# JPMorgan Russian Securities plc

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

J.P.Morgan
Asset Management

# Your Company

## Investment Objective

To maximise total return to shareholders from a diversified portfolio of investments primarily in quoted Russian securities.

## Investment Policies

To maintain a diversified portfolio of investments primarily in quoted Russian securities or other companies which operate principally in Russia.

The Company may also invest up to 10% of its gross assets in companies that operate or are located in former Soviet Union Republics.

## Investment Limits and Restrictions

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

- No more than 10% of the Company's gross assets are to be invested in companies that operate or are located in former Soviet Union Republics.
- The Company will not normally invest in unlisted securities.
- At the time of purchase, the maximum permitted exposure to each individual company is 15% of the Company's gross assets.
- The Company will not normally invest in derivatives.
- The Company will utilise liquidity and borrowings in a range of 10% net cash to 15% geared in typical market conditions.
- No more than 15% of gross assets are to be invested in other UK listed investment companies (including investment trusts).

Further details on investment policies and risk management are given on pages 18 to 19.

## Benchmark

The RTS Index in sterling terms (RTS).

## Capital Structure

UK domiciled. Full listing on the London Stock Exchange.

At 31st October 2018, the Company's share capital comprised 49,093,384 ordinary shares of 1p each.

## Continuation Vote and Tender

A resolution that the Company continue as an investment trust will be put to Shareholders at the Annual General Meeting in 2022 and every five years thereafter.

If the next continuation vote in 2022 is approved, the Board has committed to making a tender offer to shareholders for up to 20% of the outstanding share capital at NAV less costs and less a discount of 2% if, over the five years from 1st November 2016, the Company's net asset value total return in sterling on a cum income basis is below the total return of the benchmark in sterling terms.

## Discount Control

Subject to market conditions the Board will buyback at least 6% of its issued share capital per annum.

## Management Company and Company Secretary

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

## FCA regulation of 'non-mainstream pooled investments'

The Company currently conducts its affairs so that the shares issued by JPMorgan Russian Securities plc can be recommended by independent financial advisers to ordinary retail investors in accordance with the Financial Conduct Authority (FCA) rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

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

## Association of Investment Companies (AIC)

The Company is a member of the AIC. www.theaic.co.uk

## Website

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

**Oleg I. Biryulyov**
*Investment Manager*

"We base our decisions on a proven investment process that analyses the specific characteristics of stocks in this complicated market. The strength in oil prices in the period provided support for the Russian economy and dividend payouts maintained their positive trajectory."

**Habib Saikaly**
*Investment Manager*

"We believe that an active approach makes sense when investing in Russia, given the market concentration and corporate governance issues."

## Why invest in the JPMorgan Russian Securities plc

### Our heritage and our team

The predecessor of JPMorgan Russian Securities plc launched in 1994 as one of the first funds investing in the Russian market. The investment team, led by native Russian Oleg Biryulyov since launch, has first-hand knowledge of this complex and under-researched market. Oleg is joined by co-manager Habib Saikaly, and both benefit from J.P. Morgan Asset Management's extensive network of emerging market specialists.

### Our Investment Approach

The Company is focused on maximising total return from a diversified portfolio of investments primarily in quoted Russian securities. The Company can also invest up to 10% of its assets in companies operating in former Soviet Union Republics.

The Managers invest in high quality businesses that compound earnings sustainably over the long term. This includes companies with the potential to grow due to their positions as national or global market leaders. Their in-depth fundamental analysis focuses on the economic, longevity and governance of a business.

| | | | |
|---|---|---|---|
| **24** | **£3.4bn** | **100+** | **148** |
| Years' experience in Russia | Invested in Russian equities | Emerging markets specialists based globally | Meetings conducted per annum with Russian companies |

CONTENTS

# Strategic Report

## TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED)

| | 2018 | 2017 | 3 Years Cumulative | 5 Years Cumulative |
|---|---|---|---|---|
| Total return to shareholders[1] | +6.9% | +13.1% | +85.2% | +13.9% |
| Total return on net assets[2] | +12.1% | +9.8% | +91.7% | +20.8% |
| Benchmark total return[3] | +10.6% | +8.4% | +80.9% | +23.7% |
| Net asset total return performance against benchmark total return | +1.5% | +1.4% | +10.8% | -2.9% |
| Dividends | 26.0p | 21.0p | 61.0p | 91.0p |

[1] Source: Morningstar.

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

[3] Source: RTS Index in sterling terms (RTS). Prior to 1st November 2016, the Company's benchmark was the MSCI Russian 10/40 Equity Indices Index in sterling terms.

A glossary of terms and alternative performance measures is provided on page 71.

## SUMMARY OF RESULTS

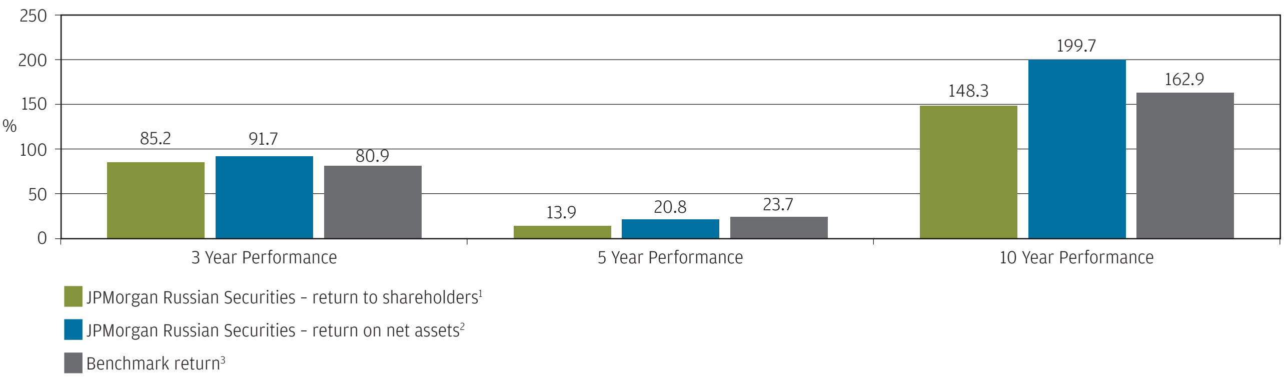
| | 2018 | 2017 | % change |
|---|---|---|---|
| **Net asset value, share price and discount at 31st October** | | | |
| Shareholders' funds (£'000) | 303,189 | 300,361 | +0.9 |
| Net asset value per share | 617.6p | 574.7p | +7.5 |
| Share price | 500.0p | 491.5p | +1.7 |
| Exchange rate (US$ : £1) | 1.28 | 1.33 | –3.8 |
| Exchange rate (Rouble : £1) | 84.00 | 77.48 | +8.4 |
| Share price discount to net asset value per share | 19.0% | 14.5% | |
| Shares in issue | 49,093,384 | 52,262,112 | |
| **Revenue for the year ended 31st October** | | | |
| Gross revenue return (£'000) | 19,207 | 15,980 | +20.2 |
| Net revenue return on ordinary activities after taxation (£'000) | 15,077 | 12,543 | +20.2 |
| Revenue return per share | 29.58p | 23.97p | +23.4 |
| Dividend per share[1] | 26.0p | 21.0p | +23.8 |
| **Gearing/(net cash) at 31st October** | (1.3)% | (2.1)% | |
| **Ongoing Charges** | 1.33% | 1.33% | |

[1] 2018: 6.0p of the dividend per share is proposed and is subject to Shareholder approval of Resolution 3 at the 2019 Annual General Meeting. Dividends are paid on shares held on the record date as stated in the declaration of dividend.

[2] See Note 8 on page 54, Return per Share.

**A glossary of terms and alternative performance measures is provided on page 71.**

## LONG TERM PERFORMANCE (TOTAL RETURNS) AT 31ST OCTOBER 2018




[1] Source: Morningstar.

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

[3] Source: RTS Index in sterling terms (RTS). Prior to 1st November 2016, the Company's benchmark was the MSCI Russian 10/40 Equity Indices Index in sterling terms.

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**Gill Nott**
*Chairman*

## Performance and Overview

In my recent reports I have often referred to the importance of international politics in relation to the performance of your company. This year has been no different; indeed arguably relationships between the West and Russia have reached a new low. This has a serious impact on investor sentiment and therefore affects company valuations on the Russian stock market. Russia remains one of the cheapest major stock markets, globally. This is despite the fact that the Russian economy continued to grow in the reporting period, benefitting from a number of factors including growing revenues from exports of energy and materials, lower inflation and declining interest rates. In addition, many companies have strong business models and balance sheets, enabling them to continue to invest whilst paying substantial dividends. It remains to be seen whether these positive factors are maintained following the significant fall in the price of oil experienced following the end of this reporting period.

The Company's return on a net assets basis outperformed the benchmark by 1.5%, returning 12.1%. In contrast, the return to shareholders lagged the benchmark, with a rise of 6.9%. This was attributable to the significant widening of the discount at which the Company's shares trade relative to its net asset value. As at 31st October 2018 the discount was 19.0%, the widest it was during the financial year. This level is not representative of the reporting period, where the discount averaged 15.3%, and ranged from 10.7% to 19.0%. The widening discount is not unexpected given the increasing sanctions against Russia. However, this does negatively impact returns to shareholders during such episodes. Since the Company's financial year end to 14th January 2019 the benchmark index rose 1.6% and the Company's return to shareholders rose 5.2%, and the discount stood at 15.3%.

The economic sanctions placed on Russia by the US and the European Union in 2014 continue to weigh on the Russian market. However, as referred to in the Company's announcement on the 13th April 2018, the only holding in the Company's portfolio directly impacted by the new sanctions introduced in April was United Company Rusal, a major aluminium producer. This investment represented approximately 1% of the Company's portfolio, and in compliance with the sanctions regime at the time, the position was sold. The cost to the Company of the forced disposal of Rusal was not significant to the Company's overall performance.

JPMorgan Asset Management's compliance & investment functions monitors all investments and the Company is assured by JPMorgan Asset Management that processes are in place to ensure that the Company remains compliant with the current sanctions regime. In addition, the political and economic developments and risks in the region are closely monitored. The Board carried out regular reviews of the Company's risk profile during the year and you will see details of what we judge to be the key risks set out on page 20. The Company's Manager maintains a diversified portfolio which adheres to the Company's investment and risk control guidelines.

## Objective and Strategy of the Company

Each year the Board reviews the strategy of the company in the context of the external environment in which it operates as well as all other major factors affecting the Company. The Company's objective is to maximise total return through investment predominantly in Russia, with distribution of income dependent upon levels received. In recent years the levels of dividends paid out by Russian companies has been at historically high levels. This has been reflected in the high levels of dividends that the Company has received and dividends that it has paid out to shareholders. The Board is pleased that the Company is providing shareholders with such an attractive yield (this year it was 5.1% based on the average share price). In addition, the outlook for growth of future dividend payments from the Company's holdings looks, at this time, encouraging. In order to reflect this the Board considered it appropriate to update the Company's investment objective from capital growth to maximising total returns. The investment policies and processes remain unchanged.

## Dividends

Revenue for the year, after taxation, was £15,077,000 (2017: £12,543,000) and the revenue return per share, calculated on the average number of shares in issue, was 29.58p (2017: 23.97p). Based upon the revenue generated by the portfolio, an interim dividend of 20.0p per share in respect of the year ended 31st October 2018 was paid on 26th October 2018. The Company receives the most of its dividend income well before the end of its financial year ending 31st October, and hence it considers it appropriate to distribute the large majority of its net income as an interim dividend. The Board now proposes a final dividend of 6.0p, in respect of the year ended 31st October 2018, making a total of 26.0p per share for the year (2017: 21.0p per share). The final dividend is proposed to be paid on 8th March 2019 to ordinary shareholders on the register at the close of business on 8th February 2019. If approved by shareholders, the final dividend will amount to £2,946,000 (2017: £3,136,000). The Board reviews income expectations throughout the year. Should income receipts permit, the Company will continue to make payment of an interim dividend, as well as a final dividend in 2019.

## Discount Control

The Board's objective remains to use the share repurchase authority to assist in managing any imbalance between supply and demand for the Company's shares, thereby reducing the volatility of the discount. As noted in my Chairman's Statement last year, following discussion with the Company's major shareholders the Board agreed that, subject to market conditions, it would increase its buy back activity with a view to buying back at least 6.0% of its issued share capital per annum. During the course of the 12 month period 3,168,728 shares were bought back, approximately 6.1% of the Company's issued share capital at 31st October 2017. As identified in the Performance Attribution table on page 11, this added 1.0% to the Company's NAV return. The average discount at which these shares were bought back was 15.1% and these buybacks represented approximately 14.6% of traded market volume during the period in which they were undertaken. It is hoped that this buy back strategy will have the effect of gradually stabilising and narrowing the discount at which the Company trades. The policy was initiated in January 2018. Whilst it is disappointing that the buy back policy has not had the desired effect of narrowing the discount this year, it is perhaps not too surprising given the difficult international political situation. The Board will seek authority to renew the Company's share issuance and buyback powers at the forthcoming AGM.

## Board of Directors

In compliance with corporate governance best practice, all Directors will be standing for re-appointment at the forthcoming AGM, with the exception of George Nianias. Following the Company's annual evaluation of the Directors, the Chairman, the Board and its Committees, the Board recommends to shareholders that all Directors standing be reappointed. George joined the Company as a director in 2008 and I would like to thank him for his very notable contribution over the years, in particular for providing invaluable insight into the Russian environment and markets. In order to maintain a consistent level of experience on the Board following George's impending retirement, an independent search consultancy was engaged to identify a suitable non-executive director with Russian experience. After consideration of a strong selection of candidates, the Board is very pleased to announce that Philippe Delpal will be appointed to the Board after the Company's Annual General Meeting on 12th March 2019. Philippe is based in Moscow and has considerable experience of the Russian market, as well as Board experience within the investment management industry. The retirement of George Nianias is part of the Board's implementation of its succession plan to ensure that the Company adheres with the requirements of the Corporate Governance Code.

The Company's Directors fees were last increased with effect from 1st November 2016. The Board has agreed that, bearing in mind the time since the last increase and the extra burden placed by new regulations and developments it was appropriate to increase directors fees effective from 1st November 2018 as follows: Board Chairman's fee increased by £1,500 (from £37,500 to £39,000), Audit Committee Chairman by £1,000 (from £30,000 to £31,000), Directors by £1,000 per annum (from £25,000 to £26,000).

