on return, risk and investment process issues but also on Environmental, Social and Governance ('ESG') considerations for their portfolios. They want to know that: their investment managers are aware of these concerns; they take them into account in building their portfolios; and they raise matters directly with investee companies. Simplistic negative or positive screening has dwindled in popularity. Investors expect to see an integrated approach to ESG and that this approach is clearly linked to driving financial returns, both through portfolio construction and stewardship.

JPMorgan has long been a leader in using such an Integrated Approach and believes that this has particular relevance in Japan, where widespread shareholder engagement is a more recent phenomenon but where, equally, it is beginning to prove effective.

We believe that ESG factors, particularly those related to governance, can play a critical role in a long-term investment strategy. Companies that address ESG issues and adopt sustainable business practices are better placed to maximise their performance and create enduring value for shareholders.

In our view, corporate governance considerations have the most direct bearing on the risk/reward profile of the Company's portfolio; as such it is the area most integrated into our investment process. However, environmental concerns are an ever-increasing part of the investment landscape in part due to the impact they can have on investment returns and cash flows; where relevant we make an assessment of environmental issues and include them in our decision-making process. Where social issues are relevant, again the focus is on the economic impact of the involvement.

We seek to identify investee companies that run their businesses in a sustainable and efficient way, with high-quality board decision-making, and aim to influence their behaviour and encourage best practice through dialogue. While we are always focused on efficient capital use and structures we have engaged broadly on multiple topics that affect valuation and propriety. The introduction of the Stewardship and Corporate Governance Codes has led to greater willingness on the part of a number of companies to engage.

We use an active bottom-up process, with emphasis placed on direct contact with companies. ESG factors are systematically and explicitly considered during the investment decision-making process, with a risk profile analysis undertaken on the economics, duration (which includes sustainability) and governance of a company, to ensure that there is due focus on potential risks.

Our commitment to sustainable investing extends beyond the initial investment, as we incorporate ESG issues into our ownership policies and practices. The following are examples of topics discussed during recent engagements:

Environmental – Clean Energy/Carbon Emissions

We have requested that a company publicly disclose its greenhouse gas reduction target, like many of its global peers. This will help independent parties to monitor and to track progress of CO_2 reduction.

Social – Cyber Security

Upon our request, one company for example delivered a satisfactory plan detailing their policies and actions taken toward cyber security and data privacy protection.

Governance – Board Structure

After numerous exchanges with one company with global operations, we welcomed its management's decision to appoint two new foreign directors to the board. We believe that having external and independent directors on the board is essential.

In addition to engaging in meaningful interaction with investee companies through dedicated meetings, we vote in a prudent and diligent manner, and in the financial interests of our clients. The highest percentage of our votes against management were on income allocation, director and statutory auditor elections (primarily due to independence concerns) and director remuneration, where the increase is significant or there is no compensation committee.

Investment Themes

While our decisions are based on company-specific factors, there are also structural, long-term trends and themes that underlie much of our stock selection. These trends include changing demographics, technological innovation, and international trade and tourism. Japan faces slowing economic growth due to ageing demographics. This presents opportunities for Japanese companies that are working to improve the quality of life for an ageing population. Although Japanese companies are often by nature conservative, driven by the tightening labour market, many are having to pursue technological innovation and the beneficial productivity opportunities available from adopting such technology. Despite Japan being an advanced industrial economy, certain areas such as financial services and payments lag behind many other markets in terms of technological sophistication. This is creating all kinds of opportunities for innovative Japanese companies. Supporting innovation and efficiency, Japanese manufacturing is world class and Japan is a leading supplier of factory automation equipment and robots.

Operating beyond Japan's shores, companies are also in a very strong position to capture the benefits of the dynamic economic growth across Asia which is creating new customers for Japanese goods, services and brands. Japanese products are often recognised as high quality and are widely embedded in regional supply chains.

Another important dynamic operating in Japan over past years has been the improvement in corporate governance, which began with the adoption of a stewardship code, followed by a corporate governance code. This has resulted in steady increases in both stock dividends and share buybacks and a rise in the number of independent outside directors serving on company boards, leading to an increase in the number of companies specifying return on equity and/or asset targets. Although the pace of change is gradual, we observe that compliance with the governance code is steadily growing. We continue to engage with companies in order to establish and maintain a constructive dialogue in this area.

Government policies have also been supportive, recognising as they do the need to pursue reforms aimed at improving labour productivity in the face of a declining workforce. The significant rise in the female employment participation rate is a key indicator and, remarkably, this is now higher than in the United States. The stable political environment has also led to the adoption of policies to reform work style and corporate governance and to encourage inbound tourism. Against this backdrop we remain very positive that the Japanese stock market can continue to offer a wealth of opportunities in small- and mid-capitalisation stocks.

Performance Review

During the 12 months under review not one of the three key drivers of performance stood out. That being said, the Company's gearing modestly detracted from performance. A positive level of gearing was maintained throughout the year, leading to a negative performance impact in a declining market. Stock selection and sector allocation in aggregate had a small positive impact.

Stocks that contributed most positively include Bengo4.com, which was one of the largest new purchases during the period, Benefit One, and RAKSUL. These companies all performed well thanks to strong earnings

PERFORMANCE ATTRIBUTION

YEAR ENDED 31ST MARCH 2019

	%	%
Contributions to total returns		
Benchmark return		–7.3
Sector allocation	–0.4	
Stock selection	+1.6	
Gearing/cash	–0.7	
Return relevant to Benchmark		+0.5
Portfolio return		–6.8
Management fee/other expenses		–1.1
Return on net assets[A]		–7.9
Return to shareholders[A]		–8.9

Source: Factset, JPMAM, Morningstar.

All figures are on a total return basis.

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

[A] Alternative Performance Measure ('APM').

A glossary of terms and APMs is provided on pages 75 and 76.

growth supported by a tight labour market and the increasing use of online services designed to improve workforce productivity in Japan.

- Bengo4.com operates an online legal consulting service. As the most popular website in the legal sector, with nearly 11 million users, Bengo4.com is an attractive marketing tool for lawyers. The company also runs a website called Zeiri4.com, which offers similar services for tax accountants, and has a business called CloudSign, a cloud-based service that shifts contract paperwork to digital format, reducing time, paper and postal charges.
- Benefit One manages fringe benefit programs on behalf of employers. With a shrinking and ageing population, the incentive for companies to improve benefits for their employees will increase as competition for labour rises. Work style reform, which pursues equal pay for equal work amongst other things, will also drive fringe benefit growth.
- RAKSUL operates two resource sharing platform services called 'Raksul', a print sharing platform, and 'Hacobell', a logistics sharing platform. Online representation by both the printing and trucking industries is still low. We believe the company has huge growth potential as it offers companies the opportunity to cut costs by utilising and matching excess capacity through internet-based platforms.

SUMCO, RS Technologies and Taiyo Yuden were among stocks that contributed negatively to relative performance. Semiconductor and technology hardware companies such as these underperformed due to concerns over the US-China trade war and over current levels of stock held by manufacturers. We believe demands for semiconductor and electronics parts will grow in response to innovation entailing increased use of technology in the automotive industry and the emerging 'internet-of-things'. We have, therefore, kept these holdings in the face of short-term headwinds.

With respect to sector allocation, top contributors include software & services (overweight), and top detractors include semiconductors & semiconductor equipment (overweight).

Portfolio Activity

The Company maintained its focus on stocks that we believe will be able to compound earnings growth over the long term, supported by strong management teams and healthy cash flow. We avoided stocks that have no clear differentiation and operate in industries plagued by excess supply. Many stocks in the financial services and real estate sectors fall into this category.

For the period, the portfolio's largest overweight positions were in the information technology and communication services sectors. We maintained our higher weighting in them, favouring companies with high earnings growth potential.

Three of the largest purchases were Taiyo Yuden, Mercari, and Bengo4.com. We expect these stocks to benefit from technological innovation in the automotive and retail industries, and also from a tighter labour market which will increase internet usage in Japan.

- Taiyo Yuden manufactures large-size multi-layer ceramic capacitors (MLCC). The automotive industry is in the middle of a significant technological innovation cycle related to 'connected' cars (those that use mobile internet technology), autonomous driving, shared services and electric vehicles, which will translate into huge potential markets for MLCC manufacturers.
- Mercari operates the largest consumer-to-consumer (C2C) market place in Japan. It recently launched a mobile-based service, and we believe the company has significant further potential as the C2C market grows. A further source of growth comes from the company's efforts to broaden its offering through a new payment service called Merpay.
- Bengo4.com is described above.

Three of our largest divestments were Sanwa Holdings, Yamabiko, and Nippon Shinyaku. We sold Sanwa Holdings as we now believe it will take longer than expected to improve margins in its US subsidiary, ODC, which manufactures speciality doors. We liquidated our holding in Yamabiko in response to emerging tough competition in battery outdoor power equipment products, a key area in which it operates. Nippon Shinyaku is a mid-sized pharmaceutical company which develops drugs for 'orphan' diseases such as chenne Muscular Dystrophy (DMD). We sold it as we consider an experimental gene therapy for DMD, developed by a US pharmaceutical company, risks posing a serious threat to Nippon Shinyaku in the long term.

Over the period, the portfolio turnover was 22%. The overall shape of the portfolio has not changed significantly, and we maintain a bias towards quality and growth, higher than average ROE and EPS growth. The Company's gearing level was increased from 6.3% to 7.9%.

Outlook

Valuations of Japanese companies are lower than historical averages and below those of most major markets. Many economies around the world have seen steady growth over recent years and we believe that the global economic backdrop remains broadly positive. Japanese companies are sensitive to economic cycles in overseas markets and, although we do not expect a recession, a failure to achieve a positive outcome for the current range of trade issues would pose a headwind.

The fundamental outlook for Japanese smaller companies remains positive, and we see no shortage of exciting investment opportunities. As symbolised by the new Imperial era named Reiwa (beautiful harmony) which began on 1st May Japan is seeking to achieve sustainable and broadly-based growth thanks to reforms to tackle threats such as the declining size of its population. Japan's key structural challenge presents significant opportunities, especially for smaller companies. The Company maintains its focus on investing in businesses with strong growth potential, solid balance sheets and strong cash generation, across a diverse range of industries.

We remain mindful that the current economic cycle is maturing, but believe that the global financial and business environment is healthy and not showing imminent signs of a broader slowdown. We also believe that by focusing on companies with leading market positions, strong balance sheets and healthy cash generation, the Company is well positioned to benefit from the secular trends in Japan as well as weathering potential short-term changes in sentiment driven by trade policies or other shorter-term economic indicators.

Eiji Saito
Naohiro Ozawa
Michiko Sakai
Investment Managers

19th June 2019

TEN LARGEST INVESTMENTS

AS AT 31ST MARCH

		2019 Valuation		2018 Valuation	
Company	Sector	£'000	%[1]	£'000	%[1]
Benefit One	Services	8,754	3.4	6,949	2.5
Bengo4.com[3]	Services	6,243	2.5	–	–
MISUMI	Wholesale Trade	5,904	2.3	6,014	2.1
FP[2]	Chemicals	5,900	2.3	4,217	1.5
Raito Kogyo[2]	Construction	5,714	2.3	2,542	0.9
DTS[2]	Information & Communication	5,656	2.2	4,460	1.6
Taiyo Yuden[3]	Electric Appliances	5,284	2.1	–	–
GMO Payment Gateway[2]	Information & Communication	5,116	2.0	3,254	1.2
Atrae[2]	Services	5,104	2.0	2,137	0.8
Mercari[3]	Information & Communication	4,896	1.9	–	–
Total[4]		**58,571**	**23.0**		

[1] Based on total investments of £253.6m (2018: £279.9m).

[2] Not included in the ten largest investments at 31st March 2018.

[3] Not held in the portfolio as at 31st March 2018.

[4] At 31st March 2018, the value of the ten largest investments amounted to £54.3m representing 19.4% of total investments.

SECTOR ANALYSIS

	31st March 2019		31st March 2018	
	Portfolio %[1]	Benchmark %	Portfolio %[1]	Benchmark %
Services	18.5	8.1	11.9	6.7
Information & Communication	17.2	6.9	10.0	6.3
Chemicals	12.4	7.4	11.3	7.7
Retail Trade	8.4	8.5	8.1	8.7
Machinery	6.9	6.8	10.2	7.8
Electric Appliances	6.5	7.0	7.5	7.9
Construction	5.7	6.0	4.1	6.2
Precision Instruments	4.5	1.9	4.9	1.9
Metal Products	3.5	1.7	8.1	1.6
Pharmaceutical	2.7	2.4	4.7	2.5
Real Estate	2.6	9.2	4.9	7.4
Wholesale Trade	2.3	7.0	2.6	6.8
Other Products	1.9	2.5	3.8	2.6
Other Financing Business	1.6	1.0	1.5	0.9
Glass & Ceramics Products	1.5	1.4	1.5	1.8
Banks	1.3	4.2	2.5	4.7
Securities & Commodity Futures	1.1	1.2	0.9	1.4
Nonferrous Metals	0.9	1.3	0.8	1.2
Rubber Products	0.5	0.7	–	0.8
Foods	–	3.4	–	3.3
Transportation Equipment	–	2.6	0.7	2.9
Textiles & Apparels	–	2.2	–	1.9
Land Transportation	–	1.9	–	2.4
Iron & Steel	–	0.9	–	1.1
Pulp & Paper	–	0.9	–	0.8
Fishery, Agriculture & Forestry	–	0.9	–	0.7
Electric Power & Gas	–	0.6	–	0.5
Warehousing & Harbour Transportation	–	0.4	–	0.4
Oil & Coal	–	0.3	–	0.4
Marine Transportation	–	0.2	–	0.3
Mining	–	0.2	–	0.2
Insurance	–	0.1	–	0.1
Financial Services	–	0.1	–	0.1
Commerce & Industry	–	0.1	–	–
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Based on total investments of £253.6m (2018: £279.9m).

LIST OF INVESTMENTS AT 31ST MARCH 2019

Company	Valuation £'000
SERVICES	
Benefit One	8,754
Bengo4.com	6,243
Atrae	5,104
Tosho	4,726
CyberAgent	4,395
Grace Technology	3,319
SMS	3,263
Litalico	3,023
Infomart	2,430
Persol	1,810
Sprix	1,605
Nihon M&A Center	1,133
Advantage Risk Management	1,100
	46,905
INFORMATION & COMMUNICATION	
DTS	5,656
GMO Payment Gateway	5,116
Mercari	4,896
NET One Systems	4,773
Nihon Unisys	3,850
Digital Garage	3,537
Raksul	3,206
Otsuka	2,856
Money Forward	2,838
Square Enix	2,608
Uzabase	1,701
GMO internet	1,475
Open Door	1,083
	43,595

Company	Valuation £'000
CHEMICALS	
FP	5,900
Tri Chemical Laboratories	4,151
Aica Kogyo	3,952
Mitsui Chemicals	3,908
Taiyo Nippon Sanso	3,000
Kansai Paint	2,683
Daicel	2,031
Nifco	1,815
JSP	1,550
Takara Bio	1,436
Sakai Chemical Industry	1,101
	31,527
RETAIL TRADE	
Pan Pacific International	3,522
Cosmos Pharmaceutical	3,380
Monogatari	3,260
Marui	2,766
MonotaRO	2,714
San-A	2,181
Seria	1,989
Daikokutenbussan	1,494
	21,306
MACHINERY	
Miura	4,143
Nittoku Engineering	3,317
Disco	2,819
Teikoku Electric Manufacturing	2,419
Harmonic Drive Systems	2,036
Nissei ASB Machine	1,937
Hirano Tecseed	879
	17,550

Company	Valuation £'000
ELECTRIC APPLIANCES	
Taiyo Yuden	5,284
Nohmi Bosai	3,995
Fujitsu General	2,219
Iriso Electronics	2,037
Mabuchi Motor	1,501
SCREEN	1,487
	16,523
CONSTRUCTION	
Raito Kogyo	5,714
Kumagai Gumi	3,358
Sumitomo Densetsu	3,068
Nishimatsu Construction	2,431
	14,571
PRECISION INSTRUMENTS	
Asahi Intecc	3,707
Shimadzu	3,323
Nakanishi	2,927
Topcon	1,502
	11,459
METAL PRODUCTS	
SUMCO	2,897
Rinnai	2,719
Mimasu Semiconductor Industry	2,063
Yokogawa Bridge	1,271
	8,950
PHARMACEUTICAL	
PeptiDream	3,360
Tsumura	2,284
Gene Techno Science	1,112
	6,756

Company	Valuation £'000
REAL ESTATE	
Star Mica	3,596
Nippon Prologis REIT	2,870
	6,466
WHOLESALE TRADE	
MISUMI	5,904
	5,904
OTHER PRODUCTS	
Fuji Seal International	3,306
Lintec	1,608
	4,914
OTHER FINANCING BUSINESS	
Mitsubishi UFJ Lease & Finance	4,009
	4,009
GLASS & CERAMICS PRODUCTS	
Taiheiyo Cement	2,834
Nikkato	897
	3,731
BANKS	
Chiba Bank	3,307
	3,307

Company	Valuation £'000
SECURITIES & COMMODITY FUTURES	
SBI	2,680
	2,680
NONFERROUS METALS	
Dowa	2,230
	2,230
RUBBER PRODUCTS	
Sagami Rubber Industries	1,202
	1,202
TOTAL INVESTMENTS	**253,585**

The portfolio comprises 85 equity investments.

FINANCIAL RECORD SINCE 2014

At 31st March	2014	2015	2016	2017	2018	2019
Total assets less current liabilities (£m)	104.2	149.1	152.7	207.8	290.2	235.1
Undiluted net asset value per share (p)	219.5	285.7	325.5	377.9	483.1	431.3
Diluted net asset value per share (p)[1,2]	212.8	278.6	312.7	377.9	483.1	431.3
Share price (p)	184.0	250.0	269.5	337.5	427.0	376.0
Share price discount to diluted net asset value per share (%)[A]	13.5	10.3	13.8	10.7	11.6	12.8
Gearing (%)[A]	13.6	10.3	4.8	6.3	6.3	7.9

Year ended 31st March	2014	2015	2016	2017	2018	2019
Gross revenue return (£'000)	1,242	1,640	2,259	3,528	3,735	4,007
Revenue (loss)/return per share - diluted (p)	(1.36)	(0.95)	(0.29)	1.04	1.06	1.24
Ongoing charges (%)[A]	1.59	1.52	1.42	1.31	1.09	1.10

Rebased to 100 at 31st March 2014	2014	2015	2016	2017	2018	2019
Total return to shareholders[3,A]	100.0	135.9	146.5	183.4	232.1	211.4
Total return on net assets[4,A]	100.0	130.9	146.9	177.6	227.0	209.0
Benchmark total return[5]	100.0	122.4	130.9	176.2	199.4	184.9

[1] The Company's Subscription shares were all exercised on or before 30th November 2016. The calculation assumed any shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares, where this has a dilutive effect.

[2] The figures for 2015 and 2016 relate to the new Subscription shares issued on 16th December 2014 which had a final exercise date of 30th November 2016; The 2014 figure relates to the old Subscription shares, issued on 5th March 2009, which had a final exercise date of 31st March 2014.

[3] Source: Morningstar.

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

[5] Source: Morningstar. The Company's benchmark is the S&P Japan SmallCap NR (in sterling terms).

[A] Alternative Performance Measure ('APM').

A glossary of terms and APMs is provided on pages 75 and 76.

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have carried out their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out the structure and objective of the Company and its development and performance throughout the year, including analysis of the key performance indicators. Its share capital, the Company's environmental, social and ethical policies, a description of the principal risks and uncertainties and how the Company seeks to manage those risks and its long term viability are also considered.

Business Model

JPMorgan Japan Smaller Companies Trust plc is an investment trust company that has a premium listing on the London Stock Exchange. Its objective is to achieve long-term capital growth for its shareholders through investments in a diversified portfolio of small and medium-sized Japanese companies, emphasising capital growth rather than income.

The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') which, in turn, delegates the active management of the Company's assets to JPMorgan Asset Management (Japan) Limited ('JPMAM Japan') through JPMorgan Asset Management (UK) Limited ('JPMAM UK').

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).

The Company's Investment Policy and related guidelines and limits are described on the inside front cover.

Review of Performance

In the year ended 31st March 2019, the Company produced a total return on net assets of -7.9% and a total return to ordinary shareholders of -8.9%. These outcomes compare with the total return on the Company's benchmark index of -7.3%. As at 31st March 2019, the value of the Company's investment portfolio was £253.6 million. The Investment Managers' Report on pages 9 to 13 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total loss for the year amounted to £17.4 million (2018: £60.5 million return) and the net total loss after deducting the management fee, other administrative expenses, finance costs and taxation amounted to £20.8 million (2018: £57.3 million return). The revenue return for the year amounted to £0.7 million (2018: £0.6 million). The total dividend for the year was £9.8 million (2018: nil).

Effective from 1st April 2018, the Company implemented a dividend policy under which the Company aims to pay, in the absence of unforeseen circumstances, a regular quarterly dividend equal to 1% of the Company's Net Asset Value ('NAV') on the last business day of the preceding financial quarter, being the end of March, June, September and December. Over the year this would approximate to 4% of the average NAV. These dividends are paid from a combination of the revenue and capital reserves. In respect of quarters to 30th June 2018, 30th September 2018, 31st December 2018 and 31st March 2019, dividends of 4.9p, 4.9p, 3.9p and 4.3p per share respectively were declared. A Resolution to approve the Company's dividend policy will be put to shareholders at the forthcoming Annual General Meeting.

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:

- **Absolute performance**

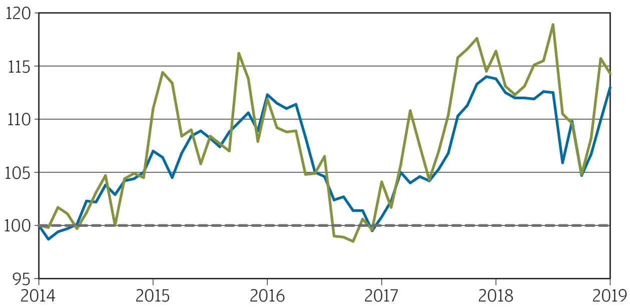
  The Company seeks to provide long-term capital growth through investment in small and medium-sized Japanese companies. Positive absolute returns are an essential prerequisite for achieving this objective.

- **Performance against the Company's peers and the benchmark index**

  The principal objective is to achieve capital growth. The Board monitors performance relative to both the benchmark and a broad range of competitor funds. The following chart details the Company's performance against its benchmark.

Performance Relative to Benchmark Index

FIGURES HAVE BEEN REBASED TO 100 AT 31ST MARCH 2014



Source: Morningstar (total return).