## Investment Manager

Oleg Biryulyov and Habib Saikaly continue to be the Company's Investment Managers. They are supported by JPMorgan Asset Management's Emerging Markets and Asia Pacific equities team (EMAP), which consists of approximately 100 investment professionals. The depth of support across all aspects of running an investment trust is a key advantages of having the fund managed by a major investment house such as JPMorgan Asset Management. The Board reviews the performance of all the services provided by the Investment Manager each year. This year we paid particular attention to how the Company is marketed. As and when the discount comes in, and if and when the Russian stock market begins to be perceived in a more favourable light,we would like the Company to be the natural choice for investors seeking diversified exposure to Russian equities. We would expect this to help to narrow the discount over time.

## Annual General Meeting

The Company's AGM will be held on Tuesday, 12th March 2019 at 12.00 noon, at 60 Victoria Embankment, London EC4Y 0JP. In addition to the formal part of the meeting, there will be a presentation from Oleg Biryulyov, who will be available to answer questions on the portfolio and performance. There will also be an opportunity to meet the Board, the Investment Manager and representatives of JPMF and JPMAM. I look forward to seeing as many of you as possible at this meeting. Shareholders are asked to submit in writing any detailed or technical questions that they wish to raise at the AGM in advance to the Company Secretary at 60 Victoria Embankment, London EC4Y 0JP. Alternatively you can lodge questions on the Company's website at www.jpmrussian.co.uk.

## Outlook

The Investment Managers have maintained a consistent approach to investing in well managed companies with strong balance sheets. There are undoubtedly political risks to investing in Russia and heightened sensitivities to possible significant changes to sanctions, however, there are attractive investment opportunities if the right stocks are selected. The Board believes that the investment approach adopted by the Investment Managers' is the correct one for the Russian market, focussing as it does on well capitalised companies with quality of management and strong businesses. We continue to believe that market in Russia provides a good long term investment opportunity, particularly if sentiment towards Russia becomes more positive. Dividend payments from Russian companies are currently expected to remain strong, offering another positive dimension to the market, although recent significant falls in the price of oil may challenge these positive forecasts. For those investors prepared to take the risk, the long term potential on investing in Russia remains attractive given the reasonable valuations of the companies in which the Company invests.

**Gill Nott**
*Chairman* 18th January 2019

**Oleg I. Biryulyov**
*Investment Manager*

**Habib Saikaly**
*Investment Manager*

## Economic backdrop

The year under review challenged global equity markets and was characterised by a deterioration in investor sentiment. Volatility returned, on the back of a myriad of economic, geopolitical and market challenges. Moreover, Russia faced its own country-specific headwinds, in the shape of sanctions (and perceived risk of sanctions) which eroded the otherwise positive impact of strong and rising oil prices over the period. The substantial fall in the price of oil since the end of the period are likely to add to the challenge faced by Russia in the forthcoming period.

The trade dispute between the United States and China dominated news flow this year, with the US-introduced protectionist trade tariffs threatening to disrupt the global economy. Rises in US interest rates and oil prices in the reporting period hit many emerging economies and there was a general weakening across emerging markets currencies, whilst the US dollar strengthened. Many emerging economies have US dollar debt, so a rising dollar increases the cost of these loans. For the Russian economy, however, rising oil prices and a weaker currency in the reporting period were broadly positive, since Russia is a major oil and gas producer and its exporting energy companies trade mainly in US dollars. However, since the end of the period the price of oil has fallen substantially. The weaker rouble resulted not only from strategic moves by the Central Bank of Russia but was also a market response to the risk of further sanctions and the broader issues challenging emerging markets.

Against an unpredictable backdrop, the Russian market was a strong relative performer, rising over the period. For the year under review, the Company's net asset value rose by 12.1% on a total return basis and the return to shareholders was 6.9% in sterling terms. The Company's benchmark, the RTS Index, rose by 10.6% on a total return basis.

As always, we base our investment decisions on a proven investment process that analyses the specific characteristics of stocks in this complicated market, in order to identify strong companies. In this report, we review some of this year's leading stock stories, as well as the broader market and sectoral backdrop. We also look at what could lie ahead for Russian equities in 2019.

## Market review – improving fundamentals clouded by sanctions

The year to 31st October 2018 started strongly for Russian markets, just as it did for markets globally. Russia was supported by a broadly improving global investment outlook and specifically by rising oil prices, a weaker currency and the Central Bank's cutting of interest rates, against the global trend. In February the international ratings agency Standard & Poor's upgraded Russia's sovereign rating to 'investable', a move that opened the doors to potentially increased capital inflows.

Positive momentum went into reverse in April with the US announcement of additional sanctions, designed to punish Russia for its alleged interference in US elections and the March nerve agent attack in the UK. The sanctions largely covered companies associated with oligarch Oleg Deripaska. This news hit markets extremely hard and Russia was one of the poorest performing global markets in April, dragged down further by close to double-digit losses for the rouble. Although only one of the Company's holdings was directly impacted by these additional sanctions, overall performance was shaped by the market's broader decline.

In May, Vladimir Putin was re-elected as President for another six years, as anticipated. A much-anticipated summit between Presidents Trump and Putin took place in July but there was no tangible progress to report on sanctions.

Towards the end of the period, the immediate threat of further sanctions receded, but the situation remains in flux. The strength in oil prices in the period provided support for the Russian economy and dividend payouts maintained their positive trajectory, with the Russian market continuing to have one of the highest dividend yields among global equity markets.

Looking at the year as a whole, Russia's investment landscape was overshadowed by global trade tensions and geopolitical factors. Nevertheless, we are pleased that our robust stock selection process enabled us to deliver positive returns to shareholders over the period.

## Our approach to uncovering value

As the only investment trust providing pure exposure to the ongoing transformation of the Russian economy, we strive to uncover the value in Russian equities. We aim to build a balanced portfolio of stocks from across the Russian market, with a focus on companies that demonstrate the best long-term growth opportunities. To do this, we actively manage the portfolio and continue to build up internal research capabilities and a growing team of analysts with deep expertise in this complex and under-researched market.

The Company's investments are primarily in quoted Russian securities although its investment guidelines permit it to invest up to 10% of the Company's gross assets in companies that operate or are located in former Soviet Union Republics. Approximately 3.5% of the Company's portfolio is invested in former Soviet Union Republics: TBC, a Bank operating in Georgia; EPAM, an IT company based in Belarus; and Nostrum, an oil and gas company based in Kazakhstan. The inclusion of former Soviet Union Republics in the Company's investment universe provides a wider range of opportunities, but investment decisions are driven by the relative attractiveness of individual stocks rather than their location. Hence the 10% offers flexibility but is not regarded as a target.

## How have specific stocks and sectors fared over the year?

In this section of our report we highlight specific stock decisions that have impacted portfolio performance (both positively and negatively) over the year. Our investment approach is very focused on the attributes of specific stocks rather than sectors, but as 50% of the portfolio is invested in the **Energy** sector, it is logical that we start our review with stock stories here.

A year ago, we forecast a better outlook for energy prices and dividends from the sector and this proved to be the case during the period under review. As well as rising oil prices in the reporting period, higher trading volumes and a weaker rouble also supported the sector. In the reporting period we increased our position in ***LUKOIL***, having been impressed by its improving corporate governance. It is one of the world's largest oil and gas companies, employing over 100,000 people and accounting for more than 2% of the world's oil production. For the first nine months of 2018 LUKOIL's sales increased by 40.2% and its profits rose by 54%.

We invested in oil and gas company ***Surgutneftgaz*** which was formed from several previously state-owned companies. This is one of Russia's largest companies and we consider it a long-term opportunity given its significant US dollar cash reserves and strong balance sheet. However, within the review period, we subsequently reduced our exposure because of weakening rouble concerns.

## PERFORMANCE ATTRIBUTION

YEAR ENDED 31ST OCTOBER 2018

| | % | % |
|---|---|---|
| Contributions to total returns | | |
| Benchmark return | | 10.6 |
| Asset allocation | -1.5 | |
| Stock selection | 3.6 | |
| Gearing/(net cash) | –0.3 | |
| Investment Manager contribution | | 1.8 |
| Portfolio return | | 12.4 |
| Management fee/other expenses | -1.3 | |
| Share buyback | 1.0 | |
| Return on net assets | | 12.1 |
| Effect of movement in discount over the year | | –5.2 |
| Return to shareholders | | 6.9 |

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

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

**A glossary of terms and alternative performance measures is provided on page 71.**

We took profits from both ***Gazprom*** and ***Tatneft*** over the year. The latter is a smaller, local oil player with a progressive dividend policy; it remains a Top 10 holding. Gazprom is the largest supplier of natural gas to Europe and Turkey and the second largest holding in our portfolio.

Away from the Energy sector, we also have significant exposure to both **Materials** (17% of assets) and **Financials** (16%). A year ago, Russia's largest bank ***Sberbank*** was our largest holding. It is a dynamic and innovative leader of the industry and remains a core holding for us, although we took advantage of share price strength earlier in the year to take profits. Sberbank's share price volatility has reflected US sanction risk concerns, falling to a 1-year low in August. Although volatility will remain a concern in the short term, we are encouraged by the long-term investment opportunity that Sberbank offers, not to mention its solid net-interest margin performance, continuing mortgage business growth and strong deposit inflows. We continue to see it as a classic 'blue chip' stock with a strong brand and in an industry with growing barriers to entry, and are likely to use further price weakness as an opportunity to increase the position.

A stock that we don't hold is ***VTB***, a global provider of financial services and Russia's second largest bank. This is a decision that has contributed positively to relative performance. VTB is operating under sanctions and has been the subject of negative news flow for some time. Apart from political considerations, the company has struggled in a relatively low-interest, low volatility environment; we prefer the quality and market leadership of Sberbank.

We have continued to add to our position in ***Tinkoff*** (part of ***TCS Group***), Russia's leading provider of online retail financial services, with over 7 million customers. The company was founded in 2006 by Russian entrepreneur Oleg Tinkov. We believe the company has an able management team and is certainly a market leader in terms of its product development.

Moving on to **Materials**, the Company's exposure to this sector remains relatively high by historical standards and is also in comparison with the benchmark index. Our largest holding in the sector is ***Norilsk Nickel***, a palladium and nickel mining and smelting company that we purchased late in the reporting period, a decision driven by the stock's attractive valuation and high dividend yield as well as the weakness of the rouble. As regards stock stories from other sectors, one of Russia's largest food retailers, ***Magnit*** was a core holding for the portfolio in the past. The stock was sold during the year, as the retailer's stock price fell sharply, impacted by several macro factors, such as lack of food price inflation, subdued disposable income growth and increasing competition.

It was also been a tough year for ***RosAgro***, one of Russia's largest agricultural companies and a major producer or pork, fats and sugar. Although we continue to believe in Ros Agro's investment strategy, a combination of factors including overproduction of both sugar and grain domestically hurt its profitability – and made a negative contribution to the Company's performance this year.

We sold our holding in steel making and mining company ***Evraz***. The company was a strong contributor to overall performance during the year but our concern over balance sheet risks dampened our conviction, so we sold our position.

Shareholders may recall our reference to ***Yandex*** in last year's report as the portfolio had suffered from not owning this **Information Technology** stock in a year when IT stocks had stormed ahead, and technological advances were continuing to transform business and almost every other aspect of our lives. Yandex is a leading domestic internet business that also specialises in market-leading on-demand transportation service (Yandex.Drive and Yandex.Taxi). We initiated a position at an opportune time during the year. We like this business for its innovative talent, its focus on profit (which ensures there is adequate cost control) and its ecosystem of services.

Finally, a stock that we do not own is **Mobile TeleSystems (MTS)**, Russia's largest mobile phone operator. Despite issuing a strong set of figures early in 2018, MTS also indicated that its future revenue growth could decelerate, and its share price fell over the period. Our decision to avoid MTS is primarily driven by concerns that the Russian government could seek to increase its influence over the mobile telecommunications sector in the future.

Unsurprisingly, investor uncertainty has increased as the sanctions story has unfolded. Our portfolio has not been immune to this, but we maintain that well-managed, profitable Russian companies will overcome such pressures and outperform over time.

Whilst the short-term global political outlook looks more uncertain than it has for some time, Russia's own political outlook is stable. We expect that further liberalisation and restructuring of the Russian economy will take place, as well as continuing initiatives to enhance financial stability. Recent forecasts from the International Monetary Fund raised Russia's 2019 Gross Domestic Product growth forecast to 1.8%, whilst cutting global forecasts. Although this is still a relatively modest figure, the Russian economy should deliver annualised economic growth of around 2% over the next three-to-five years. The price of oil and exchange rate trends will continue to determine the precise direction of travel. The recent significant falls in the price of oil are likely to provide challenges to these positive forecasts.

## Outlook

We continue to see fundamental support for Russia at the country and company level, with the following factors all supportive:

- Interest rates are a powerful monetary tool and we expect them to fall further in 2019. Lower interest rates, together with lower inflation, should drive domestic consumption higher;
- The Central Bank will aim to keep the rouble relatively weak, which is good for exports; and
- Russian stocks are paying (and expected to continue paying) relatively high dividend yields which provides valuation support and which we expect markets will appreciate over the coming months.

Above all, we believe that Russian equities provide a long-term investment opportunity, as part of a diversified portfolio, for those investors willing to accept the current level of specific country risk. We think the market is attractively valued, with stock valuations reflecting this level of risk.

Looking ahead, stock selection – and the identification of well-managed companies with strong balance sheets – will continue to be crucial for us. We are selective about the companies we invest in and we will continue basing our investment decisions on what we consider to be relatively strong and improving fundamentals which should assert themselves as the primary drivers of future returns. This approach is a proven one that has served us well over time.

**Oleg I. Biryulyov**
**Habib Saikaly**
*Investment Managers*

18th January 2019

## TEN LARGEST INVESTMENTS

AT 31ST OCTOBER

| Company | Sector | 2018 Valuation £'000 | 2018 Valuation %[1] | 2017 Valuation £'000 | 2017 Valuation %[1] |
|---|---|---|---|---|---|
| Lukoil, ADR | Energy | 46,831 | 15.7 | 24,007 | 8.2 |
| Gazprom[2] | Energy | 37,836 | 12.6 | 44,272 | 15.0 |
| Sberbank of Russia[3] | Financials | 33,560 | 11.2 | 48,943 | 16.6 |
| Novatek, GDR | Energy | 25,927 | 8.7 | 17,855 | 6.1 |
| Rosneft Oil, GDR | Energy | 19,128 | 6.4 | 15,712 | 5.3 |
| MMC Norilsk Nickel, ADR | Materials | 18,462 | 6.2 | 19,576 | 6.7 |
| Tatneft Preference | Energy | 14,430 | 4.8 | 13,445 | 4.6 |
| Yandex[4] | Communication Services | 10,394 | 3.5 | – | – |
| Alrosa | Materials | 9,322 | 3.1 | 8,468 | 2.9 |
| Inter RAO UES[5] | Utilities | 6,494 | 2.2 | 2,722 | 0.9 |
| **Total[6]** | | **222,384** | **74.4** | | |

[1] Based on total investments of £299.1m (2017: £294.1m).
[2] Includes ADR valued at £35,335,000 (2017: £41,440,000).
[3] Preference shares only (2017: Preference shares valued at £33,499,000 and ordinary shares valued at £15,444,000).
[4] Not held in the portfolio at 31st October 2017.
[5] Not included in the ten largest investments at 31st October 2017.
[6] At 31st October 2017, the value of ten largest equity investments amounted to £208.5m representing 70.9% of total investments.

See glossary of terms and alternative performance measures on page 72 for definition of ADR and GDR.

## SECTOR ANALYSIS

| | 31st October 2018 Portfolio %[1] | 31st October 2018 Benchmark % | 31st October 2017 Portfolio %[1] | 31st October 2017 Benchmark % |
|---|---|---|---|---|
| Energy | 50.8 | 52.1 | 41.2 | 46.5 |
| Materials | 17.6 | 15.4 | 20.5 | 15.5 |
| Financials | 15.8 | 18.4 | 21.1 | 20.8 |
| Communication Services[2] | 3.5 | 6.0 | – | 4.5 |
| Consumer Discretionary | 2.6 | 0.9 | 2.4 | 1.2 |
| Real Estate | 2.5 | – | 3.8 | 0.3 |
| Utilities | 2.2 | 2.4 | 1.4 | 3.1 |
| Consumer Staples | 1.9 | 4.2 | 6.2 | 5.4 |
| Health Care | 1.4 | – | 2.3 | – |
| Information Technology | 1.0 | – | 1.1 | 1.4 |
| Industrials | 0.7 | 0.6 | – | 1.3 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** |

[1] Based on total investments of £299.1m (2017: £294.1m).
[2] Communication Services was previously named as 'Telecommunication Services'.

## LIST OF INVESTMENTS AT 31ST OCTOBER 2018

| Company | Valuation £'000 |
|---|---|
| **ENERGY** | |
| Lukoil, ADR | 46,831 |
| Gazprom, ADR | 35,335 |
| Novatek, GDR | 25,927 |
| Rosneft Oil, GDR | 19,128 |
| Tatneft Preference | 14,430 |
| Surgutneftegas Preference | 4,367 |
| Gazprom Neft | 2,501 |
| Nostrum Oil & Gas | 2,208 |
| Volga Gas | 1,373 |
| | **152,100** |
| **MATERIALS** | |
| MMC Norilsk Nickel, ADR | 18,462 |
| Alrosa | 9,322 |
| Polyus, GDR | 5,542 |
| Severstal, GDR | 5,524 |
| Novolipetsk Steel, GDR | 3,953 |
| PhosAgro, GDR | 3,126 |
| Magnitogorsk Iron & Steel Works | 3,046 |
| Highland Gold Mining | 2,196 |
| Polymetal International | 1,597 |
| | **52,768** |

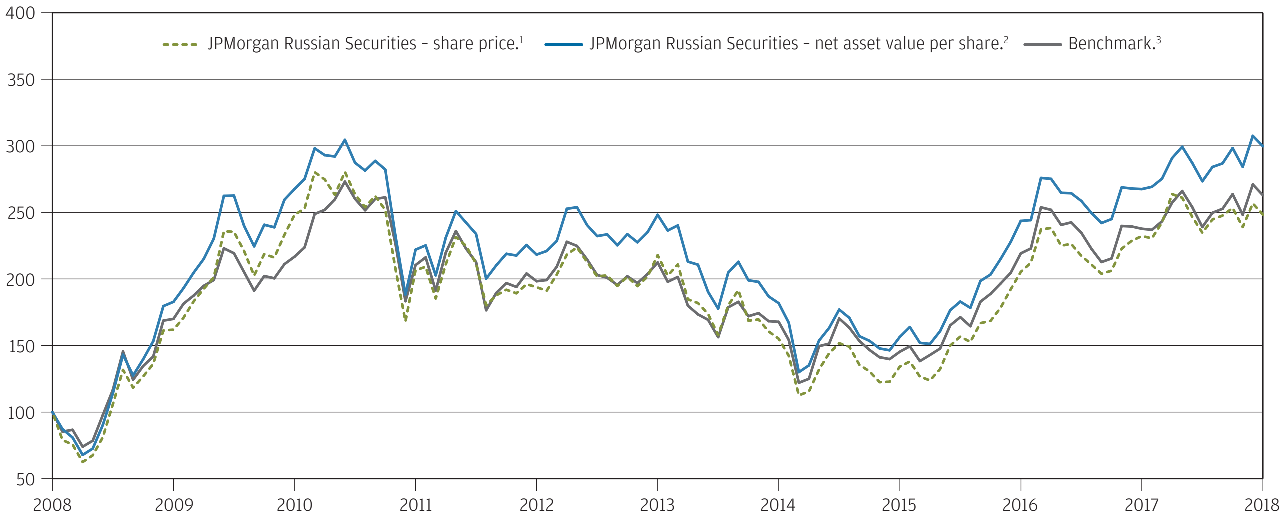
| Company | Valuation £'000 |
|---|---|
| **FINANCIALS** | |
| Sberbank of Russia Preference | 33,560 |
| TBC Bank | 5,700 |
| Moscow Exchange MICEX-RTS | 4,083 |
| TCS, GDR | 4,007 |
| | **47,350** |
| **COMMUNICATION SERVICES** | |
| Yandex | 10,394 |
| | **10,394** |
| **CONSUMER DISCRETIONARY** | |
| Detsky Mir | 4,159 |
| Sollers | 1,907 |
| OR | 1,629 |
| | **7,695** |
| **REAL ESTATE** | |
| LSR, GDR | 3,728 |
| Etalon, GDR | 3,654 |
| | **7,382** |

| Company | Valuation £'000 |
|---|---|
| **UTILITIES** | |
| Inter RAO UES | 6,494 |
| | **6,494** |
| **CONSUMER STAPLES** | |
| Ros Agro, GDR | 5,733 |
| | **5,733** |
| **HEALTH CARE** | |
| MD Medical Group Investments, GDR | 4,111 |
| | **4,111** |
| **INFORMATION TECHNOLOGY** | |
| EPAM Systems | 3,083 |
| | **3,083** |
| **INDUSTRIALS** | |
| Globaltruck Management | 1,991 |
| | **1,991** |
| **TOTAL INVESTMENT PORTFOLIO** | **299,101** |

See glossary of terms and alternative performance measures on page 72 for definition of ADR and GDR.

## TEN YEAR PERFORMANCE

### FIGURES HAVE BEEN REBASED TO 100 AT 31ST OCTOBER 2008



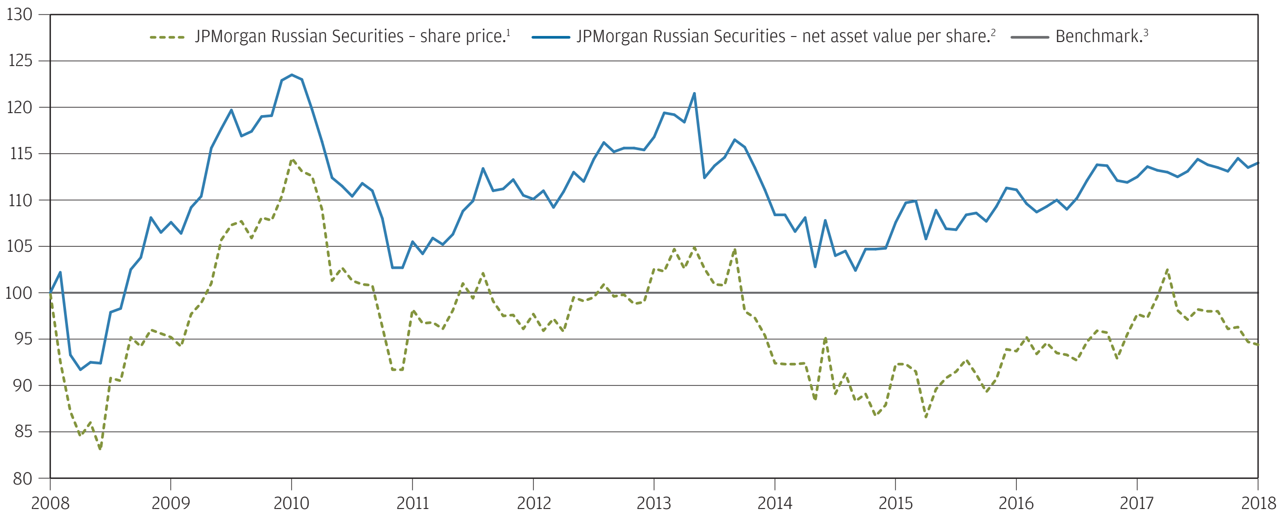

[1] Source: Morningstar.

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

[3] Source: RTS Index in sterling terms. Prior to 1st November 2016, MSCI Russian 10/40 Equity Indices Index in sterling terms.

## PERFORMANCE RELATIVE TO BENCHMARK

### FIGURES HAVE BEEN REBASED TO 100 AT 31ST OCTOBER 2008




[1] Source: Morningstar.

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

[3] Source: RTS Index in sterling terms. Prior to 1st November 2016, MSCI Russian 10/40 Equity Indices Index in sterling terms.

## TEN YEAR FINANCIAL RECORD

| At 31st October | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net assets (£'m) | 142.7 | 260.0 | 376.1 | 311.1 | 298.8 | 332.4 | 236.4 | 194.6 | 284.9 | 300.4 | 303.2 |
| Net asset value per share (p) | 255.1 | 464.9 | 680.3 | 564.4 | 555.2 | 631.1 | 450.0 | 371.9 | 544.3 | 574.7 | 617.6 |
| Share price (p) | 257.0 | 416.0 | 637.5 | 531.0 | 498.0 | 560.0 | 386.8 | 320.5 | 455.0 | 491.5 | 500.0 |
| Premium/(discount) (%) | 0.7 | (10.5) | (6.3) | (5.9) | (10.3) | (11.3) | (14.0) | (13.8) | (16.4) | (14.5) | (19.0) |
| (Net cash)/gearing (%) | (7.0) | 0.5 | (3.0) | (2.1) | (2.1) | (2.3) | (1.0) | (1.4) | (1.8) | (2.1) | (1.3) |
| Ongoing charges (%) | 2.53 | 1.85 | 1.71 | 1.82 | 1.51 | 1.44 | 1.50 | 1.43 | 1.40 | 1.33 | 1.33 |
| **Year ended 31st October** | | | | | | | | | | | |
| Gross revenue (£'000) | 9,632 | 950 | 6,034 | 7,550 | 8,589 | 12,902 | 9,383 | 13,598 | 11,109 | 15,980 | 19,207 |
| Revenue return/(loss) per share (p) | 0.95 | (4.11) | (0.69) | (0.63) | 5.03 | 18.14 | 13.38 | 19.60 | 15.47 | 23.97 | 29.58 |
| Dividends per share (p)[1] | – | – | – | – | – | 15.3 | 13.0 | 17.0 | 14.0 | 21.0 | 26.0 |
| **Returns rebased to 100 at 31st October 2008** | | | | | | | | | | | |
| Total return to shareholders[2] | 100.0 | 161.9 | 248.1 | 206.6 | 193.8 | 217.9 | 155.1 | 134.1 | 205.3 | 232.2 | 248.3 |
| Total return on net assets[3] | 100.0 | 182.8 | 267.5 | 222.0 | 218.3 | 248.2 | 181.8 | 156.4 | 243.6 | 267.5 | 299.7 |
| Benchmark total return[4] | 100.0 | 170.0 | 216.7 | 210.4 | 198.3 | 212.4 | 167.8 | 145.3 | 219.2 | 237.7 | 262.9 |

[1] 6.0p of the 26.0p 2018 dividend is payable subject to Shareholder approval of Resolution 3 at the 2019 Annual General Meeting. 2015 includes a special dividend of 4.0p.

[2] Source: Morningstar.

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

[4] Source: RTS Index in Sterling Terms (RTS). Prior to 1st November 2016, the Company's benchmark was the MSCI Russian 10/40 Equity Indices Index in sterling terms.

A glossary of terms and alternative performance measures is provided on page 71.

The aim of the Strategic Report in pages 4 to 21 is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out the structure and objective of the Company, its investment policies and risk management, investment limits and restrictions, performance and key performance indicators, share capital, principal risks and how the Company seeks to manage those risks, including the Company's environmental, social and ethical policy, future developments and long term viability.

## Structure and Objective of the Company

JPMorgan Russian Securities plc is an investment trust and has a premium listing on the London Stock Exchange. Its objective is to maximise total returns to shareholders, primarily from investing in quoted Russian securities. In seeking to achieve this objective the Company employs J.P. Morgan Funds Limited ('JPMF' or the 'Manager') which in turn delegates portfolio management to JPMorgan Asset Management (UK) Limited ('JPMAM') to actively manage the Company's assets. The Board has determined investment policies and related guidelines and limits, as described below. It aims to outperform the RTS Index in sterling terms, in the long term with net dividends reinvested, expressed in sterling terms.

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

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 6 to 8, and in the Investment Manager's Report on pages 9 to 13.

## Investment Policies and Risk Management

In order to achieve its objective and manage risk, the Company invests in a diversified portfolio of investments primarily in quoted Russian securities or other companies which operate principally in Russia. The Company may also invest up to 10% of its gross assets in companies that operate or are located in former Soviet Union Republics. The number of investments in the portfolio will normally range between 20 and 50. The investment portfolio is managed by Oleg Biryulyov, a Russian fund manager, currently based in London, and assisted by Habib Saikaly as a named investment manager together with full support from JPM Emerging Markets and Asia Pacific team (EMAP), including sector specialists. The Board also discusses the economy and political developments of Russia in depth at Board meetings and considers the possible implications for the investment portfolio.

## Investment Limits and Restrictions

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

- No more than 10% of the Company's gross assets are to be invested in companies that operate or are located in former Soviet Union Republics.
- The Company will not normally invest in unlisted securities.
- At the time of purchase, the maximum permitted exposure to each individual company is 15% of the Company's gross assets.
- The Company will not normally invest in derivatives.
- The Company will utilise liquidity and borrowings in a range of 10% net cash to 15% geared in typical market conditions.
- No more than 15% of gross assets are to be invested in other UK listed investment companies (including investment trusts).

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

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

The economic sanctions introduced by the USA and European Union against Russia and Crimea in 2014 continue. The Manager undertakes regular checks of holdings to ensure compliance and reports to the Board. The Board has also implemented a rapid response communication process with the Manager, which allows the Board to receive immediate updates from the Manager and take decisions as quickly as possible.