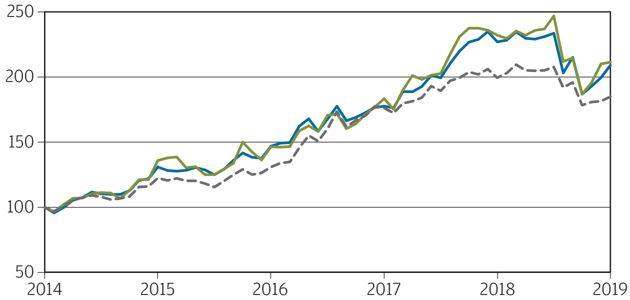
JPMorgan Japan Smaller Companies – share price.

JPMorgan Japan Smaller Companies – diluted cum income net asset value per share.

The benchmark is represented by the grey horizontal line.

Five Year Performance

FIGURES HAVE BEEN REBASED TO 100 AS AT 31ST MARCH 2014



Source: Morningstar/Datastream (total return).

JPMorgan Japan Smaller Companies – share price.

JPMorgan Japan Smaller Companies – diluted cum income net asset value per share.

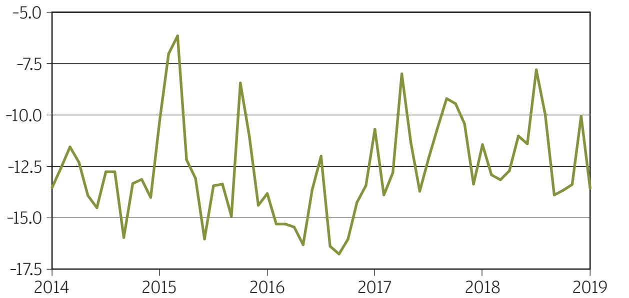
Benchmark.

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

  The Board recognises that the possibility of a widening discount can be a key disadvantage of investment trusts which can, in turn, discourage investors.

  The Board therefore has a share repurchase programme which seeks to address imbalances in the supply of and demand for the Company's shares within the market and thereby aim to reduce the volatility and absolute level of discount.

Discount Performance



Source: Morningstar.

JPMorgan Japan Smaller Companies – share price discount to diluted net asset value per share.

- **Performance attribution**

  The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 31st March 2019 are given in the Investment Managers' Report on page 11.

- **Ongoing charges**

  The ongoing charges represent the Company's management fee and all other operating expenses, excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ended 31st March 2019 were 1.10% (2018: 1.09%). Each year the Board reviews an analysis which shows a comparison of the Company's ongoing charges and its main expenses against those of its peers.

Share Capital

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

Shares would not be reissued out of Treasury at a discount to net asset value without the prior authority of shareholders at a general meeting.

The Company did not repurchase any shares into Treasury during the year, nor has it repurchased any shares since the year end. The Company did not issue any shares during the year and has not done so since the year end.

Resolutions to renew the authorities to issue new shares, reissue shares from Treasury for cash and to repurchase shares for cancellation or to be held in Treasury will be put to shareholders at the forthcoming Annual General Meeting. The full text of these Resolutions is set out in the Notice of Meeting on pages 72 to 74.

Board Diversity

When recruiting a new Director, the Board takes into account the benefits of diversity, including gender during the appointment process. The Board remains committed to appointing the most appropriate individuals on merit. Diversity is important in bringing an appropriate range of skills and experience to the Board and the Board is diverse on the bases of race, gender and nationality. As at 31st March 2019, there were two male and two female Directors on the Board.

Employees, Social, Community and Human Rights Issues

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

JPMAM UK 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 UK'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 UK 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. The detailed approach to the implementation of these principles is available on request.

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

Greenhouse Gas Emissions

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

The Modern Slavery Act 2015 (the 'MSA')

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

Corporate Criminal Offence

The Company maintains zero tolerance towards tax evasion. Shares in the Company are purchased through intermediaries or brokers, therefore no funds flow directly into the Company.

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 principal risks and how they are being managed or mitigated are summarised as follows:

- **Operational and Cyber Crime**

  Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the depositary's or custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by the Manager and its associates and the key elements designed to provide effective internal control are included within the Risk Management and Internal Control section of the Corporate Governance report on pages 30 and 31.

  The threat of cyber attack, in all its guises, is regarded as at least as important as more traditional physical threats to business continuity and security. The Company benefits directly or indirectly from all elements of JPMorgan's Cyber Security programme. The information technology controls around the physical security of JPMorgan's data centres, security of its networks and security of its trading applications are tested by independent reporting accountants and reported on every six months against the AAF Standard.

- **Investment Underperformance and Strategy**

  An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and regularly reported on by the Manager. The Manager provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses.

  The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.

- **Loss of Investment Team or Investment Manager**

  Loss of key staff by the Manager, such as the Investment Managers, could affect the performance of the Company. 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.

- **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 the year ended 31st March 2019, the Company's shares traded at a discount. The Board monitors the Company's discount level and, although the rating largely depends upon the relative attractiveness of the portfolio, the Board will seek to address imbalances in the supply and demand of the Company's shares through a programme of share issuance and buybacks.

- **Political and Regulatory**
  Changes in financial or tax legislation, including in Japan and the UK 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 are likely to introduce further currency volatility which may impact portfolio returns.

- **Financial**
  The financial risks faced by the Company include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk, credit risk and the failure of any counterparty. Further details are disclosed in note 22 on pages 62 to 67.

Long Term Viability

The UK Corporate Governance Code requires the Board to assess the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision.

The Company's current position and prospects are set out in the Chairman's Report, the Investment Managers' Report and the Strategic Report. The principal risks are set out on pages 21 and 22.

Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next three years. They have made that assessment by considering those principal risks, the Company's investment objective of achieving long term capital growth, its ability to liquidate the portfolio and meet its expenses as they fall due, the investment capabilities of the Manager and the current outlook for the Japanese economy and equity market.

Having regard to the Company's objective, which is to achieve long-term capital growth for its shareholders, the Directors considered three years to be an appropriate time horizon to assess the Company's viability.

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

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Funds Limited
Secretary

19th June 2019

Directors’ Report

Robert White*‡ (Chairman of the Board of Directors)
A Director since 2008.
Last reappointed to the Board: 2018.
Robert White is currently a Partner of Oldfield Partners LLP, responsible for their Japanese investments. He has investment experience in the Japanese market spanning more than thirty years during which time, inter alia, he was Senior Representative of Warburg Investment Management Japan Limited, President of INVESCO MIM Asset Management (Japan) Limited and a Partner of Dalton Strategic Partnership LLP.
Shared directorships with other Directors: None.
Shareholding in Company: 35,200.

Yuuichiro Nakajima*‡
A Director since 2014.
Last reappointed to the Board: 2016.
Yuuichiro Nakajima is founder and Managing Director of Crimson Phoenix, a specialist cross-border M&A advisory firm, providing advice on Japan-related transactions and a range of corporate strategy initiatives from offices in Tokyo and London. Formerly a member of the Executive Board of the British Chamber of Commerce in Japan, Yuuichiro spent ten years with S.G. Warburg (later SBC Warburg) and four years with PricewaterhouseCoopers.
Shared directorships with other Directors: None.
Shareholding in Company: 5,000.

Deborah Guthrie*‡
A Director since 2015.
Last reappointed to the Board: 2018.
Deborah Guthrie is an experienced Japanese equity research sales specialist with Pelham Smithers Associates. She began her career working in the Finance and Environment Branches of the Hong Kong Government. Between 1984 and 1995 she held senior Japanese equity sales roles for Hoare Govett and Smith New Court before joining Merrill Lynch as director, yen equity sales, a role she held from 1995 to 2011. Deborah is a Non-Executive Director of Aberdeen Standard Asia Focus PLC.
Shared directorships with other Directors: None.
Shareholding in Company: 14,610.

Alexa Henderson*‡ (Chairman of the Audit Committee)
A Director since 2016.
Last reappointed to the Board: 2016.
Alexa Henderson is a Non-Executive Director of Standard Life UK Smaller Companies Trust plc, BMO Real Estates Investments Ltd and Bravura Solutions Limited. She is a member of the Institute of Chartered Accountants of Scotland.
Shared directorships with other Directors: None.
Shareholding in Company: 4,902.

*** Member of the Audit Committee.**

‡ Member of the Nomination Committee.

The Directors present their report and the audited financial statements for the year ended 31st March 2019.

Management of the Company

The Manager of and Company Secretary to the Company is JPMF. Active management of the Company's assets is delegated to JPMAM Japan through JPMAM UK. The Manager and Company Secretary are employed under a contract terminable on six months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

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

The current Management Agreement was entered into with effect from 1st July 2014 following the implementation of a number of changes required by the AIFMD, as set out below.

The Board conducts a formal evaluation of the performance of, and contractual relationship with, the Manager on an annual basis. Part of this evaluation includes a consideration of the management fees and whether the service received represents value for money for shareholders. No separate Management Engagement Committee has been established because all Directors are considered to be independent of the Manager and, given the nature of the Company's business, it is felt that all Directors should take part in the review process. The Board has thoroughly reviewed the performance of the Manager during the course of the year. The review covered the performance over the long term of the Manager, its management processes, consideration of the investment strategy, resources and risk controls and the quality of support that the Company received, including the marketing support provided. The evaluation was carried out in February 2019. As a result of that process, the Board confirms that it is satisfied that the continuing appointment of the Manager and the Company Secretary is in the interests of shareholders as a whole.

The Alternative Investment Fund Managers Directive ('AIFMD')

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

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

JPMF's remuneration disclosures are set out on page 69.

Management Fee

With effect from 1st January 2018 the management fee was 1% per annum on the first £150 million of net assets and 0.80% per annum on any net assets in excess of this amount. If the Company invests in funds managed or advised by the Manager or any of its associated companies that charge an underlying fee, those investments are excluded from the calculation and therefore attract no additional fee.

Directors

All Directors served throughout the year. Director biographies are included on page 24. Details of their beneficial shareholdings may be found in the Directors' Remuneration Report on page 37.

In accordance with the Company's Articles of Association, the Directors retiring at the forthcoming Annual General Meeting will be Alexa Henderson, Yuuichiro Nakajima and Robert White. Being eligible, Alexa Henderson and Yuuichiro Nakajima will offer themselves for reappointment. Robert White will retire from the Board with effect from the conclusion of the AGM. Alexa Henderson will replace him as Chairman of the Board and as Chairman of the Nomination Committee.

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

On 21st May 2019 following a thorough search exercise, the Board announced the appointment of Martin Shenfield and Tom Walker as Directors effective from 29th July 2019, immediately after the conclusion of the Annual General Meeting. Tom Walker will assume the role of Chairman of the Audit Committee upon joining the Board. The Company engaged Cornforth Consulting, a recruitment specialist in board level search, as part of the recruitment process. Cornforth Consulting has no other connection to the Company or the Manager.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, each Director has the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. For those Directors who served during the year under review, these indemnities were in place throughout the year and as at the date of this report.

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

Disclosure of Information to Auditors

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

(a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's Auditor is unaware, and

(b) each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself 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 Section 418 of the Companies Act 2006.

Independent Auditor

Grant Thornton UK LLP have expressed their willingness to continue in office as the Auditor and a resolution to reappoint Grant Thornton UK LLP and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the Annual General Meeting.

Capital Structure and Voting Rights

Capital Structure

At 31st March 2019, the Company's share capital comprised 55,944,560 Ordinary shares of 10p each, of which 1,434,221 were held in Treasury. The Ordinary shares have a premium listing on the London Stock Exchange.