## Active Fund Management Rationale

JPMAM believes that the Russian market is inefficient and that this is demonstrated by the high and variable volatility of many market sectors and individual companies. Although corporate disclosure and transparency is improving, there still remain areas where the inefficiencies in this region can be exploited offering opportunities to experienced, well-informed investors.

JPMAM's investment process has been specifically designed for emerging markets and has been refined over 20 years of active management experience in the region.

Highlights of the investment strategy are:

- Inefficient, immature emerging markets reward active investment management not indexation.
- Identifying growth companies that are well managed to maximise shareholder returns brings outperformance through fundamental bottom-up research.
- Valuation disciplines avoid overpaying for growth.

- JPMAM believes that assets are best managed by specialists from the markets and regions in which they have expertise and they have therefore established a strong presence around the region. Company visits and local knowledge are also key.

JPMAM has managed Russian equity mandates since 1994. JPMAM's EMAP team is responsible for managing all global, regional and single country Emerging Markets and Asia Pacific equity portfolios, with investment professionals located in eight locations across the globe. The EMAP Equities team managed USD 116 billion in assets globally (as of 30th September 2018).

## Performance

In the year ended 31st October 2018, the Company produced a total return to shareholders of +6.9% and a total return on net assets of +12.1%. This compares with the total return on the Company's benchmark of +10.6%. As at 31st October 2018, the value of the Company's investment portfolio was £299,101,000. The Investment Manager's Report on pages 9 to 13 includes a review of developments during the year.

The results of the investment strategy, as detailed above, and the performance of the Company against its benchmark, as identified on page 4 are regularly reviewed by the Board together with data relating to the performance of the Company's Peers and feedback from some of the major shareholders. The Board also considers factors likely to affect the future performance of the Company.

## Total Return, Revenue and Dividend

Gross return for the year totalled £38,823,000 (2017: £33,688,000) and net return after deducting management fee, administrative expenses, and taxation, amounted to £32,211,000 (2017: £27,860,000). Net revenue return after taxation for the year amounted to £15,077,000 (2017: £12,543,000).

The Directors recommend a final ordinary dividend of 6.0 pence per share as detailed in the Chairman's Statement on page 7, giving a total dividend for the year of 26.0 pence per share.

## Key Performance Indicators ('KPIs')

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

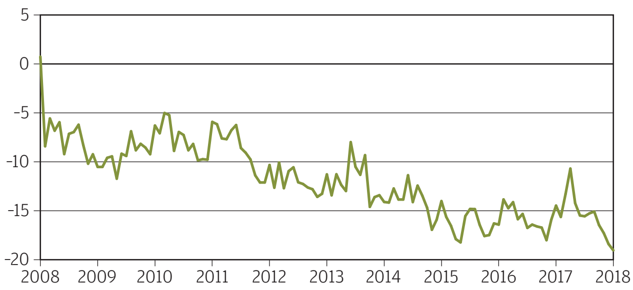
- **Performance against the benchmark**
  The principal objective is to maximise total return. However, the Board also monitors performance against a benchmark index. Please refer to page 16 for details of the Company's performance against the RTS Index Indices in sterling terms.

- **Performance against the Company's peers**
  The Board also monitors the performance relative to a broad range of competitor funds. The Company's performance for the current period has compared well to those of its peers.

- **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. Please refer to page 11 for the Company's performance attribution for the year ended 31st October 2018.

- **Share price (discount)/premium to cum income net asset value ('NAV') per share**
  For details of the Company's Discount Control see the Chairman's statement on page 7. The Board's implementation of the policy is subject to market conditions. In the year ended 31st October 2018, the shares traded at a discount between 10.7% and 19.0%. See also the Share Capital section below for further details.

### (Discount)/Premium Performance




Source: Datastream (month end data).

JPMorgan Russian Securities – share price (discount)/premium to NAV (month end data points).

- **Ongoing charges**
  The Ongoing charges represent the Company's management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average daily net assets during the year. The Ongoing charges for the year ended 31st October 2018 were 1.33% (2017: 1.33%). The Board reviews each year an analysis which shows a comparison of the Company's Ongoing charges and its main expenses with those of its peers.

## Share Capital

During the year, the Company bought back 3,168,728 of its own shares. Since the year end to 15th January 2019, the Company has repurchased 337,000 shares. Further details regarding the Company's purchase of its own shares can be seen in the Chairman's report on page 7.

For details of the Company's Continuation Vote and Tender and Discount Control arrangements, see Key Features at the front of this document.

A resolution to renew the authority to repurchase shares at a discount to NAV is due to be put to shareholders at the forthcoming Annual General Meeting.

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

## Principal Risks

The Directors confirm that they have carried out an assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The risks identified and the ways in which they are managed or mitigated are summarised as follows:

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company and the Company's actions to manage the risks.

In the year under review the Board monitored the risks arising which included continuing sanctions against Russia which have impacted market sentiment.

These key risks fall broadly under the following categories:

- **Investing in Russia**
  Investors should note that there are significant risks inherent in investing in Russian securities not typically associated with investing in securities of companies in more developed countries. In terms of gauging the economic and political risk of investing in Russia, it frequently appears in the higher risk categories when compared with most Western countries. The value of Russian securities, and therefore the net asset value of the Company, may be affected by uncertainties such as economic, political or diplomatic developments, social and religious instability, taxation and interest rates, currency repatriation restrictions, crime and corruption and developments in the law or regulations in Russia and, in particular, the risks of expropriation, nationalisation and confiscation of assets and changes in legislation relating to the level of foreign ownership.

  The Board, with the assistance of the Manager, monitors the Company's activities to ensure that they remain compliant with the current sanctions regime including the specific requirements applicable to the Manager as a company subject to the laws of the United States of America and other jurisdictions that it operates in. The Board acknowledges the negative impact of sanctions on the wider market although the current sanctions regime has not prevented the Company from operating within its investment guidelines.

- **Share Price Discount 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. The widening of the discount can be seen as a disadvantage of investment trusts which could discourage investors. Although it is common for an investment trust's shares to trade at a discount, particular events can negatively impact market sentiment. The Board monitors the Company's discount level and seeks, where deemed prudent, to address imbalances in the supply and demand of the Company's shares through a programme of share buybacks.

  For details of the Company's Continuation Vote and Tender and Discount Control arrangements, see Key Features at the front of this document.

- **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. The Board manages these risks by diversification of investments through its investment restrictions and guidelines, which are monitored and 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.

  Possible actions that the Board may consider to address underperformance include changing the portfolio manager or selecting another manager.

- **Failure of Investment Process**
  A failure of process could lead to losses. The Manager mitigates this risk through internal controls and monitoring. Fraud requires immediate notification to the Board and regular reports are provided on control processes.

- **Loss of Investment Team or Investment Manager**
  The sudden departure of the investment manager or several members of the wider investment management team could result in a short term deterioration in investment performance. The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team based approach, as well as special efforts to retain key personnel.

- **Operational and Cyber Crime**
  Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the Depositary or custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Under the terms of its agreement, the Depositary has strict liability for the loss or misappropriation of assets held in custody. See note 20(c) for further details on the responsibilities of the Depositary. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on page 29. The threat of Cyber attack is increasing and regarded as having the ability to cause equivalent disruption to the Company's business as more traditional business continuity and security threats. The Company benefits from

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 auditors PricewaterhouseCoopers and reported every six months against the AAF standard.

- **Board Relationship with Shareholders**
  The risk that the Company's strategy and performance does not align with shareholders expectations is addressed by the Manager and includes the organisation of a programme of visits to major shareholders, and the provision of an extensive range of investor information including nationwide presentations by sales teams. Feedback from shareholders is received directly and via brokers which is fed back to the Board regularly.

- **Political and Economic**
  Changes in financial or tax legislation, including in the European Union, may adversely affect the Company. The Manager 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 administrative risks, such as the imposition of restrictions on the free movement of capital. A widening of the capital controls by the Russian Government could negatively impact the Company. The introduction of limitations on the ability of Russian companies to distribute dividends to foreign companies could materially reduce the Company's revenue and amount available for distribution to shareholders.

- **Regulatory and Legal**
  Breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties, or a qualified audit report. Loss of investment trust status could lead to the Company being subject to tax on capital gains. The Directors seek to comply with all relevant regulation and legislation and rely on the services of its Company Secretary, the Manager, and its professional advisors to monitor compliance with all relevant requirements.

- **Market and Financial**
  The Company's assets consist of listed securities and it is therefore exposed to movements in the prices of individual securities and the market generally. The Board considers asset allocation and stock selection on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by the Manager. The financial risks faced by the Company include market price risk, interest rate risk, foreign currency risk, liquidity risk and credit risk. Further details are disclosed in note 20 on pages 58 to 63. The Manager regularly monitors the liquidity of the portfolio including determining the market valuation of securities held, the average daily volume and number of days to liquidate a holding. As can be seen in Note 19 on page 58, all the Company's assets are categorised as Level 1 as they have quoted prices in an active market.

## Future Developments

The future development of the Company is dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Chairman and Investment Managers discuss the outlook in their respective reports on pages 6 and 9.

## Long Term Viability

Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering those principal risks, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the Russian economy and equity market. It has also taken into account the fact that the Company has a continuation vote at the 2022 Annual General Meeting and, with input from the Company's major shareholders and its brokers, and the performance of the Company so far exceeding the performance requirement of the tender offer the likelihood is that the shareholders will vote in favour of continuation. Based on that information the Directors do not think that the continuation vote will impact on the Company's long term viability. In determining the appropriate period of assessment the Directors had regard to their view that, given the Company's objective of maximising total returns, shareholders should consider the Company as a long term investment proposition. This is consistent with advice provided by independent financial advisers and wealth managers, that investors should consider investing in equities for a minimum of five years. Thus the Directors consider five years to be an appropriate time horizon to assess the Company's viability. The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

## Board Diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. Diversity is important in bringing an appropriate range of skills and experience to the Board.

At 31st October 2018, there were three male Directors and two female Directors on the Board. The Company has no employees and therefore there is nothing further to report in respect of diversity within the Company.

## Employees, Social, Community and Human Rights Issues

The Company is managed by JPMF, has no employees and all of its Directors are non-executive, the day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes the JPMAM policy statements in respect of Social, Community, Environmental and Human Rights issues, as outlined below.

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

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

## Greenhouse Gas Emissions

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

## Criminal Corporate Offence

The Company has zero tolerance for tax evasion. Shares in the Company are purchased through intermediaries or brokers, therefore no funds flow directly into the Company. As the Company has no employees, the Board's focus is to ensure that the risk of the Company's service providers facilitating tax evasion is also low. To this end it is seeking assurance from its service providers that effective policies and procedures are in place.

## 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

By order of the Board
Paul Winship, ACIS for and on behalf of
JPMorgan Funds Limited,
Secretary

18th January 2019

# Directors’ Report

**Gill Nott (Chairman of the Board and Nomination Committee)†**
A Director since 2011.

Last reappointed to the Board: March 2018. Appointed as Chairman 12th June 2015.

Mrs Nott spent the majority of the first 27 years of her career working in the energy sector. In 1994 she became CEO of ProShare. Due to her work in the retail savings sector, she spent six years on the Board of the Financial Services Authority from 1998 to 2004. Mrs Nott has held a portfolio of non-executive positions, particularly in the closed-end fund sector, over the last 15 years. She is a non-executive Chair of Hazel Renewable Energy VCT 1 Plc, Premier Global Infrastructure Trust plc and PGIT Securities 2020 plc.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 3,000.

**Alexander Easton*†**
A Director since 2010.

Last reappointed to the Board: March 2018.

He was formerly the head of European equities at UBS Investment Bank and managing director responsible for UBS Brunswick (Russia). He is currently a partner in a number of Russian venture capital firms.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 12,018.

**Robert Jeens (Audit Committee Chairman)*†**
A Director since 2011.

Last reappointed to the Board: March 2018.

Following 12 years with Touche Ross & Co where he was an audit partner, Mr Jeens moved to Kleinwort Benson Group plc, becoming finance director in 1992, before becoming group finance director of Woolwich plc for three years until 1999. Since then he has held a portfolio of non-executive appointments and is currently chairman of Allianz Technology Trust plc and a director of Chrysalis VCT plc.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 15,000.

**George Nianias*†**
A Director since 2008.

Last reappointed to the Board: March 2018.

He is the founder and group chairman of Denholm Hall Group. George has a close association with Russia and has also been financial adviser to several eastern European cities including Krakow, St. Petersburg and Moscow. George is resident in Russia and a Russian speaker.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: Nil.

**Tamara Sakovska*†**
A Director since 2016.

Last reappointed to the Board: March 2018.

Ms Sakovska is an investment professional with 19 years of finance experience gained at Goldmand Sachs, Permira, Eton Park, GFP and Lavra Capital. She has a special interest in corporate governance and is a Chartered Director and a Fellow of the Institute of Directors. Ms Sakovska is a native Russian speaker.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 1,200

*** 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 October 2018.

## Management of the Company

The Manager and Company Secretary to the Company is JPMorgan Funds Limited ('JPMF'). Portfolio Management is delegated to JPMorgan Asset Management UK Limited (JPMAM).

JPMF and JPMAM are wholly-owned subsidiary of JPMorgan Chase & Co which, through other subsidiaries, also provides accounting, banking, dealing and custodian services to the Company.

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 is 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 in the course of the year. The review covered the performance of the Manager, its management processes, investment style, resources and risk controls and the quality of support that the Company receives from the Manager including the marketing support provided. The Board is of the opinion that the continuing appointment of the Manager is in the best interests of shareholders as a whole. Such a review is carried out on an annual basis.

## Management Agreement

The current Management Agreement was entered into with effect from 1st July 2014 following implementations of the Alternative Fund Manager Directive.

JPMF is employed under a contract which can be terminated on 90 days' notice, without penalty. The Manager may also terminate the contract on 90 days' notice if in its sole opinion there has been a loss of confidence between the Manager and the Company so as to make the relationship unworkable. If the Company wishes to terminate the contract on less than 90 days' notice, the balance of the 90 days' remuneration is payable by way of compensation.

The Manager is remunerated at a rate of 1.0% per annum of the Company's net assets, payable monthly in arrears.

Investments on which the Manager earns a separate management fee are excluded from the Company's net assets for the purpose of calculating the management fee. No performance fee is payable.