Voting Rights in the Company's Shares

Details of the voting rights in the Company's shares as at the date of this report are given in Note 16 to the Notice of Meeting on page 74.

Notifiable Interests in the Company's Voting Rights

As at 31st March 2019, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	% voting rights[1]
Lazard Asset Management LLC	9,885,298	18.14
Wells Capital Management	8,752,513	16.06
1607 Capital Partners, LLC	5,419,789	9.94
City of London Investment Management	2,818,408	5.20

[1] At the time of announcement.

Since the year end, no further changes have been notified.

The Company is also aware that as at 31st March 2019, approximately 1.80% of the Company's total voting rights were held by individuals through savings products managed by JPMorgan and registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of the savings products, under certain circumstances, JPMorgan has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

Miscellaneous Information

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

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

Listing Rule 9.8.4R

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

Annual General Meeting

The notice convening the Annual General Meeting of the Company to be held on 29th July 2019 is given on pages 72 to 74. The full text of the Resolutions is set out in the notice of meeting. Among the Resolutions being proposed are the following:

(i) Dividend policy (Resolution 4)

Resolution 4, which is an ordinary resolution, relates to the approval of the Company's dividend policy which is as follows:

The Company aims to pay, in the absence of unforeseen circumstances, a regular quarterly dividend equal to 1% of the Company's NAV on the last business day of the preceding financial quarter, being the end of June, September, December and March. The Company has the flexibility, in accordance with its articles of association, to make distributions from capital.

(ii) Authority to allot new Ordinary shares and to disapply statutory pre-emption rights (Resolutions 8 and 9)

The Directors will seek renewal of the authority at the Annual General Meeting to issue new Ordinary shares for cash, or reissue Ordinary shares from Treasury, up to an aggregate nominal amount of £272,550, such amount being equivalent to approximately 5% of the present issued Ordinary share capital (excluding Treasury shares) as at the last practicable date before the publication of this document or, if different, the number of Ordinary shares which is equal to 5% of the Company's issued share capital (excluding Treasury shares) as at the date of the passing of the Resolution. This authority will expire at the conclusion of the Annual General Meeting of the Company in 2020 unless renewed at a prior general meeting.

Resolution 9 will enable the allotment of Ordinary shares otherwise than by way of a pro rata issue to existing shareholders.

It is advantageous for the Company to be able to issue new Ordinary shares, or reissue Ordinary shares from Treasury, to investors purchasing shares through the JPMorgan savings products and also to other investors when the Board considers it in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the net asset value ('NAV'), per Ordinary share, thereby increasing the NAV per share and spreading the Company's administrative expenses, other than the management fee, which is charged on the value of the Company's gross assets, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policy. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

(iii) Authority to repurchase the Company's shares (Resolution 10)

The authority to repurchase up to 14.99% of the Company's issued Ordinary shares, granted by shareholders at the 2018 Annual General Meeting, will expire on 30th January 2020 unless renewed at the forthcoming Annual General Meeting. The Directors consider that the renewal of this authority is in the interests of shareholders as a whole, as the repurchase of Ordinary shares at a discount to the underlying NAV enhances the NAV of the remaining Ordinary shares.

Resolution 10 gives the Company authority to repurchase its own issued Ordinary shares in the market as permitted by the Companies Act 2006. The authority limits the number of shares that could be purchased to a maximum of 8,171,099 of the Company's issued Ordinary shares (excluding Treasury shares) as at the latest practicable date before the publication of this document or, if different, the number of Ordinary shares which is equal to approximately 14.99% of the Company's issued Ordinary share capital (excluding Treasury shares) as at the date of the passing of the Resolution. The authority also sets minimum and maximum prices.

If Resolution 10 is passed at the Annual General Meeting, the Board may repurchase shares for cancellation or hold them in Treasury pursuant to the authority granted to it for possible reissue at a premium to NAV. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining Ordinary shares. This authority will expire on 29th January 2021, or when the whole of the relevant 14.99% has been acquired, whichever is the earlier, however it is the Board's intention to seek renewal of the authority at the 2020 Annual General Meeting.

Recommendation

The Board considers that the Resolutions to be proposed at the AGM are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the Resolutions as they intend to do, where voting rights are exercisable, in respect of their own beneficial holdings which, as at the date of this report, amounted in aggregate to 59,712 Ordinary shares with voting rights representing approximately 0.1% of the voting rights of the Company.

Corporate Governance Statement

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 39, indicates how the Company has applied the principles of good governance of the Financial Reporting Council's 2016 UK Corporate Governance Code (the 'UK Corporate Governance Code') and the 2016 Association of Investment Companies' ('AIC') Code of Corporate Governance (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts. Copies of the UK Corporate Governance Code and the AIC Code may be found on the respective organisations' websites at www.frc.org.uk and www.theaic.co.uk.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code, other than the appointment of a senior independent director (as the Board, which is entirely comprised of independent non-executive directors, does not consider it necessary), insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

The Board notes the publication of the new 2018 UK Corporate Governance Code and the new 2019 AIC Code of Corporate Governance. The Company will report against the applicable guidance in the Company's 2020 Annual Report and Financial Statements.

Role of the Board

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

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

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

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

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

Board Composition

The Board, chaired by Robert White, comprises four non-executive Directors, all of whom, including the Chairman, are regarded by the Board as independent of the 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. The Board has considered whether a Senior Independent Director should be appointed and has concluded that, due to the Company's nature of business as an investment trust and because the Board is comprised entirely of non-executive Directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussions with the Chairman.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Thereafter, Directors are required to submit themselves for reappointment at least every three years. Any Directors with more than nine years' service are required to submit themselves annually for reappointment. Subject to the performance evaluation carried out each year, the Board agrees whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the ongoing requirements of the UK Corporate Governance Code and the

AIC Code, including the need to refresh the Board and its Committees.

The Board recommends to Shareholders that all applicable Directors be reappointed. The Company has a succession policy and plan in place.

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 the Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trust companies. Regular reviews of training needs are carried out by the Chairman by means of the evaluation process described below.

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. All Directors are members of the Committees.

The table below details the number of formal Board and Committee meetings attended by each Director. During the year there were five Board meetings, which included a private session of the Directors to evaluate the Manager and an overseas visit to the offices of JPMAM Japan in Tokyo to discuss strategy, three Audit Committee meetings and two Nomination Committee meetings. These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals. In addition, there was a Board strategy meeting and regular contact between the Directors, the Manager and the Company Secretary throughout the year.

Meetings Attended

Director	Board	Audit Committee	Nomination Committee
Current Directors			
Robert White	5/5	2/2	1/1
Deborah Guthrie	5/5	2/2	1/1
Alexa Henderson	5/5	2/2	1/1
Yuuichiro Nakajima	5/5	2/2	1/1

Board Committees

Nomination Committee

The Nomination Committee, chaired by Robert White, comprises 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 Martin Shenfield and Tom Walker an external recruitment consultant, Cornforth Consulting, was engaged by the Company and the recruitment process was overseen by the Chairman. Cornforth Consulting has no other connections to the Company or the Manager.

The appointment process takes account of the benefits of diversity, including gender.

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

The Committee conducts an annual performance evaluation of the Board, its Committees and individual Directors to ensure that all Directors have devoted sufficient time and contributed adequately to the work of the Board and its Committees. The evaluation of the Board considers the balance of experience, skills, independence, corporate knowledge, its diversity, including gender, and how it works together.

Questionnaires, prepared by a firm of independent consultants, are completed by each Director. The responses are collated and then discussed by the Committee. The evaluation of individual Directors is led by the Chairman who also meets with each Director. The Audit Committee Chairman leads the evaluation of the Chairman's performance.

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

Audit Committee

The report of the Audit Committee is set out on pages 33 and 34.

Terms of Reference

The Nomination Committee and the Audit 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 Company's Annual General Meeting.

Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager and Secretary are available to meet shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance.

During the year, the Company's brokers, the Investment Managers and JPMF hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to support these meetings and to address shareholder queries and consult major shareholders on an annual basis. The Directors may be contacted through the Company Secretary whose details are shown on page 79.

The Company's Annual Report and Financial Statements are published in time to give shareholders at least twenty working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to do so via the Company's website or write to the Company Secretary at the address shown on page 79.

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

Risk Management and Internal Control

The UK Corporate Governance Code requires the Directors to monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

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

Since investment management, custody of assets and all administrative services are provided to the Company by the Manager and its associates, the Company's system of risk management and internal controls mainly comprises monitoring the services provided by the Manager and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 21 and 22). This process has been in place for the year under review and up to the date of the approval of the Annual Report and Financial Statements.

Whilst the Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of the Manager. This arrangement is kept under review.

The principal elements designed to provide effective internal controls are as follows:

- **Financial Reporting**

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

- **Management**

  Appointment of a manager and depositary regulated by the FCA, whose responsibilities are clearly defined in a written agreement.

- **Management Systems**

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

- **Investment Strategy**

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

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

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

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal controls for the year ended 31st March 2019 and to the date of approval of this Annual Report and Financial Statements.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager. The following is a summary of the policy statements of JPMAM UK on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details on social and environmental issues are included in the Strategic Report on page 21.

Corporate Governance

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

Proxy Voting

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

Stewardship/Engagement

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

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

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

JPMAM UK's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM UK'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.

Japanese Stewardship and Corporate Governance Codes

The Japanese Stewardship Code was introduced in February 2014. Asset owners and institutional investors are expected to engage in constructive dialogue with investee companies to enhance corporate value.

JPMAM Japan has adopted the Japan Stewardship Code. Engagement with companies is a key part of JPMAM Japan's process and regular, systematic and direct contact with senior company management, both executive and non-executive is regarded as crucially important.

A Corporate Governance Code was introduced in June 2015. Reforms to the Japanese Companies Act are also expected. The present administration's focus on corporate governance is part of its efforts to revitalise the Japanese economy and improve corporate profitability.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Funds Limited,
Secretary

19th June 2019

Audit Committee Report

The Audit Committee, chaired by Alexa Henderson, comprises all Directors and meets at least twice each year. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. At least one member of the Committee 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 Board has taken the decision that Robert White should be a member of the Committee because he is independent.

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

Financial Statements and Significant Accounting Matters

During its review of the Company's financial statements for the year ended 31st March 2019, the Committee considered the following significant issues, including those communicated by the Auditor during its reporting:

Significant issue	How the issue was addressed
Valuation, existence and ownership of investments	In accordance with the accounting policies, disclosed in note 1(b) to the financial statements on page 52. Controls were in place to ensure that valuations were appropriate and existence was verified through the Depositary and the Custodian reconciliations.
Recognition and completeness of investment income	The recognition of investment income was undertaken in accordance with accounting policy note 1(d) to the financial statements on page 52. The Board regularly reviewed subjective elements of income such as special dividends and agreed their accounting treatment.
Compliance with Sections 1158 and 1159 of the Corporation Tax Act 2010	Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st April 2012 was obtained and ongoing compliance with the eligibility criteria was monitored on a regular basis.

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

Going Concern

The Directors believe that, having considered the Company's investment objective (see inside front cover), risk management policies (see pages 62 to 65), liquidity risk, capital management policies and procedures (see pages 65 to 67), the nature of the portfolio and expenditure and cashflow 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 12 months from the date of approval of these financial statements.

Having taken all available information into consideration and having discussed the contents of the Annual Report and Financial Statements with the AIFM, the Investment Managers, the Company Secretary and other third party service providers, the Committee has concluded that the Annual Report for the year ended 31st March 2019, 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 39.

Risk Management and Internal control

The Committee examines the effectiveness of the Company's internal controls systems and receives information from the Managers' Compliance department. The Directors' statement on the Company's system of risk management and internal controls is set out on pages 30 and 31.

The Committee also reviews the scope and results of the external audit, its effectiveness and cost effectiveness, the balance of audit and non audit services and the independence and objectivity of the external Auditor. In the Directors' opinion the Auditor is independent.

The Directors' statement on the Company's system of internal control is set out on page 30.

Auditor appointment and tenure

The Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of the external Auditor. Representatives of the Company's Auditor attend the Committee meeting at which the draft Annual Report and Financial Statements are considered and also engage with the Directors as and when required. Having reviewed the performance of the external Auditor, including assessing the quality of work, timing of communications and work with the Manager, the Committee considered it appropriate to recommend the Auditor's reappointment. The Board supported this recommendation and a resolution proposing its reappointment will be put to shareholders at the forthcoming Annual General Meeting.

As part of its review of the continuing appointment of the Auditor, the Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit. A formal tender exercise was undertaken in 2014, as a result of which Grant Thornton UK LLP was appointed. Julian Bartlett served as the Audit Partner responsible for the Company's Audit in 2015 and 2016. Marcus Swales replaced Julian Bartlett as Audit Partner in late 2016. The Company's year ended 31st March 2019 is therefore the new Audit Partner's third of a five year maximum term. On reaching the ten year mark in 2024, the Company will be required to hold a tender where the incumbent auditor may be reappointed for a further ten year term. At the end of a second ten year term (i.e. when an auditor has been in place for twenty years) a tender must be held again and a new auditor appointed. Details of the fees paid for audit services are included in note 6 on page 55.

The Committee reviews and approves any non-audit services provided by the independent Auditor and assesses the impact of any non audit work on the ability of the Auditor to remain independent. No such work was undertaken during the year.

Fair, Balanced and Understandable

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31st March 2019, 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 39.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Funds Limited, Secretary.

19th June 2019

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st March 2019, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's 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 its report on pages 41 to 46.

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate.

Directors' Remuneration Policy

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

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

Reviews are based on information provided by the Manager and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The involvement of remuneration consultants has not been deemed necessary as part of this review. The Company has no Chief Executive Officer and no employees and therefore no consultation of employees is required and there is no employee comparative data to provide in relation to the setting of the remuneration policy for Directors.

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

In the year under review, Directors' fees were paid at the following rates: Chairman £36,000; Chairman of the Audit Committee £28,000; and other Directors £24,000.

With effect from 1st April 2019, Directors' fees have been increased to the following rates: Chairman £37,500; Chairman of the Audit Committee £30,000; and other Directors £25,000.

The Company's Articles of Association provide that any increase in the maximum aggregate annual limit on Directors' fees, currently £200,000, requires both Board and shareholder approvals.

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 takes account of those views.

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 28.

Directors' Remuneration Policy Implementation

The Directors' Remuneration Report, which includes details of the Directors' remuneration policy and its implementation, is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st March 2018 and no changes are proposed for the year ending 31st March 2020.

At the Annual General Meeting held on 31st July 2018, of votes cast in respect of the Remuneration Policy, 99.96% of votes cast were in favour (or granted discretion to the Chairman who voted in favour) and 0.04% voted against. Abstentions were received from less than 0.01% of the votes cast. In respect of the Remuneration Report, 99.96% of votes cast were in favour (or granted discretion to the Chairman who voted in favour) and 0.04% voted against. Abstentions were received from less than 0.01% of the votes cast.

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

Single Total Figure of Remuneration

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

Single Total Figure Table[1]

Directors' Name	2019 Fees £	2019 Taxable expenses[2] £	2019 Total £	2018 Fees £	2018 Taxable expenses[2] £	2018 Total £
Alan Clifton[3]	12,000	684	12,684	35,000	1,660	42,376
Deborah Guthrie	24,000	–	24,000	23,500	–	23,500
Alexa Henderson	28,000	983	28,983	27,500	250	27,750
Yuuichiro Nakajima	24,000	171	24,171	23,500	207	23,707
Robert White[4]	32,000	957	32,957	23,500	–	23,500
Total	120,000	2,795	122,795	133,000	2,117	135,117

[1] Audited information. Other subject headings for the single figure table as prescribed by regulation are not included because there is nothing to disclose in relation thereto. A total amount of £8,890 (2018: £13,872) was paid on National Insurance.

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

[3] Retired 31st July 2018.

[4] Appointed Chairman 31st July 2018.

A table showing the total remuneration for the Chairman over the five years ended 31st March 2019 is below:

Remuneration for the Chairman over the Five Years Ended 31st March 2019

Year ended 31st March	Fees
2019	£36,000
2018	£35,000
2017	£32,000
2016	£30,000
2015	£30,000

Directors' Shareholdings[1]

There are no requirements in the Company's Articles of Association for the Directors to own shares in the Company. The Directors' shareholdings are detailed below. All shares are held beneficially.

Directors' Name	31st March 2019	31st March 2018 or as at date of appointment
Ordinary shares held		
Deborah Guthrie	14,610	14,610
Alexa Henderson	4,851	4,692
Yuuichiro Nakajima	5,000	5,000
Robert White	35,200	25,200

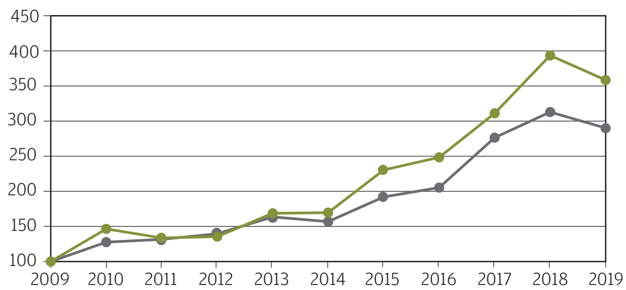
[1] Audited information.

There have been no other changes to the Directors' shareholdings since the year end.

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

In accordance with the Companies Act 2006, a graph showing the Company's share price total return compared with its benchmark, the S&P Japan SmallCap (in sterling terms), over the last ten years is shown below. Because this Index is the adopted benchmark for the Company, it is deemed by the Board to be the most representative comparator. Although the Investment Managers do not track this Index, and there is no formal benchmark that closely reflects the Company's stated investment policy, this is the nearest match available.

Ten Year Ordinary Share Price and Benchmark Total Return to 31st March 2019 (rebased)



Source: Morningstar/Datastream.

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

Expenditure by the Company on Remuneration and Distributions to Shareholders

	Year ended 31st March 2019	2018
Remuneration paid to all Directors	120,000	133,000
Taxable expenses paid to Directors	2,795	2,117
Distribution to shareholders		
– by way of dividend	7,468,000	nil
– by way of share repurchases	3,000	1,767,000

For and on behalf of the Board
Deborah Guthrie
Director

19th June 2019

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

and the Directors confirm that they have done so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors 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 Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

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

For and on behalf of the Board
Deborah Guthrie
Director

19th June 2019

Independent Auditor's Report

Independent auditor's report to the members of JPMorgan Japan Smaller Companies Trust plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of JPMorgan Japan Smaller Companies Trust plc (the 'Company') for the year ended 31st March 2019, which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st March 2019 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 21 and 22 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 21 of the annual report, 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 directors' statement, set out on page 33 of the financial statements, about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' 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;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 22 of the annual report, 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.

Overview of our audit approach

- Overall materiality: £2,351,000, which represents 1% of the Company's net assets.
- Key audit matters were identified as valuation, existence and ownership of investments; and accuracy, occurrence and completeness of investment income.
- Our audit approach was a risk-based audit focused on investments at the year end and investment income recognised during the year. There is no change in audit scope from prior year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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.

Key Audit Matter	How the matter was addressed in the audit
Valuation, existence and ownership of investments The Company's business objective is to achieve long-term capital growth through investment in small and medium-sized Japanese companies. The investment portfolio at £253 million is a significant material balance in the statement of financial position at year-end and the main driver of the Company's performance. Investments might not be valued appropriately or might not exist or be owned by the Company. Misstatements arising from valuation process errors may have a material impact on the financial statements. We therefore identified valuation, existence and ownership of investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing whether the Company's accounting policy for the valuation of investments is in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trust' (the 'SORP') and testing whether management have accounted for valuation in accordance with that policy; • Testing the existence and ownership of investments by agreeing the holdings listed in the portfolio at year end to an independent confirmation we received directly from the Company's custodian; • Independently pricing 100% of the listed equity portfolio by obtaining the bid prices from an independent market source, calculating the total valuation based on the Company's investment holdings and comparing it to the Company's valuation; and • Extracting a report of trading volumes in the five trading days before and after year end from an independent market source for the equity investments held to test that investments are actively traded. The Company's accounting policy on valuation of investments is shown in note 1(b) to the financial statements and related disclosures are included in note 11. The Audit Committee identified valuation, existence and ownership of investments as a significant issue in its report on page 33, where the Committee has also described the action that it has taken to address this issue. **Key observations** Our audit work did not identify any material misstatements concerning the valuation, existence and ownership of investments.

Key Audit Matter	How the matter was addressed in the audit
Accuracy, occurrence and completeness of investment income Investment income is the Company's major source of revenue and a significant material balance in the Statement of Comprehensive Income. Investment income might be incomplete or inaccurate. Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a presumed risk of fraud in revenue recognition. This risk is present within the dividend income revenue stream, as dividend income may not be earned or may not be complete. We therefore identified accuracy, occurrence and completeness of investment income as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing whether the Company's accounting policy for revenue recognition is in accordance with United Kingdom Generally Accepted Accounting Practice and the SORP; • Obtaining an understanding of the Company's process for recognising revenue in accordance with the Company's stated accounting policy; • Testing that investment income transactions were recognised in accordance with the policy by selecting a sample of quoted investments and agreeing the relevant investment income receivable for those quoted equities to the Company's records. Also, for the selected investments, we obtained the respective dividend rate entitlements from independent sources and checked against the amounts recorded in the Company's accounting records maintained by the administrator. In addition, we agreed the receipt of the dividend income to bank statements; • Performing, on a sample basis, a search for special dividends on the equity investments held during the year to check whether dividend income attributable to those investments has been properly recognised. We checked the categorisation of special dividends as either revenue or capital receipts; and • Testing that the income recorded had actually occurred by selecting a sample of dividend income recorded in the income ledger and agreeing the relevant income receivable for those quoted equities to the respective dividend rate entitlements from independent sources and agreeing the investments held to Company's accounting records maintained by the administrator. In addition, we agreed the receipt of the dividend income recorded to bank statements. The Company's accounting policy on income is shown in note 1(d) to the financial statements and related disclosures are included in note 4. The Audit Committee identified recognition and completeness of investment income as a significant issue in its report on page 33, where the Committee also described the action that it has taken to address this issue. **Key observations** Our audit work did not identify any material misstatements concerning the accuracy, occurrence and completeness of investment income.

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 in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £2,351,000, which is 1% of the Company's net assets. This benchmark is considered the most appropriate because net assets, which is primarily composed of the Company's investment portfolio, is considered to be the key driver of the Company's total return performance.

Materiality for the current year is lower than the level we determined for the year ended 31st March 2018 reflecting the decrease in the Company's net assets in the current year.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

We also determine a lower level of specific materiality for certain areas such as investment income, management fee and directors' remuneration.