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

JPMF, an affiliate of JPMAM, has been appointed as the Company's alternative investment fund manager ('AIFM'). JPMF has been approved as an AIFM by the Financial Conduct Authority ('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. JPMF is required to ensure that a depositary is appointed to the Company. The Company therefore has appointed Bank of New York Mellon (International) Limited ('BNY') as its depositary. BNY has delegated its safekeeping function to the custodian, JPMorgan Chase Bank, N.A., however, BNY remains responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows. An internal restructuring at BNY led to the depositary changing from BNY Mellon Trust & Depositary (UK) Ltd to the current incumbent.

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. Investor Disclosure Documents, which set out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information are available on the Company's website at www.jpmrussian.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. As an authorised AIFM, JPMF will make the requisite disclosures on remuneration levels and policies to the FCA at the appropriate time.

## Going Concern

In assessing the Company's ability to continue as a going concern the Directors have considered the Company's investment objective (see page 18), risk management policies (see pages 58 to 63), capital management (see note 21), the nature of the portfolio and expenditure projections, and believe that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts. The Directors considered the current political environment in Russia and the impact of sanctions in making its assessment. See also Long Term Viability Statement on page 21.

A resolution that the Company continue as an investment trust will be put to shareholders at the Annual General Meeting in 2022 and every five years thereafter.

## Directors

The Directors of the Company who held office at the end of the year are detailed on page 24.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 35. No changes have been reported to the Directors' shareholdings since the year end.

In accordance with corporate governance best practice, all Directors will retire by rotation at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment. The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be appointed/reappointed.

## Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of a deed of indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. The deeds of indemnity were executed on 21st January 2011 and are currently in force.

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

## Disclosure of information to Auditors

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

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

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

The above confirmation is given and should be interpreted in accordance with the provision of Section 418(2) of the Companies Act 2006.

## Independent Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor to the Company, and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the ensuing year will be put to shareholders at the Annual General Meeting.

## Annual General Meeting

**NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.**

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

**(i) Authority to allot relevant securities and disapply pre-emption rights (resolutions 10 & 11)**

The Directors will seek renewal of the authority to issue up to 2,437,819 new shares or shares held in Treasury other than by a pro rata issue to existing shareholders up to an aggregate nominal amount of £24,378, such amount being equivalent to approximately 5% of the current issued share capital. The full text of the resolutions is set out in the Notice of Meeting on pages 68 to 70.

It is advantageous for the Company to be able to issue new shares to investors purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interest of shareholders to do so. Any such issues would only be made at prices greater than the NAV, thereby increasing the assets underlying each share.

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

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2018 Annual General Meeting, will expire on 12th March 2019 unless renewed at the 2019 Annual General Meeting. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares.

The full text of the resolution is set out in the Notice of Annual General Meeting on pages 68 to 70. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share as and when market conditions are appropriate.

### Recommendation

The Board considers that resolutions 10 to 12 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 31,218 shares representing approximately 0.1% of the voting rights in the Company.

## Corporate Governance

### Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities in respect of the Accounts on page 37 indicates how the Company has applied the principles of good governance of the Financial Reporting Council's UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that, apart from certain matters noted below, the Company has complied with the best practice provisions of the UK Corporate Governance Code, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review, except for the following areas:

– Role of the CEO, as the Company does not appoint a CEO;

– Executive Director remuneration as the Company does not appoint executive directors;

– Internal audit function as the Company relies on the internal audit department of the manager; and

– Nomination of a Senior Independent Director. The Board has considered whether a senior independent director should be appointed and has concluded that, this is unnecessary at present.

### Role of the Board

A management agreement between the Company and JPMorgan Funds Limited ('JPMF') (the Manager), sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, 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 previously been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements. The Board conducts a formal evaluation of the Manager every year.

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, JPMF, which is responsible to the Board for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

### Board Composition

The Board currently consists of five non-executive Directors, all of whom are regarded by the Board as independent. The Chairman's independence was assessed upon her appointment and annually thereafter. 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. Changes to the Chairman's other significant commitments during the year under review included appointment as chair of Hazel Renewable Energy VCT 1 Plc.

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.

### Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, Directors stand for annual re-election, following the Board's adoption of corporate governance best practice. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the requirements of the UK Corporate Governance Code, including the need to periodically refresh the Board and its sub-Committees.

The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its Committees, confirms that Mrs Nott, Ms Sakovska and Messrs Easton, Jeens continue to be effective and demonstrate commitment to the role. The Board recommends to shareholders that all the above Directors be re-elected.

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

## Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on page 24.

The table below details the number of Board, Audit and Nomination Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings and one Nomination Committee meeting.

| Director | Board Meetings Attended | Audit Committee Meetings Attended | Nomination Committee Meetings Attended |
|---|---|---|---|
| Gill Nott[1] | 5 | 2 | 1 |
| Alexander Easton | 5 | 2 | 1 |
| Robert Jeens | 5 | 2 | 1 |
| George Nianias | 5 | 2 | 1 |
| Tamara Sakovska | 5 | 2 | 1 |

[1] Attended the Audit Committee meetings by invitation.

## Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts. Regular reviews of the Directors' training needs are carried out by the Chairman, and of the Board chairman by the Nomination Committee Chairman by means of the evaluation process detailed below.

## Board Committee

**Nomination Committee**

The Nomination Committee, chaired by Gill Nott, consists of all Directors and meets at least annually to ensure that the Board has the balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates, for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender. A variety of sources, including the use of external recruitment consultants, may be used to ensure that a wide range of candidates is considered. The recruitment of a director to replace George Nianias was undertaken by an independent third party external recruitment agent Nurole that have no other relationship with the Company.

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 and the Chairman 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. This year questionnaires were completed by the Directors and the Chairman. The evaluation of the Directors was led by the Chairman of the Nomination Committee who also met individually with each of the Directors. As the Chairman is also the Chairman of the Nomination Committee, the Evaluation and Performance of the Chairman is reviewed separately by the other non-executive directors. The Committee also reviewed Directors' fees and made recommendations to the Board as required.

In the period the Nomination Committee developed a detailed succession plan which will be implemented over the forthcoming years.

The Committee has procedures in place to deal with potential conflicts of interest and confirms that there were no actual or indirect interests of a Director which conflicted with the interests of the Company during the year.

**Audit Committee**

The report of the Audit Committee is set out on page 39.

## Terms of Reference

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on request at the Company's registered office, on the Company's website and at the 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 each year by way of the annual report and financial statements, and half year report. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

The Company's broker, investment managers and the Manager have regular discussions with larger shareholders. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 75. The Chairman can also be contacted via the Company's website by following the 'Ask a Question' link at www.jpmrussian.co.uk.

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

The Company's Annual Report and Financial Statements is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 75.

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

## Section 992 Companies Act 2006

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

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

**Voting Rights in the Company's shares**
Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of Annual General Meeting on page 70.

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

| Shareholders | Number of voting rights | % |
|---|---|---|
| City of London Investment Management Company Limited | 15,168,413 | 28.98 |
| Lazard Asset Management LLC | 7,878,205 | 15.89 |
| Legal and General Investment Management | 1,621,914 | 3.01 |

## Risk Management and Internal Controls

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

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement 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 internal control mainly comprises monitoring the services provided by the Manager and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. See page 20 Principal Risks. 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. In common with most investment trusts the Company does not have an internal audit function of its own but seeks assurance from the audit department of the Manager. The audit department has agreed to provide the Audit Committee with a periodic oral report on relevant matters. The key elements designed to provide effective internal control are as follows:

- **Financial Reporting**

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

- **Management Agreement**

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

- **Manager's Systems**

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

## **Corporate Governance Statement** continued

- **Investment Strategy**

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

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

  - Reviews the terms of the management agreement and receives regular reports from the Manager's compliance department;
  - Reviews the reports on the risk management and internal controls and the operations of its Depositary Bank of New York Mellon (International) Limited and its custodian JPMorgan Chase Bank, which are themselves independently reviewed; and
  - Reviews every six months the independent reports on the internal controls and the operations of the Manager.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st October 2018, and to the date of approval of this Annual Report and Financial Statements. Moreover, the controls accord with the Financial Reporting Council, Guidance on Risk Management, internal control and related Financial and Business Reporting.

During the course of its reviews 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 JPMorgan Asset Management (UK) Limited ('JPMAM') policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board.

### *Corporate Governance*

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

### *Proxy Voting*

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

### *Stewardship/Engagement*

JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner.

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

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: http://www.jpmorganinvestmenttrusts.co.uk/Governance. This 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.

## Audit Committee Report

### Role and Composition

The Audit Committee, chaired by Robert Jeens, consists of all the Directors, bar the Chairman of the Board, and meets at least twice each year. The Chairman of the Board attends all Meetings by invitation of the Committee. The members of the Audit Committee consider that the Audit Committee comprises of directors who as a whole are competent in the Company's sector and has at least one member who is competent in auditing and accounting. Ongoing evaluation is undertaken as detailed previously in order to identify any performance issues.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual report and financial statements and the Company's compliance with the UK Corporate Governance Code. The Audit Committee reviews the scope and results of the external audit, the quality of work, timing of communications, and work with JPMF, its cost effectiveness and the independence and objectivity of the external auditors. There are no non-audit services provided by the auditor or non-audit fees paid to the auditors. In the Directors' opinion the Auditors are independent.

At the request of the Board, the Audit Committee provides confirmation to the Board as to how it has discharged its responsibilities so that the Board may ensure that information presented to it is fair, balanced and understandable, together with details of how it has done so.

### Financial Statements and Significant Accounting Matters

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

| Significant issue | How the issue was addressed |
|---|---|
| Valuation, existence and ownership of investments | The valuation of investments is undertaken in accordance with the accounting policies, disclosed in investments note 1(b) to the Financial Statements on page 49. The audit includes the determination of the valuation, existence and ownership of the investments. Controls are in place to ensure valuations are appropriate and existence is verified through the Depositary Report and custodian reconciliations. The Board monitors the controls in place. |
| Political Risks including current sanctions and possible capital controls | The ability of the Board to control external political events such as the current sanctions regime and the threat of capital controls is limited. However, the Board together with the Manager monitors the sanctions regime closely to ensure that the Company's business operates within its requirements. In addition the Board monitors the political situation and its impact on the portfolio at frequent intervals and whenever a major event arises. Together with the input from the Investment Manager, efforts are made to manage exposure to certain sectors deemed to be more susceptible to political influences. |
| Market risk | The ability of the Board to control external market events such as the large variations in the price of oil and value of the rouble is limited. The Board considers asset allocation, stock selection and liquidity of the portfolio on a regular basis and has set investment restrictions and guidelines, which are managed in light of the current market. |
| Recognition of investment income | The recognition of investment income is undertaken in accordance with accounting note 1(d) to the accounts on page 49. The Board regularly reviews details of dividend income recognised. |
| Compliance with Sections 1158 and 1159 | Approval for the Company as an investment trust under Sections 1158 and 1159 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis by the Manager on behalf of the Board. |

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

### Allocation of Expenses between Income and Capital

In addition to its regular review of all accounting policies, the Committee conducted a more detailed review of the accounting treatment of indirect expenses. The present policy of allocating 80% of management fees and finance costs to capital was introduced for the year ended 31st October 2013 since when many Russian companies have substantially increased their levels of dividend payment and reduced dividend cover. Whilst the Committee concluded that the present policy was appropriate for the current year it recommended to the Board, and the Board has agreed, that the policy be revised with effect from 1st November 2018 so that only 60% of management fees and finance costs are charged to capital.

## Auditor Appointment and Tenure

The Audit Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of external auditors. Representatives of the Company's Auditors attended the Audit Committee meeting at which the draft Annual Report & Financial Statements were considered and also engage with Directors as and when required. The current audit firm has audited the Company's financial statements since the formation of the Company and were retained following a tender for audit services in September 2015. The Company's year ended 31st October 2018 was the third of a three year maximum term for audit partner Sarah Williams. Caroline Mercer succeeds Sarah Williams as audit partner of the Company and is currently in the first year of a maximum five year term. See note 6 on page 52 for details of the auditor's fees.

## Fair Balanced and Understandable

Having taken all available information into consideration and having discussed the content of the annual report and financial statements with the Alternative Investment Fund Manager (JPMF), Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report for the year ended 31st October 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 37.

By order of the Board
Paul Winship, ACIS for and on behalf of
JPMorgan Funds Limited,
Secretary

18th January 2019

# Directors' Remuneration Report

The Board has prepared this Report in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

## Directors' Remuneration Policy

The Directors' Remuneration Policy is subject to a triennial binding vote. The shareholders approved the resolution in favour of the Company's Directors' Remuneration Policy at the 2018 Annual General Meeting. Therefore, an ordinary resolution to approve this report will be put to shareholders at the 2021 Annual General Meeting. The policy subject to the vote, is set out in full below and is currently in force.

At the Annual General Meeting held on 6th March 2018, of votes cast, 99.95% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) the remuneration policy and 0.05% voted against.

Details of voting on the Directors' Remuneration Policy will be provided in the Company's annual report triennially.

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

The Nomination Committee, comprising all Directors, reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on market data provided by the Manager, and includes research carried out by Trust Associates on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally.

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

As referred to in the Chairmans Statement, effective from 1st November 2018 the Directors fees have been increased as follows: Chairman £1,500 increase from £37,500 to £39,000, Audit Committee Chairman £1,000 increase from £30,000 to £31,000, Directors £1,000 increase from £25,000 to £26,000.

The Company's Articles of Association stipulate that aggregate fees must not exceed £200,000 per annum. Any increase in this the maximum aggregate amount requires both Board and shareholder approval.

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

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

The Directors do not have service contracts with the Company. The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 27.

## Directors Remuneration Policy Implementation

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

At the Annual General Meeting held on 6th March 2018, of votes cast, 99.96% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) the remuneration report and 0.04% voted against.

Details of voting on the Remuneration Policy Implementation Report from the 2019 Annual General Meeting will be given in the annual report for the year ending 31st October 2019, and annually thereafter.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in the Independent Auditors' Report on pages 39 to 44.

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

## Single total figure of remuneration

The single total figure of remuneration for the Board as a whole for the year ended 31st October 2018 was £142,500. The single total figure of remuneration for each Director is detailed below together with the prior year comparative.

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

## Single total figure table[1]

| | Total fees | |
|---|---|---|
| **Directors' Name** | **2018** | **2017** |
| Gill Nott | £37,500 | £37,500 |
| Robert Jeens | £30,000 | £30,000 |
| Alexander Easton | £25,000 | £25,000 |
| George Nianias | £25,000 | £25,000 |
| Tamara Sakovska | £25,000 | £25,000 |
| Total | £142,500 | £142,500 |

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

During the year under review, Directors' fees were paid at a fixed rate of £37,500 per annum for the Chairman, £30,000 per annum for the Chairman of the Audit Committee and £25,000 per annum for each other Director. Directors fees effective from 1st November 2018 will be:

| | **2018 £** |
|---|---|
| Gill Nott | £39,000 |
| Robert Jeens | £31,000 |
| Alexander Easton | £26,000 |
| George Nianias | £26,000 |
| Tamara Sakovska | £26,000 |

Nil amounts (2017: nil) were paid to third parties for making available the services of Directors.