We determined the threshold at which we will communicate misstatements to the audit committee to be £118,000. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Company's business, its environment and risk profile. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third party service providers. Therefore our audit work was focused on:

- Obtaining an understanding of relevant internal controls at both the Company and third-party service providers. This included obtaining and reading the internal control reports prepared by a third-party auditor detailing the description, design and operating effectiveness of internal controls implemented by the custodian and the administrator; and
- Performing substantive testing by obtaining direct confirmations on existence, ownership and valuation of the investments; and agreeing the investment income to an independent source and bank for accuracy, occurrence and completeness.

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

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and industry in which it operates. We determined that the following laws and regulations were most significant: for example, Companies Act 2006, UK Corporate Governance Code, Statement of Recommended Practice and compliance with the relevant provisions of HMRC's regulations applicable to an Investment Trust Company;
- We understood how the Company is complying with those legal and regulatory frameworks by making inquiries to management. We corroborated our inquiries through review of board minutes and papers provided by the Audit Committee;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Company engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item; and
  - identifying and testing journal entries, in particular manual journal entries posted at year end for financial statements preparation.
- We did not identify any key audit matters relating to irregularities, including fraud.

Other information

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

We have nothing to report in this regard.

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

- Fair, balanced and understandable set out on page 34 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 33 and 34 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 28 – 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.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

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.

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 39, 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. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Audit Committee in 2015. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Marcus Swales
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

19th June 2019

Financial Statements

FOR THE YEAR ENDED 31ST MARCH 2019

		2019			2018		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	3	–	(20,917)	(20,917)	–	55,519	55,519
Net foreign currency (losses)/gains		–	(530)	(530)	–	1,224	1,224
Income from investments	4	4,007	–	4,007	3,735	–	3,735
Gross return/(loss)		**4,007**	**(21,447)**	**(17,440)**	**3,735**	**56,743**	**60,478**
Management fee	5	(2,294)	–	(2,294)	(2,199)	–	(2,199)
Other administrative expenses	6	(426)	–	(426)	(415)	–	(415)
Net return/(loss) before finance costs and taxation		**1,287**	**(21,447)**	**(20,160)**	**1,121**	**56,743**	**57,864**
Finance costs	7	(220)	–	(220)	(170)	–	(170)
Net return/(loss) before taxation		**1,067**	**(21,447)**	**(20,380)**	**951**	**56,743**	**57,694**
Taxation	8	(389)	–	(389)	(373)	–	(373)
Net return/(loss) after taxation		**678**	**(21,447)**	**(20,769)**	**578**	**56,743**	**57,321**
Return/(loss) per share	9	**1.24p**	**(39.35)p**	**(38.11)p**	**1.06p**	**103.70p**	**104.76p**

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.

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

The notes on pages 52 to 67 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST MARCH 2019

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserve[1,2] £'000	Capital reserves[2] £'000	Revenue reserve[2] £'000	Total £'000
At 31st March 2017	5,595	33,978	1,836	313,004	(133,782)	(12,835)	207,796
Repurchase of shares into Treasury	–	–	–	(1,767)	–	–	(1,767)
Net return for the year	–	–	–	–	56,743	578	57,321
At 31st March 2018	5,595	33,978	1,836	311,237	(77,039)	(12,257)	263,350
Share transaction expense[3]	–	–	–	(3)	–	–	(3)
Net (loss)/return for the year	–	–	–	–	(21,447)	678	(20,769)
Dividends paid in the year (note 10)	–	–	–	(7,468)	–	–	(7,468)
At 31st March 2019	5,595	33,978	1,836	303,766	(98,486)	(11,579)	235,110

[1] The share premium was cancelled in the period ended 31st March 2001 and redesignated as 'other reserve'.

[2] These reserves form the distributable reserves of the Company and may be used to fund distributions to investors via dividend payments.

[3] Stamp duty on shares repurchased into Treasury on 29th March 2018.

The notes on pages 52 to 67 form an integral part of these financial statements.

AT 31ST MARCH 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	253,585	279,946
Current assets	12		
Debtors		1,786	1,898
Cash and cash equivalents		10,343	9,117
		12,129	11,015
Creditors: amounts falling due within one year	13	(30,604)	(799)
Net current (liabilities)/assets		(18,475)	10,216
Total assets less current liabilities		235,110	290,162
Creditors: amounts falling due after more than one year		–	(26,812)
Net assets		235,110	263,350
Capital and reserves			
Called up share capital	15	5,595	5,595
Share premium	16	33,978	33,978
Capital redemption reserve	16	1,836	1,836
Other reserve	16	303,766	311,237
Capital reserves	16	(98,486)	(77,039)
Revenue reserve	16	(11,579)	(12,257)
Total shareholders' funds		235,110	263,350
Net asset value per share	17	431.3p	483.1p

The financial statements on pages 48 to 67 were approved and authorised for issue by the Directors on 19th June 2019 and were signed on their behalf by:

Deborah Guthrie
Director

The notes on pages 52 to 67 form an integral part of these financial statements.

Company registration number: 3916716.

FOR THE YEAR ENDED 31ST MARCH 2019

	Notes	2019 £'000	2018 £'000
Net cash outflow from operations before dividends and interest	18	(2,694)	(2,206)
Dividends received		3,465	3,200
Interest paid		(222)	(154)
Net cash inflow from operating activities		**549**	**840**
Purchases of investments		(61,376)	(55,664)
Sales of investments		69,840	49,966
Settlement of foreign currency contracts		30	27
Net cash inflow/(outflow) from investing activities		**8,494**	**(5,671)**
Dividends paid		(7,468)	–
Repurchase of shares into Treasury		(469)	(1,301)
Drawdown of bank loan		–	10,385
Net cash (outflow)/inflow from financing activities		**(7,937)**	**9,084**
Increase in cash and cash equivalents		**1,106**	**4,253**
Cash and cash equivalents at start of year		9,117	4,895
Exchange movements		120	(31)
Cash and cash equivalents at end of year		10,343	9,117
Increase in cash and cash equivalents		**1,106**	**4,253**
Cash and cash equivalents consist of:			
Cash and short term deposits		10,343	9,117
Total		**10,343**	**9,117**

The notes on pages 52 to 67 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST MARCH 2019

1. Accounting policies

(a) Basis of accounting

The financial statements are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in November 2014 and updated in February 2018.

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

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 33 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 treated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value,which are quoted bid prices for investments traded in active markets. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

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

(c) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on foreign currency cash balances and loans 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, are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Investment holding gains and losses'.

Unrealised gains and losses on foreign currency loans are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Other revaluation reserve'.

(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.

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 except for expenses incidental to purchases and sales of investments which are written off 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 58.

(f) Finance costs

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

Finance costs are allocated wholly to revenue.

(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.

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

Bank loans and overdrafts are recorded initially at the proceeds received net of direct issue costs. Loans are subsequently recorded at amortised cost using the effective interest method. Interest payable on the bank loan is accounted for on an accruals basis in the Statement of Comprehensive Income.

(h) Taxation

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

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised.

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

(i) Value Added Tax ('VAT')

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

(j) Foreign currency

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

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

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

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

1. Accounting policies *continued*

(k) Repurchase of shares to hold in Treasury

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Other reserve' 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 the capital redemption reserve.

Should shares held in Treasury be reissued, the sales proceeds will be treated as a realised capital 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.

(l) Dividends

Dividends are paid from a combination of the revenue, capital and other reserves. Interim dividends are included in the financial statements in the year in which they are paid. Final dividends are recognised when they are approved by the shareholders.

2. Significant accounting judgements, estimates and assumptions

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

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

3. (Losses)/gains on investments held at fair value through profit or loss

	2019 £'000	2018 £'000
Gains on investments held at fair value through profit or loss based on historical cost	14,491	26,061
Amounts recognised in investment holding gains and losses at the previous year end in respect of investments sold during the year	(22,780)	(17,613)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(8,289)	8,448
Net movement in investment holding gains and losses	(12,622)	47,072
Other capital charges	(6)	(1)
Total (losses)/gains on investments held at fair value through profit or loss	**(20,917)**	**55,519**

4. Income

	2019 £'000	2018 £'000
Income from investments		
Overseas dividends	4,007	3,735

5. Management fee

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Management fee	2,294	–	2,294	2,199	–	2,199

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

6. Other administrative expenses

	2019 £'000	2018 £'000
Administrative expenses	230	231
Directors' remuneration[1]	123	135
Depositary fee	33	32
Savings scheme costs[2]	11	(11)
Fee payable to the Company's auditor for the audit of the Company's annual accounts	29	28
	426	**415**

[1] Full disclosure is given in the Directors' Remuneration Report on pages 36 and 37.

[2] Paid to the Manager for the administration of saving scheme products. A change of the fee structure has resulted a fee refund in the 2018 financial year.

7. Finance costs

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Interest on bank loans and overdrafts	220	–	220	170	–	170

8. Taxation

(a) Analysis of tax charge in the year

	2019 £'000	2018 £'000
Overseas withholding tax	389	373
Total tax charge for the year	**389**	**373**

8. Taxation *continued*

(b) Factors affecting total tax charge for the year

Approved investment trusts are exempt from tax on capital gains made within the Company.

The UK corporation tax rate was 19% from 1st April 2017, giving an effective rate of 19% (2018: 19%). The tax assessed is higher (2018: lower) than that resulting from applying the effective standard rate of corporation tax in the UK. The difference is explained below.

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Net return/(loss) before taxation	1,067	(21,447)	(20,380)	951	56,743	57,964
Corporation tax at the effective rate of 19% (2018: 19%)	203	(4,075)	(3,872)	181	10,781	10,962
Effects of:						
Non taxable capital losses/(gains)	–	4,075	4,075	–	(10,781)	(10,781)
Non taxable overseas dividends	(730)	–	(730)	(644)	–	(644)
Income tax timing difference	14	–	14	5	–	5
Unrelieved expenses	517	–	517	495	–	495
Overseas withholding tax	389	–	389	373	–	373
Double taxation relief expensed	(4)	–	(4)	(37)	–	(37)
Total tax charge for the year	**389**	**–**	**389**	**373**	**–**	**373**

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £4,871,000 (2018: £4,429,000) based on a prospective corporation tax rate of 17% (2018: 17%). The UK corporation tax rate is enacted to fall to 17% effective on 1st April 2020.

The deferred tax asset has arisen due to the cumulative excess of deductible (management and loan) expenses over taxable income. It is not anticipated that excess expenses will be utilised in the foreseeable future and therefore no asset has been recognised in the financial statements.

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

9. Return/(loss) per share

	2019 £'000	2018 £'000
Return per share is based on the following:		
Revenue return	678	578
Capital (loss)/return	(21,447)	56,743
Total (loss)/return	**(20,769)**	**57,321**
Weighted average number of shares in issue during the year used for the purpose of the calculation	54,510,339	54,717,778
Revenue return per share	1.24p	1.06p
Capital (loss)/return per share	(39.35)p	103.70p
Total (loss)/return per share	**(38.11)p**	**104.76p**

10 Dividends

(a) Dividends paid and declared

	2019 £'000	2018 £'000
Dividends paid		
First quarterly dividend of 4.9p (2018: 0.0p) paid to shareholders in August	2,671	–
Second quarterly dividend of 4.9p (2018: 0.0p) paid to shareholders in November	2,671	–
Third quarterly dividend of 3.9p (2018: 0.0p) paid to shareholders in February	2,126	–
Total dividends paid in the year	**7,468**	**–**

	2019 £'000	2018 £'000
Dividend declared		
Fourth quarterly dividend of 4.3p (2018: 0.0p) payable to shareholders in May	2,344	–

All dividends paid and declared in the year have been funded from the other reserve.