## Directors' Shareholdings

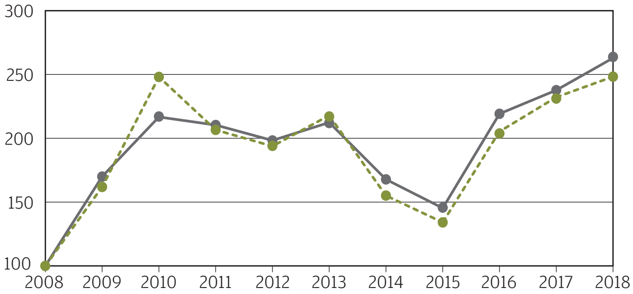
There are no requirements pursuant to the Company's Articles of Association for the Directors to own shares in the Company. The Directors' beneficial shareholdings are detailed below. The Directors have no other share interests or share options in the Company and no share schemes are available.

| **Directors' Name** | **2018[1] Number of shares held** | **2017 Number of shares held** |
|---|---|---|
| Gill Nott | 3,000 | 3,000 |
| Robert Jeens | 15,000 | 15,000 |
| Alexander Easton | 12,018 | 12,018 |
| George Nianias | nil | nil |
| Tamara Sakovska | 1,200 | nil |
| Total | 31,218 | 30,018 |

[1] Audited information.

A graph showing the Company's share price total return compared with the Company's benchmark index, is set out below. Details of the Company's performance are set out on page 16.

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




Source: Morningstar/RTS.

---- Share price total return.

—— Benchmark total return. The benchmark is the RTS Index in sterling terms. Prior to 1st November 2016, the benchmark was the MSCI Russian 10/40 Equity Indices Index in sterling terms.

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

## Remuneration for the role of Chairman over the five years ended 31st October 2018

| **Year ended 31st October** | **Fees** | **Performance related benefits received as a percentage of maximum payable** |
|---|---|---|
| 2018 | £37,500 | n/a |
| 2017 | £37,500 | n/a |
| 2016 | £35,000 | n/a |
| 2015 | £35,000 | n/a |
| 2014 | £35,000 | n/a |

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

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

| | **Year ended 31st October 2018** | **2017** |
|---|---|---|
| Remuneration paid to all Directors | £142,500 | £142,500 |
| Distribution to shareholders | | |
| – by way of share repurchases | £16,400,000 | £366,000 |
| – by way of dividend[1] | £12,983,000 | £12,027,000 |
| Total distribution to shareholders | £29,383,000 | £12,393,000 |

[1] See note 9(a) on page 54 for further details.

For and on behalf of the Board
Gill Nott
*Chairman*

18th January 2019

# Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and Financial Reporting Standard (FRS) 102. Under company law the Directors must not approve the financial statements unless they are satisfied that, taken as a whole, the annual report and financial statements provide the information necessary for shareholders to assess the Company's performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. In addition, to provide these confirmations, and in preparing these financial statements, the Directors must be satisfied that, taken as a whole, the annual report and financial statements are fair, balanced and understandable. In order to provide these confirmations and in preparing these annual statements the Directors are required to:

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

and the Directors confirm they have done so.

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

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

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

- select suitable accounting policies and then apply them consistently;
- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law, give a true and fair view of the assets, liabilities, financial position and return or loss of the Company; and
- The Directors confirm that, taken as a whole, the annual report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the strategy and business model of the Company.
- That the Strategic Report and Directors Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

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

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

For and on behalf of the Board
Gill Nott
Chairman

18th January 2019

# Independent Auditor's Report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JPMORGAN RUSSIAN SECURITIES PLC

### Opinion

We have audited the financial statements of JPMorgan Russian Securities plc (the 'Company') for the year ended 31st October 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31st October 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

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

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

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

- the disclosures in the annual report set out on pages 20 and 21 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 20 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 49 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 21 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Overview of our audit approach

| | |
|---|---|
| Key audit matters | • Risk of incomplete or inaccurate revenue recognition, including classification as revenue or capital items in the Statement of Comprehensive Income.<br>• Risk of incorrect valuation and defective title of the investment portfolio.<br>• Failure to adequately assess the potential impact on the Company of the continued Russian economic sanctions. |
| Materiality | • Overall materiality of £3.03 million which represents 1% of shareholders' funds (2017: £3.00 million) |

**Key audit matters**

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

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Risk of incomplete or inaccurate revenue recognition, including classification as revenue or capital items in the Statement of Comprehensive Income** (as described on page 31 in the Report of the Audit Committee and as per the accounting policy set out on page 49).<br><br>The investment income receivable by the Company during the year directly affects the Company's ability to make a dividend payment to shareholders. The total revenue received for the year to 31st October 2018 was £19.21 million (2017: £15.98 million), with the majority being revenue from listed investments, 2018: £19.17 million (2017: £15.96 million).<br><br>There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or applying appropriate accounting treatment.<br><br>In addition to the above, the Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.<br><br>No special dividends were recorded during the year. | **We have performed the following procedures:**<br><br>We obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividend by performing our walkthrough procedures, and evaluated the design and implementation of controls.<br><br>We agreed a sample of dividend receipts to the corresponding announcement made by the investee company, recalculated the dividend amount receivable using exchange rates obtained from independent data vendor and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount.<br><br>We agreed a sample of investee company dividend announcements from an independent data vendor to the income recorded by the Company to test completeness of the income recorded.<br><br>For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 31st October 2018. We agreed the dividend rate to corresponding announcements made by the investee company, recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements.<br><br>We reviewed the income report and the acquisition and disposal report produced by the Administrator to identify special dividends received during the year. | **The results of our procedures are:**<br><br>We have no issues to communicate with respect to the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividend.<br><br>We agreed the sample of dividend receipts to an independent source, recalculating these amounts and agreeing them to the bank statements and noted no issues.<br><br>We agreed the sample of investee company announcements to the income entitlements recorded by the Company and noted no issues.<br><br>We recalculated the accrued dividends, agreeing, where possible, to post year end bank statements, and confirming that the income obligation arose prior to 31st October 2018 and noted no issues.<br><br>We reviewed the income report and acquisition and disposal report and confirmed that no special dividends were received during the year. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Risk of incorrect valuation and defective title of the investment portfolio**<br>(as described on page 31 in the Report of the Audit Committee and as per the accounting policy set out on page 49).<br><br>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.<br><br>The valuation of the portfolio at 31st October 2018 was £299.10 million (2017: £294.07 million) consisting of listed equities. | **We performed the following procedures:**<br><br>We obtained an understanding of the Manager's and Administrator's processes and controls surrounding investment pricing and trade processing by performing our walkthrough procedures.<br><br>For all investments in the portfolio, we compared the market values and exchange rates to an independent source.<br><br>We reviewed the price exception and stale pricing reports produced by the Administrator to highlight and investigate any unexpected price movements in investments held as at the year-end.<br><br>We agreed the Company's investments to the independent confirmation received from the Company's custodian and depositary as at 31st October 2018. | **The results of our procedures are:**<br><br>We have no issues to communicate with respect to the processes and controls surrounding investment pricing and trade processing.<br><br>For all listed investments, we noted no material differences in market value and exchange rates when compared to an independent source.<br><br>We did not identify any issues in our review of the price exception and stale pricing reports produced by the Administrator.<br><br>We noted no differences between the custodian and depositary confirmation and the Company's underlying financial records. |
| **Failure to adequately assess the potential impact on the Company of the continued Russian economic sanctions**<br>(as described on page 31 in the Report of the Audit Committee).<br><br>The economic sanctions issued against Russia by the United Kingdom and the United States, focus on a specific list of individuals and legal entities that are deemed to have close links to the Russian political administration.<br><br>The sanctions limit investment in the specific companies against which sanctions have been imposed. In addition, the sanctions also impose a freeze on assets controlled by specified individuals. This includes any direct ownership of listed companies that may be controlled by these individuals.<br><br>The impact of the political sanctions on the valuation of the investment portfolio should be considered. In particular, we have considered the extent to which the Company's portfolio is directly exposed to any of companies or individuals on the sanctions lists and the impact on stockliquidity. | **We performed the following procedures:**<br><br>We obtained an understanding of the Manager's processes and controls surrounding compliance with the sanctions regime.<br><br>As at the year end we reviewed the shares in the investment portfolio of the Company against the UK Government and US Treasury's Sanction lists for evidence that they may be subject to the economic sanctions placed on the Russian market.<br><br>We considered the liquidity of the investment portfolio at the balance sheet date to assess whether the Russian political environment would have any impact on the stock liquidity. | **The results of our procedures are:**<br><br>We have no issues to communicate with respect to the Manager's processes and controls surrounding compliance with the sanctions regime.<br><br>We noted that no investments in the portfolio as at 31st October 2018 were included in either the UK Government or US Treasury's Sanction lists.<br><br>We noted no issues with the liquidity of the investments at the year end. |

## An overview of the scope of our audit

#### Tailoring the scope

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

## Our application of materiality

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

#### Materiality

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

We determined materiality for the Company to be £3.03 million (2017: £3.00 million) which is 1% (2017: 1%) of shareholders' funds. We believe that shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

#### Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £2.27 million (2017: £2.25 million). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate revenue testing threshold of £0.88 million (2017: £0.72 million) for the revenue column of the Statement of Comprehensive Income, being 5% of the revenue profit before taxation.

#### Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.15 million (2017: £0.15 million) which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

## Other information

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

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 32** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 31** – 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 27** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

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

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

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

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

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

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

## Other matters we are required to address

- We were appointed as auditors by the Company as part of the initial listing process and signed an engagement letter in December 2002 to audit the financial statements for the period ending 31st October 2003 and subsequent financial periods. Our appointment was subsequently ratified at the first annual general meeting of the Company held in March 2004. The period of total uninterrupted engagement including previous renewals and reappointments is 16 years, covering the years ending 31st October 2003 to 31st October 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

## Use of our report

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

Sarah Williams (Senior Statutory Auditor)
for and on behalf of
Ernst & Young LLP Statutory Auditor
London

18th January 2019

Notes:

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

# Financial Statements

**FOR THE YEAR ENDED 31ST OCTOBER 2018**

| | Notes | 2018 Revenue £'000 | 2018 Capital £'000 | 2018 Total £'000 | 2017 Revenue £'000 | 2017 Capital £'000 | 2017 Total £'000 |
|---|---|---|---|---|---|---|---|
| Gains on investments held at fair value through profit or loss | 3 | – | 19,505 | 19,505 | – | 17,750 | 17,750 |
| Net foreign currency gains/(losses) | | – | 111 | 111 | – | (42) | (42) |
| Income from investments | 4 | 19,170 | – | 19,170 | 15,957 | – | 15,957 |
| Interest receivable | 4 | 37 | – | 37 | 23 | – | 23 |
| **Gross return** | | **19,207** | **19,616** | **38,823** | **15,980** | **17,708** | **33,688** |
| Management fee | 5 | (620) | (2,482) | (3,102) | (598) | (2,391) | (2,989) |
| Other administrative expenses | 6 | (1,012) | – | (1,012) | (1,017) | – | (1,017) |
| **Net return on ordinary activities before taxation** | | **17,575** | **17,134** | **34,709** | **14,365** | **15,317** | **29,682** |
| Taxation | 7 | (2,498) | – | (2,498) | (1,822) | – | (1,822) |
| **Net return on ordinary activities after taxation** | | **15,077** | **17,134** | **32,211** | **12,543** | **15,317** | **27,860** |
| **Return per share** | 8 | **29.58p** | **33.62p** | **63.20p** | **23.97p** | **29.27p** | **53.24p** |

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by The Association of Investment Companies. Net return on ordinary activities after taxation represents the profit for the year and also Total Comprehensive Income.

The notes on page 49 to 63 form part of these financial statements.

**FOR THE YEAR ENDED 31ST OCTOBER 2018**

| | Called up share capital £'000 | Capital redemption reserve £'000 | Other reserve £'000 | Capital reserves[1] £'000 | Revenue reserve[1] £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **At 31st October 2016** | **524** | **77** | **47,204** | **230,537** | **6,552** | **284,894** |
| Repurchase and cancellation of the Company's own shares | (1) | 1 | (366) | – | – | (366) |
| Net return on ordinary activities | – | – | – | 15,317 | 12,543 | 27,860 |
| Dividends paid in the year (note 9) | – | – | – | – | (12,027) | (12,027) |
| **At 31st October 2017** | **523** | **78** | **46,838** | **245,854** | **7,068** | **300,361** |
| Repurchase and cancellation of the Company's own shares | (32) | 32 | (16,400) | – | – | (16,400) |
| Net return on ordinary activities | – | – | – | 17,134 | 15,077 | 32,211 |
| Dividends paid in the year (note 9) | – | – | – | – | (12,983) | (12,983) |
| **At 31st October 2018** | **491** | **110** | **30,438** | **262,988** | **9,162** | **303,189** |

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

The notes on page 49 to 63 form part of these financial statements.

**AT 31ST OCTOBER 2018**

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| **Investments held at fair value through profit or loss** | 10 | **299,101** | **294,066** |
| **Current assets** | 11 | | |
| Debtors | | 1,221 | 5,145 |
| Cash and cash equivalents | | 2,997 | 1,281 |
| | | 4,218 | 6,426 |
| **Current liabilities** | | | |
| **Creditors:** amounts falling due within one year | 12 | (130) | (131) |
| **Net current assets** | | **4,088** | **6,295** |
| **Total assets less current liabilities** | | **303,189** | **300,361** |
| **Net assets** | | **303,189** | **300,361** |
| **Capital and reserves** | | | |
| Called up share capital | 13 | 491 | 523 |
| Capital redemption reserve | 14 | 110 | 78 |
| Other reserve | 14 | 30,438 | 46,838 |
| Capital reserves | 14 | 262,988 | 245,854 |
| Revenue reserve | 14 | 9,162 | 7,068 |
| **Total shareholders' funds** | | **303,189** | **300,361** |
| **Net asset value per share** | 15 | **617.6p** | **574.7p** |

The financial statements on pages 46 to 48 were approved and authorised for issue by the Directors on 18th January 2019 and signed on their behalf by:

Director

The notes on pages 49 to 63 form an integral part of these financial statements.

**Company registration number: 4567378.**

**FOR THE YEAR ENDED 31ST OCTOBER 2018**

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| Net cash outflow from operations before dividends and interest | 16 | (3,937) | (4,030) |
| Dividends received | | 16,228 | 13,540 |
| Interest received | | 37 | 23 |
| Overseas tax paid | | (6) | (53) |
| **Net cash inflow from operating activities** | | **12,322** | **9,480** |
| Purchases of investments | | (86,415) | (101,778) |
| Sales of investments | | 105,236 | 100,857 |
| Settlement of forward currency contracts | | (60) | (26) |
| **Net cash inflow/(outflow) from investing activities** | | **18,761** | **(947)** |
| Repurchase and cancellation of the Company's own shares | | (16,402) | (364) |
| Dividends paid | | (12,972) | (12,038) |
| **Net cash outflow from financing activities** | | **(29,374)** | **(12,402)** |
| **Increase/(decrease) in cash and cash equivalents** | | **1,709** | **(3,869)** |
| Cash and cash equivalents at start of year | | 1,281 | 5,150 |
| Exchange movements | | 7 | – |
| Cash and cash equivalents at end of year | | 2,997 | 1,281 |
| **Increase/(decrease) in cash and cash equivalents** | | **1,709** | **(3,869)** |
| **Cash and cash equivalents consist of:** | | | |
| Cash and short term deposits | | 2,665 | 253 |
| Cash held in JPMorgan US Dollar Liquidity Fund | | 332 | 1,028 |
| **Total** | | **2,997** | **1,281** |

The notes on pages 49 to 63 form an integral part of these financial statements.

**FOR THE YEAR ENDED 31ST OCTOBER 2018**

## 1. Accounting policies

### (a) Basis of accounting

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

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

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 25 of the Directors' Report form part of these financial statements.

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

### (b) Valuation of investments

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

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

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

### (c) Accounting for reserves

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

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

### (d) Income

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

Overseas dividends are included gross of any withholding tax.

Special dividends are recognised on an ex-dividend basis and are treated as a capital item or revenue item depending on the facts and circumstances of each dividend.

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 and interest from the liquidity fund receivable are taken to revenue on an accruals basis.

## 1. Accounting policies continued *continued*

**(e) Expenses**

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

- the management fee is allocated 20% to revenue and 80% to capital in line with the Board's expected long term split of revenue and capital return from the Company investment portfolio.
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 55.

**(f) Financial instruments**

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

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

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

**(g) Taxation**

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

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

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.

**(h) 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.

**(i) 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 it pays distributions expenses and 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.

**(j) Dividends**

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

**(k) Repurchase of ordinary shares for cancellation**

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

## 2. Significant accounting judgments, estimates and assumptions

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

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

## 3. Gains on investments held at fair value through profit or loss

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Gains on investments held at fair value through profit or loss based on historic cost | 15,553 | 21,877 |
| Amounts recognised in investment holding gains and losses in respect of investments sold during the year | (15,048) | (21,481) |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | 505 | 396 |
| Net movement in investment holding gains | 19,199 | 17,588 |
| Other capital charges | (199) | (234) |
| **Total capital gains on investments held at fair value through profit or loss** | **19,505** | **17,750** |

## 4. Income

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| **Income from investments** | | |
| UK dividends | 489 | 290 |
| Overseas dividends | 18,681 | 15,667 |
| | **19,170** | **15,957** |
| **Interest receivable** | | |
| Interest from liquidity fund | 33 | 23 |
| Deposit interest | 4 | – |
| | **37** | **23** |
| **Total income** | **19,207** | **15,980** |

## 5. Management fee

| | 2018 Revenue £'000 | 2018 Capital £'000 | 2018 Total £'000 | 2017 Revenue £'000 | 2017 Capital £'000 | 2017 Total £'000 |
|---|---|---|---|---|---|---|
| Management fee | 620 | 2,482 | 3,102 | 598 | 2,391 | 2,989 |

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

The management fee has increased in 2018 due to the rise in the Company's net asset value. See page 25 for further details of how the management fee is calculated.

## 6. Other administrative expenses

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Dividend charges | 410 | 437 |
| Administration expenses | 214 | 184 |
| Safe custody fees | 150 | 146 |
| Directors' fees[1] | 143 | 143 |
| Depositary fees[2] | 40 | 46 |
| Auditors' remuneration for audit services[3] | 30 | 30 |
| Savings scheme costs[4] | 25 | 31 |
| **Total** | **1,012** | **1,017** |

[1] Full disclosure is given in the Directors' Remuneration Report on pages 34 to 35.
[2] Includes £3,000 (2017: £5,000) irrecoverable VAT.
[3] No fees were payable to the auditors for non-audit services (2017: nil). Includes £2,000 (2017: £3,000) irrecoverable VAT.
[4] Paid to the Manager for the administration of saving scheme products. Includes £2,000 (2017: £1,000) irrecoverable VAT.

## 7. Taxation

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

| | 2018 Revenue £'000 | 2018 Capital £'000 | 2018 Total £'000 | 2017 Revenue £'000 | 2017 Capital £'000 | 2017 Total £'000 |
|---|---|---|---|---|---|---|
| Deferred taxation | – | – | – | (20) | – | (20) |
| Overseas withholding tax | 2,498 | – | 2,498 | 1,842 | – | 1,842 |
| **Total tax charge for the year** | **2,498** | **–** | **2,498** | **1,822** | **–** | **1,822** |

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

The tax assessed for the year is lower (2017: lower) than the Company's applicable rate of corporation tax of 19.00% (2017: 19.41%). The factors affecting the total tax charge for the year are as follows:

| | Revenue £'000 | 2018 Capital £'000 | Total £'000 | Revenue £'000 | 2017 Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Net return on ordinary activities before taxation | 17,575 | 17,134 | 34,709 | 14,365 | 15,317 | 29,682 |
| Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 19.00% (2017: 19.41%) | 3,339 | 3,256 | 6,595 | 2,788 | 2,973 | 5,761 |
| Effects of: | | | | | | |
| Non taxable capital gains | – | (3,727) | (3,727) | – | (3,437) | (3,437) |
| Non taxable UK dividends | (93) | – | (93) | (56) | – | (56) |
| Non taxable overseas dividends | (3,549) | – | (3,549) | (3,041) | – | (3,041) |
| Tax attributable to expenses and finance costs charged to capital | (471) | 471 | – | (464) | 464 | – |
| Release of prior period deferred taxation | – | – | – | (20) | – | (20) |
| Overseas withholding tax | 2,498 | – | 2,498 | 1,842 | – | 1,842 |
| Unutilised expenses carried forward to future periods | 774 | – | 774 | 773 | – | 773 |
| **Total tax charge for the year** | **2,498** | **–** | **2,498** | **1,822** | **–** | **1,822** |

**(c) Deferred taxation**

The provision for deferred taxation has arisen from timing differences in respect of overseas dividends which have originated but not reversed by the balance sheet date. The movements on the deferred tax account are as follows:

| | Revenue £'000 | 2018 Capital £'000 | Total £'000 | Revenue £'000 | 2017 Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Opening balance | – | – | – | 20 | – | 20 |
| Credited to revenue return | – | – | – | (20) | – | (20) |
| **Closing balance** | **–** | **–** | **–** | **–** | **–** | **–** |

The Company has an unrecognised deferred tax asset of £693,000 (2017: £677,000) based on a prospective corporation tax rate of 17% (2017: 17%). The UK corporation tax rate is enacted to fall to 17% effective on 1st April 2020. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the financial statements.

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

## 8. Return per share

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Revenue return | 15,077 | 12,543 |
| Capital return | 17,134 | 15,317 |
| **Total return** | **32,211** | **27,860** |
| Weighted average number of shares in issue during the year | 50,961,280 | 52,325,194 |
| Revenue return per share | 29.58p | 23.97p |
| Capital return per share | 33.62p | 29.27p |
| **Total return per share** | **63.20p** | **53.24p** |

## 9. Dividends

### (a) Dividends paid and proposed

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Dividends paid** | | |
| 2017 final dividend of 6.0p (2016: 8.0p) | 3,119 | 4,187 |
| 2018 interim dividend of 20.0p (2017: 15.0p) | 9,864 | 7,840 |
| | 12,983 | 12,027 |
| **Dividend proposed** | | |
| 2018 final dividend of 6.0p (2017: 6.0p) | 2,946 | 3,136 |

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

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

The requirements of Section 1158 are considered on the basis of the dividend proposed in respect of the financial year, shown below. The revenue available for distribution by way of dividend is £15,077,000 (2017: £12,543,000).

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| 2018 interim dividend of 20.0p (2017: 15.0p) | 9,864 | 7,840 |
| 2018 final dividend of 6.0p (2017: 6.0p) | 2,946 | 3,136 |
| **Total dividends for Section 1158 purposes** | **12,810** | **10,976** |

All dividends paid and proposed in the period are funded from the revenue reserve.

The revenue reserve after payment of the final dividend will amount to £6,216,000 (2017: £3,949,000).

## 10. Investments

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Investments listed on a recognised stock exchange | 299,101 | 294,066 |
| Opening book cost | 234,087 | 215,993 |
| Opening investment holding gains | 59,979 | 63,872 |
| Opening valuation | 294,066 | 279,865 |
| Movements in the year: | | |
| Purchases at cost | 86,415 | 101,414 |
| Sales proceeds | (101,084) | (105,197) |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | 505 | 396 |
| Net movement in investment holding gains | 19,199 | 17,588 |
| | **299,101** | **294,066** |
| Closing book cost | 234,971 | 234,087 |
| Closing investment holdings gains | 64,130 | 59,979 |
| **Total investments held at fair value through profit or loss** | **299,101** | **294,066** |

Transaction costs on purchases during the year amounted to £276,000 (2017: £381,000) and on sales during the year amounted to £94,000 (2017: £127,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding gains amounting to £15,048,000 have been transferred to gains and losses on sales of investments as disclosed in note 14.

## 11. Current assets

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Debtors** | | |
| Dividends and interest receivable | 1,149 | 705 |
| Securities sold awaiting settlement | 35 | 4,386 |
| Other debtors | 20 | 45 |
| VAT recoverable | 11 | 9 |
| Overseas tax recoverable | 6 | – |
| **Total** | **1,221** | **5,145** |

The Directors consider that the carrying amount of debtors approximates to their fair value. The Directors do not consider any of the amounts included in the note above to be past due or impaired as at 31st October 2018 (2017: £nil).

### Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term deposits and liquidity funds. The carrying amount of these represents their fair value. See note 18 for details.

## 12. Creditors: amounts falling due within one year

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Other creditors and accruals | 130 | 131 |
| **Total** | **130** | **131** |

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

## 13. Called up share capital

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Issued and fully paid share capital:** | | |
| Ordinary shares of 1p each | | |
| Opening balance of 52,262,112 (2017: 52,337,112) shares | 523 | 524 |
| Repurchase and cancellation of 3,168,728 (2017: 75,000) shares | (32) | (1) |
| **Closing balance of 49,093,384 (2017: 52,262,112) shares** | **491** | **523** |

The holders of ordinary shares carry the right to receive all the revenue profits of the Company available for distribution and from time to time determined by the Directors to be distributed by way of dividend. The holders of the ordinary shares hold all voting rights and are entitled to all the assets of the Company on a return of capital, return of assets or on a winding up.

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

## 14. Capital and reserves

| | | | | Capital reserves | | | |
|---|---|---|---|---|---|---|---|
| | Called up share capital £'000 | Capital redemption reserve £'000 | Other reserve[1] £'000 | Gains and losses on sales of investments[2] £'000 | Investment holding gains and losses £'000 | Revenue reserve[2] £'000 | Total £'000 |
| Opening balance | 523 | 78 | 46,838 | 185,875 | 59,979 | 7,068 | 300,361 |
| Realised foreign currency gains on cash and cash equivalents | – | – | – | 111 | – | – | 111 |
| Realised gains on investments | – | – | – | 505 | – | – | 505 |
| Unrealised gains on investments | – | – | – | – | 19,199 | – | 19,199 |
| Transfer on disposal of investments | – | – | – | 15,048 | (15,048) | – | – |
| Repurchase and cancellation of the Company's own shares | (32) | 32 | (16,400) | – | – | – | (16,400) |
| Expenses charged to capital | – | – | – | (2,482) | – | – | (2,482) |
| Other capital charges | – | – | – | (199) | – | – | (199) |
| Dividends paid in the year | – | – | – | – | – | (12,983) | (12,983) |
| Net revenue return for the year | – | – | – | – | – | 15,077 | 15,077 |
| **Closing balance** | **491** | **110** | **30,438** | **198,858** | **64,130** | **9,162** | **303,189** |

[1] The 'Other reserve' was formerly share premium which was cancelled for the purpose of financing share repurchase.

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

## 15. Net asset value per share

| | 2018 | 2017 |
|---|---|---|
| Net assets (£'000) | 303,189 | 300,361 |
| Number of shares in issue | 49,093,384 | 52,262,112 |
| **Net asset value per share** | **617.6p** | **574.7p** |

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Net return on ordinary activities before taxation | 34,709 | 29,682 |
| Less capital return on ordinary activities before taxation | (17,134) | (15,317) |
| Increase in accrued income and other debtors | (432) | (534) |
| Increase/(decrease) in accrued expenses | 1 | (2) |
| Management fee charged to capital | (2,482) | (2,391) |
| Overseas withholding tax | (2,498) | (1,889) |
| Dividends received | (16,228) | (13,540) |
| Interest received | (37) | (23) |
| Realised loss on foreign exchange transactions | (11) | (78) |
| Realised gain on liquidity fund | 175 | 62 |
| **Net cash outflow from operations before dividends and interest** | **(3,937)** | **(4,030)** |

## 17. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2017: none).

## 18. Transactions with the Manager and related parties

Details of the management contract are set out in the Directors' Report on page 25. The management fee payable to the Manager for the year was £3,102,000 (2017: £2,989,000) of which £nil (2017: £nil) was outstanding at the year end.

During the year £25,000 (2017: £31,000), including VAT, was payable to the Manager for the administration of savings scheme products, of which £8,000 (2017: £19,000) was outstanding at the year end.

Included in note 6 on page 52 are safe custody fees amounting to £150,000 (2017: £146,000) payable to JPMorgan Chase Bank N.A. during the year of which £24,000 (2017: £24,000) 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 £32,000 (2017: £27,000) of which £nil (2017: £nil) was outstanding at the year end.

The Company also holds cash in the JPMorgan US Dollar Liquidity Fund, which is managed by JPMF. At the year end this was valued at £332,000 (2017: £1,028,000). Interest amounting to £33,000 (2017: £23,000) was receivable during the year of which £nil (2017: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £199,000 (2017: £234,000) were payable to JPMorgan Chase Bank N.A. during the year of which £1,000 (2017: £1,000) was outstanding at the year end.