The fourth quarterly dividend has been declared in respect of the year ended 31st March 2019. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 31st March 2020.

(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.

	2019 £'000	2018 £'000
First quarterly dividend of 4.9p (2018: 0.0p)	2,671	–
Second quarterly dividend of 4.9p (2018: 0.0p)	2,671	–
Third quarterly dividend of 3.9p (2018: 0.0p)	2,126	–
Fourth quarterly dividend payable of 4.3p (2018: 0.0p)	2,344	–
Total	**9,812**	**–**

11. Investments

	2019 £'000	2018 £'000
Investments listed on a recognised stock exchange	253,585	279,946
Opening book cost	173,478	143,776
Opening investment holding gains	106,468	77,009
Opening valuation	279,946	220,785
Movement in the year:		
Purchases at cost	64,132	53,873
Sales proceeds	(69,582)	(50,232)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(8,289)	8,448
Net movement in investment holding (losses)/gains[1]	(12,622)	47,072
	253,585	279,946
Closing book cost	182,519	173,478
Closing investment holding gains	71,066	106,468
Total investments held at fair value through profit or loss	**253,585**	**279,946**

[1] During the year, prior year revaluation gains amounting to £22,780,000 (2018: £17,613,000) have been transferred to realised losses as disclosed in note 16.

Transaction costs on purchases during the year amounted to £30,000 (2018: £30,000) and on sales during the year amounted to £37,000 (2018: £27,000). These costs comprise mainly brokerage commission.

12. Current assets

	2019 £'000	2018 £'000
Debtors		
Dividends and interest receivable	1,722	1,569
Other debtors	34	64
VAT recoverable	30	–
Securities sold awaiting settlement	–	265
	1,786	**1,898**

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 and short term deposits. The carrying amount of these represents their fair value.

13. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loan	27,734	–
Securities purchased awaiting settlement	2,756	–
Other creditors and accruals	80	297
Loan interest payable	34	36
Repurchases of the Company's own shares	–	466
	30,604	799

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

On 26th October 2017, the Company arranged a new Yen 4.0 billion two year unsecured floating rate revolving facility with Scotiabank. This facility replaced the Yen 3.0 billion unsecured one year term loan with Scotiabank which expired in October 2017.

Interest on the loan facility is payable at a margin of 0.75% over LIBOR as offered in the market for the loan period plus the 'mandatory costs' rate, which is the lender's cost of complying with certain regulatory requirements. This facility is subject to covenants which are customary for a credit agreement of this value.

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

	2019 £'000	2018 £'000
Bank loan (see note 13)	–	26,812
	–	26,812

15. Called up share capital

	2019 £'000	2018 £'000
Issued and fully paid share capital:		
Ordinary shares of 10p each		
Opening balance of 54,510,339 (2018: 54,980,560) shares excluding shares held in Treasury	5,452	5,499
Repurchase of nil shares into treasury (2018: 470,221)	–	(47)
Subtotal of 54,510,339 (2018: 54,510,339) shares excluding shares held in Treasury	5,452	5,452
1,434,221 (2018: 1,434,221) shares held in Treasury	143	143
Closing balance of 55,944,560 (2018: 55,944,560) shares including shares held in Treasury	**5,595**	**5,595**

Further details of transactions in the Company's shares are given in the Strategic Report on page 20.

16. Capital and reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserve[1,2] £'000	Capital reserves: Gains and losses on sales of investments[2] £'000	Capital reserves: Investment holding gains and losses £'000	Capital reserves: Other revaluation reserve £'000	Revenue reserve[2] £'000	Total £'000
Opening balance	5,595	33,978	1,836	311,237	(186,074)	106,468	2,567	(12,257)	263,350
Net currency gains on derivatives, cash and cash equivalents	–	–	–	–	392	–	–	–	392
Unrealised losses on investments	–	–	–	–	–	(12,622)	–	–	(12,622)
Losses on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	(8,289)	–	–	–	(8,289)
Unrealised foreign currency loss on loan	–	–	–	–	–	–	(922)	–	(922)
Transfer on disposal of investments	–	–	–	–	22,780	(22,780)	–	–	–
Share transaction expense[3]	–	–	–	(3)	–	–	–	–	(3)
Other capital charges	–	–	–	–	(6)	–	–	–	(6)
Net profit for the year	–	–	–	–	–	–	–	678	678
Dividend paid in the year	–	–	–	(7,468)	–	–	–	–	(7,468)
Closing balance	**5,595**	**33,978**	**1,836**	**303,766**	**(171,197)**	**71,066**	**1,645**	**(11,579)**	**235,110**

[1] The share premium was cancelled in the opening period ended 31st March 2001 and redesignated as 'other reserve'.

[2] These reserves form the distributable reserve of the Company and may be used to fund distribution to investors via dividend payments.

[3] Stamp duty on shares repurchased into Treasury on 29th March 2018.

17. Net asset value per share

	2019	2018
Net assets (£'000)	235,110	263,350
Number of shares in issue, excluding shares held in Treasury	54,510,339	54,510,339
Net asset value per share	**431.3p**	**483.1p**

18. Reconciliation of net (loss)/return before finance costs and taxation to net cash outflow from operations before dividends and interest

	2019 £'000	2018 £'000
Net (loss)/return before finance costs and taxation	(20,160)	57,864
Add capital loss/(less capital return) before finance costs and taxation	21,447	(56,743)
Increase in accrued income and other debtors	(153)	(172)
(Decrease)/increase in accrued expenses	(216)	216
Overseas withholding tax	(389)	(373)
Dividends received	(3,465)	(3,200)
Realised gain on foreign exchange transactions	242	202
Net cash outflow from operations before dividends and interest	**(2,694)**	**(2,206)**

19. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2018: none).

20a. Transactions with the Manager

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 £2,294,000 (2018: £2,199,000) of which £nil (2018: £nil) was outstanding at the year end.

During the year £11,000 was paid to (2018: £11,000 was refunded by) the Manager for the administration of savings scheme products, of which £nil (2018: £nil) was outstanding at the year end.

Included in administration expenses in note 6 on page 55 are safe custody fees payable to JPMorgan Chase group subsidiaries amounting to £30,000 (2018: £25,000) of which £5,000 (2018: £8,000) 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 (2018: £3,000) of which £nil (2018: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £6,000 (2018: £1,000) were payable to JPMorgan Chase Bank N.A. during the year of which £nil (2018: £1,000) was outstanding at the year end.

At the year end, total cash of £10,343,000 (2018: £9,117,000) was held with JPMorgan Chase. A net amount of interest of £nil (2018: £nil) was receivable by the Company during the year from JPMorgan Chase of which £nil (2018: £nil) was outstanding at the year end.

20b. Transactions with related parties

Full details of Directors' remuneration and shareholdings can be found on pages 36 and 37 and in note 6 on page 55.

21. Disclosures regarding financial instruments measured at fair value

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

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

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

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

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

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

Details of the valuation techniques used by the Company are given in note 1(b) on page 52.

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

	2019		2018	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	253,585	–	279,946	–
Total	**253,585**	**–**	**279,946**	**–**

There was no transfers between Level 1, 2 and 3 during the year (2018: none).

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

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

These financial risks include market risk (comprising interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below.

The Company receives dividends that are paid in currencies other than sterling. Therefore a significant movement in exchange rates could impact the portfolio yield, however the Board considers this to be a relatively low risk. The Company Secretary, in close co-operation with the Board and the Manager, co-ordinates the Company's risk management strategy.

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

The Company's financial instruments as follows:

– investments in Japanese equity shares, which are all held in accordance with the Company's investment objective;

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

– a yen denominated bank loan, the main purpose of which is to finance the Company's operations.

(a) Market risk

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

(i) Currency risk

The Company's assets, liabilities and income are denominated primarily in yen. The Company's functional currency and the currency in which it reports are sterling. As a result, movements in the sterling/yen exchange rate will affect the sterling value of those items.

Management of currency risk

The Manager monitors the Company's exposure to the yen on a daily basis and reports to the Board, which meets on at least four occasions each year. The Manager measures the risk to the Company of this exposure by considering the effect on the Company's net asset value and income of a movement in the sterling/yen rate of exchange to which the Company's assets, liabilities, income and expenses are exposed. Yen borrowing may be used to limit the exposure of the Company's portfolio of investments to changes in the exchange rate. This borrowing is limited to an amount commensurate with the asset exposure to the yen. Income denominated in yen is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements.

Foreign currency exposure

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

Yen exposure	2019 £'000	2018 £'000
Securities sold awaiting settlement, dividends and interest receivable	1,722	1,834
Cash and cash equivalents	10,112	8,665
Bank loan	(27,734)	(26,812)
Securities purchased awaiting settlement	(2,790)	–
Foreign currency exposure on net monetary items	(18,690)	(16,313)
Investments held at fair value through profit or loss	253,585	279,946
Total net foreign currency exposure	**234,895**	**263,633**

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

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 financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's currency financial instruments held at each balance sheet date and the income receivable in foreign currency and assumes a 10% (2018: 10%) appreciation or depreciation in sterling against the yen, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

	2019		2018	
	If sterling strengthened by 10% £'000	If sterling weakened by 10% £'000	If sterling strengthened by 10% £'000	If sterling weakened by 10% £'000
Statement of Comprehensive Income – return after taxation				
Revenue (loss)/return	(401)	401	(373)	373
Capital (loss)/return	(23,490)	23,490	(26,363)	26,363
Total (loss)/return after taxation	(23,891)	23,891	(26,736)	26,736
Net assets	**(23,891)**	**23,891**	**(26,736)**	**26,736**

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

(ii) Interest rate risk

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

Management of interest rate risk

The Company does not normally hold significant cash balances. There is an overdraft facility available from JPMorgan Chase, if required, bearing interest at a market rate on the terms on which JPMorgan Chase makes similar overdrafts available.

The Company has a Yen 4.0 billion unsecured two year floating rate loan with Scotiabank which will expire in October 2019.

Interest on the loan facility is payable at a margin of 0.75% over LIBOR as offered in the market for the loan period plus the 'mandatory costs' rate, which is the lender's cost of complying with certain regulatory requirements.

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

(a) Market risk *continued*

Interest rate exposure

The exposure of financial assets and liabilities to floating interest rates using the year end figures, giving cash flow interest rate risk when rates are reset, is shown below.

	2019 £'000	2018 £'000
Amounts exposed to floating interest rates:		
Cash and short term deposits	10,343	9,117
Bank loan	(27,734)	(26,812)
Total exposure	**(17,391)**	**(17,695)**

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2018: same).

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2018: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

	2019		2018	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Statement of Comprehensive Income – return after taxation				
Revenue (loss)/return	(174)	174	(177)	177
Net assets	**(174)**	**174**	**(177)**	**177**

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

(iii) Other price risk

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

Management of other price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Other price risk exposure

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

	2019 £'000	2018 £'000
Investments held at fair value through profit or loss	253,585	279,946

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% (2018: 10%) in the market value of equity investments. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2019		2018	
	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 (loss)/return	(203)	203	(224)	224
Capital return/(loss)	25,359	(25,359)	27,995	(27,995)
Total return after taxation	25,156	(25,156)	27,771	(27,771)
Net assets	**25,156**	**(25,156)**	**27,771**	**(27,771)**

Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 14 to 17. This shows that all of the investments' value is in Japanese equities. Accordingly, there is a concentration of exposure to that country. However, it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

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

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a)(ii) to this note on page 63.