## 18. Transactions with the Manager and related parties *continued*

At the year end, total cash of £2,665,000 (2017: £253,000) was held with JPMorgan Chase Bank, N.A.. A net amount of interest of £4,000 (2017: £nil) was receivable by the Company during the year from JPMorgan Chase.

Full details of Directors' remuneration and shareholdings can be found on page 35 and in note 6 on page 52.

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

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

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**

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

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

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Assets £'000 | Liabilities £'000 | Assets £'000 | Liabilities £'000 |
| Level 1 | 299,101 | – | 294,066 | – |
| **Total** | **299,101** | **–** | **294,066** | **–** |

There were no transfers between Level 1, 2 or 3 during the year (2017: same).

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

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

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

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

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

- investments in Russian equity shares, preference shares, ADRs and GDRs, which are held in accordance with the Company's investment objective;
- cash held within a liquidity fund; and
- short term debtors, creditors and cash arising directly from its 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**

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

**Management of currency risk**

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least 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 rates of exchange to which the Company's assets, liabilities, income and expenses are exposed.

Foreign currency borrowing may be used to limit the Company's exposure to changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. This borrowing would be limited to currencies and amounts commensurate with the asset exposure to those currencies. Income denominated in foreign currencies is converted to sterling on receipt.

**Foreign currency exposure**

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

| | 2018 | | | | |
|---|---|---|---|---|---|
| | US Dollar £'000 | Rouble £'000 | HK Dollar £'000 | Euro £'000 | Total £'000 |
| Net current assets | 4,014 | – | – | 1 | 4,015 |
| Foreign currency exposure on net monetary items | 4,014 | – | – | 1 | 4,015 |
| Investments held at fair value through profit or loss | 284,036 | 1,990 | – | – | 286,026 |
| **Total net foreign currency exposure** | **288,050** | **1,990** | **–** | **1** | **290,041** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | US Dollar £'000 | Rouble £'000 | HK Dollar £'000 | Euro £'000 | Total £'000 |
| Net current assets | 6,321 | – | – | 1 | 6,322 |
| Foreign currency exposure on net monetary items | 6,321 | – | – | 1 | 6,322 |
| Investments held at fair value through profit or loss | 266,507 | 3,025 | 3,437 | – | 272,969 |
| **Total net foreign currency exposure** | **272,828** | **3,025** | **3,437** | **1** | **279,291** |

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

### (a) Market risk *continued*

#### (i) Currency risk *continued*

**Foreign currency exposure** *continued*

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

Equity investments held at fair value through profit or loss have all been included under their respective currency exposure in the tables above, because they are priced in that currency. However it should be noted that the operating activities of these companies are primarily exposed to the rouble.

**Foreign currency sensitivity**

The following table illustrates the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and the income receivable in foreign currency and assumes a 10% (2017: 10%) appreciation or depreciation in sterling against the currencies to which the Company is exposed to, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | If sterling strengthens by 10% £'000 | If sterling weakens by 10% £'000 | If sterling strengthens by 10% £'000 | If sterling weakens by 10% £'000 |
| **Statement of Comprehensive Income – return after taxation** | | | | |
| Revenue return | (1,871) | 1,871 | (1,569) | 1,569 |
| Capital return | (402) | 402 | (632) | 632 |
| Total return after taxation | (2,273) | 2,273 | (2,201) | 2,201 |
| **Net assets** | **(2,273)** | **2,273** | **(2,201)** | **2,201** |

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

The foreign currency sensitivity of the equity investments is included within the Other Price Risk sensitivity disclosed in note 20(a) (iii).

#### (ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the liquidity fund.

**Management of interest rate risk**

The Company does not normally hold significant cash balances. Short term borrowings may be used when required, however the Company currently has no loan facility in place.

**Interest rate exposure**

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Exposure to floating interest rates** | | |
| JPMorgan US Dollar Liquidity Fund | 332 | 1,028 |
| Cash and short term deposits | 2,665 | 253 |
| **Total exposure** | **2,997** | **1,281** |

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2017: same). The target interest earned on the JPMorgan US Dollar Liquidity Fund is the 7 day US Dollar London Interbank Bid Rate.

**Interest rate sensitivity**

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2017: 0.5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 0.5% increase in rate £'000 | 0.5% decrease in rate £'000 | 0.5% increase in rate £'000 | 0.5% decrease in rate £'000 |
| Statement of Comprehensive Income – return after taxation | | | | |
| Revenue return | 15 | (15) | 6 | (6) |
| Capital return | – | – | – | – |
| Total return after taxation | 15 | (15) | 6 | (6) |
| **Net assets** | **15** | **(15)** | **6** | **(6)** |

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 cash held in the liquidity fund.

**(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 October comprises its holdings in equity investments as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Investments held at fair value through profit or loss | 299,101 | 294,066 |

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

**Concentration of exposure to other price risk**

An analysis of the Company's investments is given on pages 14 and 15. This shows that the portfolio comprises predominantly of Russian companies. Accordingly, there is a concentration of exposure to that country. However, it should also be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

**Other price risk sensitivity**

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2017: 10%) in the market value of equity investments. This level of change is considered to be

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

### (a) Market risk *continued*

#### (iii) Other price risk *continued*

**Other price risk sensitivity** *continued*

a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 10% increase in rate £'000 | 10% decrease in rate £'000 | 10% increase in rate £'000 | 10% decrease in rate £'000 |
| Statement of Comprehensive Income – return after taxation | | | | |
| Revenue return | (60) | 60 | (59) | 59 |
| Capital return | 29,671 | (29,671) | 29,171 | (29,171) |
| Total return after taxation | 29,611 | (29,611) | 29,112 | (29,112) |
| **Net assets** | **29,611** | **(29,611)** | **29,112** | **(29,112)** |

### (b) Liquidity risk

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

**Management of the risk**

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. There is currently no loan facility in place.

**Liquidity risk exposure**

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Creditors:** | | |
| Other creditors and accruals | 130 | 131 |
| **Total financial liabilities** | **130** | **131** |

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 and the Board.

***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.

## 21. Capital management policies and procedures

The Company's capital structure comprises the following:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| **Equity** | | |
| Called up share capital | 491 | 523 |
| Reserves | 302,698 | 299,838 |
| **Total capital** | **303,189** | **300,361** |

The investment objective of the Company is to maximise total returns, primarily from investment in quoted Russian securities.

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise capital return to its equity shareholders.

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Investments held at fair value through profit or loss | 299,101 | 294,066 |
| Net assets | 303,189 | 300,361 |
| **Gearing/(net cash)** | **(1.3)%** | **(2.1)%** |

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

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

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

– the need for issues of new shares.

## 22. Subsequent events

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

# Regulatory Disclosures

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

### Leverage

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

The Company's maximum and actual leverage levels at 31st October 2018 are shown below:

| | Gross Method | Commitment Method |
|---|---|---|
| Maximum limit | 200% | 200% |
| Actual | 100% | 100% |

JPMorgan Funds Limited (the '**Management Company**') is the authorised manager of JPMorgan Russian Securities plc (the '**Company**') and is part of the J.P. Morgan Chase & Co. group of companies. In this section, the terms 'J.P. Morgan' or 'Firm' refer to that group, and each of the entities in that group globally, unless otherwise specified.

This section of the annual report has been prepared in accordance with the Alternative Investment Fund Managers' Directive (the 'AIFMD'), the European Commission Delegated Regulation supplementing the AIFMD, and the 'Guidelines on sound remuneration policies' issued by the European Securities and Markets Authority under the AIFMD.

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

**Remuneration Policy**

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

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

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

**Quantitative Disclosures**

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

Due to the Firm's operational structure, the information needed to provide a further breakdown of remuneration attributable to the Company is not readily available and would not be relevant or reliable. However, for context, the Management Company manages 32 Alternative Investment Funds and 2 UCITS (with 38 sub-funds), with a combined Assets under Management ('AUM') as at 31st December 2017 of £13,204 million and £15,004 million respectively.

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

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

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

The Company does not engage in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-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 October 2018.

# Shareholder Information

Notice is hereby given that the sixteenth Annual General Meeting of JPMorgan Russian Securities plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Tuesday, 12th March 2019 at 12 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st October 2018.
2. To approve the Directors' Remuneration Report for the year ended 31st October 2018.
3. To approve a final ordinary dividend of 6p per share.
4. To reappoint Gillian Nott a Director of the Company.
5. To reappoint Alexander Easton a Director of the Company.
6. To reappoint Robert Jeens a Director of the Company.
7. To reappoint Tamara Sakovska a Director of the Company.
8. To reappoint Ernst & Young LLP as Auditors to the Company.
9. To authorise the Directors to determine the auditors remuneration.

## Special Business

To consider the following resolutions:

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

10. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £24,378, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 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 relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

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

11. THAT subject to the passing of Resolution 10 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 10 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £24,378, representing approximately 5% of the issued ordinary share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 10 above, save that the Company may before such expiry make offers, or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuant of such offers, or agreements as if the power conferred hereby had not expired.

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

12. THAT the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693 of the Act) of its issued ordinary shares of 1 pence each in the capital of the Company.

    PROVIDED ALWAYS THAT

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 7,308,581 or if less, that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this Resolution;

    (ii) the minimum price which may be paid for an ordinary share will be 1 pence;

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

(iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors) at the date following not more than seven days before the date of purchase;

(v) the authority hereby conferred shall expire at the Company's Annual General Meeting to be held in 2020 unless the authority is renewed at a general meeting prior to such time; and

(vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

By order of the Board
Paul Winship ACIS, for and on behalf of
JPMorgan Funds Limited,
Secretary

18th January 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 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.

4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments 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 (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 accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous AGM; which the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.

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

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

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

12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.jpmrussian.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). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.

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

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

16. As at 16th January 2019 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 48,756,384 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 48,756,384.

**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 October 2018 | Year ended 31st October 2017 | |
|---|---|---|---|---|
| Opening share price (p) | 5 | 491.5 | 455.0 | |
| Closing share price (p) | 5 | 500.0 | 491.5 | (a) |
| Total dividend adjustment factor[1] | | 1.050875 | 1.047010 | (b) |
| Adjusted closing share price (c = a x b) | | 525.4 | 514.6 | (c) |
| **Total return to shareholders** | | **6.9%** | **13.1%** | |

[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 October 2018 | Year ended 31st October 2017 | |
|---|---|---|---|---|
| Opening cum-income NAV per share (p) | 5 | 574.7 | 544.3 | |
| Closing cum-income NAV per share (p) | 5 | 617.6 | 574.7 | (a) |
| Total dividend adjustment factor[2] | | 1.042688 | 1.039870 | (b) |
| Adjusted closing cum-income NAV per share (c = a x b) | | 644.0 | 597.6 | (c) |
| **Total return on net assets** | | **12.1%** | **9.8%** | |

[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 Total 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 October 2018 £'000 | 31st October 2017 £'000 | |
|---|---|---|---|---|
| Investments held at fair value through profit or loss | 47 | 299,101 | 294,066 | (a) |
| Net assets | 47 | 303,189 | 300,361 | (b) |
| **Gearing/(net cash) (c = a / b – 1)** | | **(1.3)%** | **(2.1)%** | (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 October 2018 £’000 | 31st October 2017 £’000 | |
|---|---|---|---|---|
| Management fee | 52 | 3,102 | 2,989 | |
| Other administrative expenses | 52 | 1,012 | 1,017 | |
| Total management fee and other administrative expenses | | 4,114 | 4,006 | (a) |
| Average daily cum-income net assets | | 308,626 | 301,003 | (b) |
| **Ongoing charges (c = a / b)** | | **1.33%** | **1.33%** | (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 7).

**Performance attribution**

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

**Performance Attribution Definitions:**

**Asset allocation**

Measures the impact of allocating assets differently from those in the benchmark, via the portfolio’s weighting in different countries, sectors or asset types.

**Stock selection**

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

**Currency effect**

Measures the impact of currency exposure differences between the Company’s portfolio and its 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.

**Share Buyback**

Measures the enhancement to net asset value per share of buying back the Company’s shares for cancellation at a price which is less than the Company's net asset value per share.

**ADR/GDR**

American Depositary Receipts and Global Depositary Receipts.

ADRs are certificates that are traded on US stock exchanges representing a specified number of shares n a non-US company. ADRs are denominated and pay dividends in US dollars and my be traded like regular shares of stock.

GDRs are similar to ADRs. GDRs are certificates that are traded in multiple countries representing a specified number of shares in a foreign company.

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

## 1. Directly from J.P. Morgan

**Investment Account**

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

**Stocks & Shares Individual Savings Accounts (ISA)**

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

## 2. Via a third party provider

Third party providers include:

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

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

## 3. Through a professional adviser

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

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

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

## FINANCIAL CALENDAR

| | |
|---|---|
| Final results announced | January |
| Annual General Meeting | March |
| Final dividend paid | March |
| Half year end | 30th April |
| Half year results announced | June |
| Interim dividend paid | October |
| Financial year end | 31st October |

### History

The Company was launched in December 2002 by a placing and offer for subscription. It is the successor Company to The Fleming Russia Securities Fund Limited, a closed-ended investment company incorporated in Jersey and listed on the Irish Stock Exchange. The Company adopted its present name on 1st March 2006.

### Life of the Company

Directors will propose a resolution that the Company continue as an investment trust at the Annual General Meeting in 2022 and every five years thereafter. If the next continuation vote in 2022 is approved, the Board has committed to making a tender offer to shareholders for up to 20% of the outstanding share capital at NAV less costs and less a discount of 2% if, over the five years from 1st November 2016, the Company's net asset value total return in sterling on a cum income basis is below the total return of the benchmark in sterling terms.

### Company Numbers

Company registration number: 4567378
London Stock Exchange Sedol number: 0032164732
ISIN: GB0032164732
Bloomberg ticker: JRS LN
LEI: 549300II3MHI98ZLVH37

### Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman and on the JPMorgan website at www.jpmrussian.co.uk where the share price is updated every 15 minutes during trading hours.

### Website

www.jpmrussian.co.uk

### Share Transactions

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

### Manager and Company Secretary

JPMorgan Funds Limited

aic
The Association of Investment Companies
A member of the AIC

### Company's Registered Office

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

For company secretarial and administrative matters, please contact Paul Winship at the Company's registered office.

### 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 2610
The Causeway
Worthing,
West Sussex BN99 6DA
Telephone number: 0371 384 2945

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

Notifications of changes of address and all enquiries regarding certificates should be sent to the Registrar quoting reference 2610.

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

### Independent Auditor

Ernst & Young LLP
Statutory Auditor
25 Churchill Place
Canary Wharf
London E14 5EY

### Brokers

Numis Securities Ltd,
The London Stock Exchange Building
10 Paternoster Square,
London EC4M 7LT

### Savings Product Administrators

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

www.jpmrussian.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