Details of the Company's loan facility are given in note 13 on page 59.

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

(b) Liquidity risk *continued*

Liquidity risk exposure

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

	2019			
	Three months or fewer £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors:				
Securities purchased awaiting settlement	2,756	–	–	2,756
Other creditors and accruals	80	–	–	80
Bank loan, including interest	85	27,802	–	27,887
	2,921	**27,802**	**–**	**30,723**

	2018			
	Three months or fewer £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors:				
Repurchase of Company's own shares awaiting settlement	466	–	–	466
Other creditors and accruals	297	–	–	297
Bank loan, including interest	86	152	26,927	27,165
	849	**152**	**26,927**	**27,928**

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, Bank of New York Mellon (International) Limited, is responsible for the safekeeping of all custodial assets of the Company and for verifying and maintaining a record of all other assets of the Company. However, no absolute guarantee can be given on the protection of all the assets of the Company.

Credit risk exposure

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

(d) Fair values of financial assets and financial liabilities

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

23. Capital management policies and procedures

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

	2019 £'000	2018 £'000
Debt:		
Bank loan	27,734	26,812
Equity:		
Called up share capital	5,595	5,595
Reserves	229,515	257,755
	235,110	263,350
Total debt and equity	**262,844**	**290,162**

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

The Board's policy is to limit gearing within the range of 5% net cash to 15% geared in normal market conditions.

	2019 £'000	2018 £'000
Investments held at fair value through profit or loss	253,585	279,946
Net assets	235,110	263,350
Gearing	**7.9%**	**6.3%**

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

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

24. Subsequent events

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

Regulatory Disclosures

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ('AIFMD') DISCLOSURES (UNAUDITED)

Leverage

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and is calculated on a gross method 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, as at 31st March 2019, which gives the following figures:

	Gross £	Commitment £
Maximum limit	200%	200%
Actual	111%	111%

JPMorgan Funds Limited (the '**Management Company**') is the authorised manager of JPMorgan Japan Smaller Companies 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. The information in this section is in respect of the most recent complete remuneration period (the **'Performance Year'**) as at the reporting date.

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 (the '**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. The Board last reviewed and adopted the Remuneration Policy that applied for the 2018 Performance Year in June 2018 with no material changes and was satisfied with its implementation.

Quantitative Disclosures

The table below provides an overview of the aggregate total remuneration paid to staff of the Management Company in respect of the 2018 Performance Year and the number of beneficiaries. These figures include the remuneration of all staff of JP Morgan Asset Management (UK) Ltd (the relevant employing entity) and the number of beneficiaries, both apportioned to the Management Company on an Assets Under Management ('AUM') weighted basis.

Due to the Firm's operational structure, the information needed to provide a further breakdown of remuneration attributable to the Company is not readily available and would not be relevant or reliable. However, for context, the Management Company manages 32 Alternative Investment Funds and 2 UCITS (with 32 sub-funds) as at 31st December 2018, with a combined AUM as at that date of £12,595 million and £13,316 million respectively.

	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
All staff ($'000s)	14,408	8,631	23,039	107

The aggregate 2018 total remuneration paid to AIFMD Identified Staff was USD $68,884,000, of which USD $12,470,000 relates to Senior Management and USD $56,414,000 relates to other Identified Staff[1].

[1] Since 2017, the AIFMD identified staff disclosures includes employees of the companies to which portfolio management has been formally delegated in line with the latest ESMA guidance.

SECURITIES FINANCING TRANSACTIONS REGULATION 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 March 2019.

Shareholder Information

Notice is hereby given that the nineteenth Annual General Meeting of JPMorgan Japan Smaller Companies Trust plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Monday, 29th July 2019 at 11.30 a.m. for the following purposes (which will be proposed in case of Resolutions 1 to 8 as ordinary resolutions and, in the case of Resolutions 9 and 10 as special resolutions):

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2019.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st March 2019.
4. To approve the dividend policy of the Company as set out in the Annual Report.
5. To reappoint Alexa Henderson as a Director of the Company.
6. To reappoint Yuuichiro Nakajima as a Director of the Company.
7. To reappoint Grant Thornton UK LLP as the Auditor of the Company and to authorise the Directors to determine its remuneration.

Authority to allot new Ordinary shares – Ordinary Resolution

8. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot equity securities in the Company and to grant rights to subscribe for, or to convert any security into, Ordinary shares in the Company ('Rights') up to an aggregate nominal amount of £272,550 or, if different, the aggregate nominal amount representing approximately 5% of the Company's issued Ordinary share capital (excluding shares held in Treasury) as at the date of the passing of this resolution providing that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020 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 equity securities to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot equity securities and grant Rights 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

9. THAT subject to the passing of Resolution 8, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 8 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £272,550 or, if different, the aggregate nominal amount representing approximately 5% of the total Ordinary share capital (excluding shares held in Treasury) as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 8, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

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

    PROVIDED ALWAYS THAT

    (i) the maximum number of Ordinary shares hereby authorised to be purchased shall be 8,171,099 or, if fewer, that number of Ordinary shares which is equal to 14.99% of the Company's issued share capital (less shares held in Treasury) as at the date of the passing of this Resolution;

    (ii) the minimum price which may be paid for an Ordinary share shall be 10 pence;

    (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;

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

    (v) the authority hereby conferred shall expire on 29th January 2021 unless the authority is renewed at the Company's Annual General Meeting in 2020 or at any other general meeting prior to such time; and

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

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Funds Limited,
Secretary

24th June 2019

Notes

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

1. A member entitled to attend and vote at the Annual General Meeting (the 'Meeting') may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form no later than 11.30 a.m. two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.
6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.
7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative(s) may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

   Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's financial statements (including the Auditor's report and the conduct of the audit) that are to be laid before the Meeting; or (b) any circumstances connected with the Auditor of the Company ceasing to hold office since the previous Annual General Meeting, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditor no later than the time it makes its statement available on the website. The business which may be dealt with at the Meeting includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Meeting any question relating to the business being dealt with at the Meeting which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting;

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

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

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

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

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

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

16. As at 18th June 2019 (being the latest business day prior to the publication of this Notice), the Company's issued share capital (excluding Treasury shares) consists of 54,510,339 Ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 54,510,339.

17. A copy of the current articles of association of the Company and the proposed new articles of association of the Company will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMorgan Asset Management (UK) Limited, 60 Victoria Embankment, London EC4Y 0JP, from the date of the Annual Report in which this notice is included up until the close of the AGM. Copies will therefore be available at the place of the Annual General Meeting for 15 minutes prior to, and during, the meeting.

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 shareholders, 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	Year ended 31st March 2019	Year ended 31st March 2018	
Opening share price (p)	5	427.0	337.5	(a)
Closing share price (p)	5	376.0	427.0	(b)
Total dividend adjustment factor[1]		1.034520	1.000000	(c)
Adjusted closing share price (d = b x c)		389.0	427.0	(d)
Total return to shareholders (c = (b / a) – 1)		**–8.9%**	**26.5%**	**(e)**

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

Return on Net Assets (APM)

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

Total return calculation	Page	Year ended 31st March 2019	Year ended 31st March 2018	
Opening cum-income NAV per share (p)	5	483.1	377.9	(a)
Closing cum-income NAV per share (p)	5	431.3	483.1	(b)
Total dividend adjustment factor[2]		1.031820	1.000000	(c)
Adjusted closing cum-income NAV per share (d = b x c)		444.8	483.1	(d)
Total return on net assets with debt at par value (e = d / a - 1)		**–7.9%**	**27.8%**	**(e)**

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

Benchmark Return

Total return on the benchmark, on a closing-market value to closing-market value basis, assuming that all dividends received were reinvested, 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 follow or '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 shareholders' 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	31st March 2019 £'000	31st March 2018 £'000	
Investments held at fair value through profit or loss	50	253,585	279,946	(a)
Net assets	50	235,110	263,350	(b)
Gearing (c = (a / b) – 1)		**7.9%**	**6.3%**	**(c)**

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

Ongoing charges calculation	Page	31st March 2019 £'000	31st March 2018 £'000	
Management fee	48	2,294	2,199	
Other administrative expenses	48	426	415	
Total management fee and other administrative expenses		2,720	2,614	(a)
Average daily cum-income net assets		246,570	240,081	(b)
Ongoing Charges (c = a / b)		**1.10%**	**1.09%**	**(c)**

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.

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 (page 20).

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

Performance Attribution Definitions:

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

Gearing/(net cash)
Measures the impact on returns of borrowings or cash balances on the Company's relative performance.

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

J.P. Morgan investment trusts are eligible investments within a stocks & shares individual savings account (ISA) and Junior ISA. For the 2019/20 tax year, from 6th April 2019 and ending 5th April 2020, the annual ISA allowance is £20,000 and the Junior ISA annual allowance is £4,368.

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

1. Via a third party provider

Third party providers include:

AJ Bell	Hargreaves Lansdown
Alliance Trust Savings	Interactive Investor
Barclays Smart Investor	Selftrade
Charles Stanley Direct	The Share Centre
FundsNetwork	

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

2. Through a professional adviser

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

You may also buy J.P. Morgan 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

Information for J.P. Morgan Investment Account, Stock & Shares ISA account holders

On 8th April 2019, J.P. Morgan Asset Management informed holders of J.P. Morgan investment accounts and stocks & shares ISA savings products that it had decided to cease managing these accounts. Investors are able to remain invested in J.P. Morgan managed investment trusts by transferring to another service provider.

Information regarding the transfer arrangements has been provided, detailing the options to; transfer to an alternative third party provider, re-register the investment into certificated form or sell the investment. Where no alternative instruction is received the account will be transferred later in the year, in line with the correspondence sent by J.P. Morgan on 8th April 2019.

For full details of all the options available to investors, please refer to correspondence sent by J.P. Morgan on 8th April 2019, contact your financial adviser or contact J.P. Morgan's Client Administration Centre on 0800 20 40 20/+44 (0) 1268 44 44 70.

FINANCIAL CALENDAR

Financial year end	31st March
Final results announced	June
Half year end	30th September
Half year results announced	November
Annual General Meeting	July
Quarterly Interim Dividends paid	February, May, August, November

History

The Company and its predecessor, JF Fledgeling Japan Limited, have been investing in Japanese smaller companies since 1984. In early 2000, JF Fledgeling Japan Limited was placed into voluntary liquidation and JPMorgan Fleming Japanese Smaller Companies Investment Trust plc was incorporated and took over its assets and undertakings. Dealings on the new Company began on the London Stock Exchange on 11th April 2000. The Company changed its name to JPMorgan Japan Smaller Companies Trust plc in July 2010.

Company Numbers

Company registration number: 3916716
London Stock Exchange Sedol number: 0316581
ISIN: GB0003165817
Bloomberg ticker: JPS LN
LEI: 549300KP3CRHPQ4RF811

Market Information

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

Website

www.jpmjapansmallercompanies.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.

Manager and Company Secretary

JPMorgan Funds Limited

Company's Registered Office

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

For company secretarial matters, please contact Divya Amin.

Depositary

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

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

Registrars

Equiniti Limited
Reference 2093
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0371 384 2539

Lines are open from 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 2093.

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

Independent Auditor

Grant Thornton UK LLP
Chartered Accountants and Statutory Auditor
30 Finsbury Square
London EC2P 2YU

Brokers

Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR

aic
The Association of
Investment Companies

A member of the AIC

www.jpmjapansmallercompanies.co.uk

J.P. MORGAN HELPLINE

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

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

J.P.Morgan
Asset Management