

JPMorgan European Smaller Companies Trust plc



Overall Morningstar Rating™ (as at 31/03/14) ★★★★★

March 2014

Investment objective

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

Company facts

Portfolio manager(s)	Francesco Conte, Jim Campbell
Board of director(s)	Carolyn Dobson, Anthony Davidson, Federico Marescotti, Stephen White, Ashok Gupta
Financial year end date	31 March
Company launch date	1990
Listing	LSE
Dividends paid	July
Company Broker(s)	Cenkos Securities

Company statistics

(as at 31/03/14)

Total assets (as at 31/03/14)	GBP 503.8m
Share price	1200.0p
Net asset value ^A	1343.5p
Discount(-)/Premium	
Current	-10.7%
12 month high	-3.7%
12 month low	-17.3%
12 month average	-11.5%
Total dividend for last financial year	16p
Dividend yield ^B	1.3%
Actual gearing (as at 31/03/14) ^C	13.3%
Potential gearing range	-20% to 20%

Company fees & expenses

Annual mgt. fee ^D	1.3% on Market Cap
Ongoing charges ^E	1.26%
Performance fee	No

Company codes

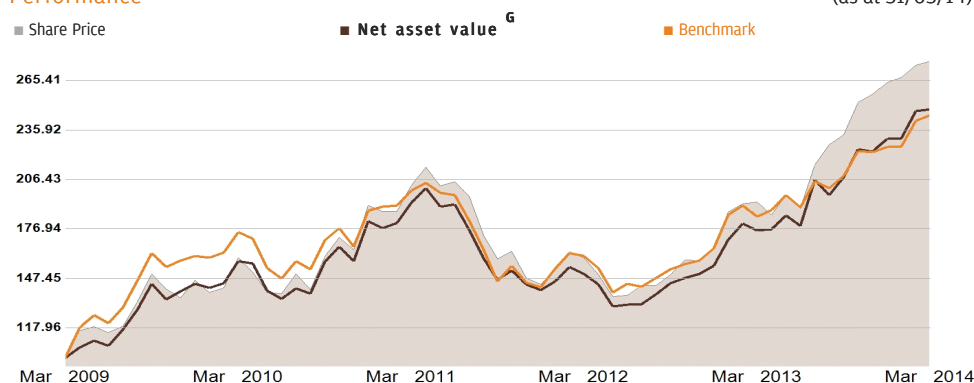
ISIN	GB0003419693
Sedol	0341969
Bloomberg	JESC LN
Reuters	JFF.L

Benchmark

Euromoney Smaller European Companies ex UK Index (Net)

Performance ^F

(as at 31/03/14)



Cumulative performance ^F

%	1 M	3 M	1 Y	3 Y	5 Y	10 Y
Share Price	0.8	4.9	43.6	36.3	176.9	418.1
Benchmark	1.4	8.5	32.7	22.4	144.7	221.5
Net asset value ^G	0.4	7.6	41.1	28.8	148.2	375.8

Quarterly Rolling 12M as at March 2014 ^F

%	2013/14	2012/13	2011/12	2010/11	2009/10
Share Price	43.6	20.6	-21.3	27.1	59.8
Benchmark	32.7	14.7	-19.6	14.2	75.2
Net asset value ^G	41.1	17.1	-22.0	22.1	57.8

Top 10 Holdings

(as at 28/02/14)

Holding	Sector	Weight
USG People	Industrials	3.3%
Freenet	Telecommunication Services	2.5%
Wirecard	Information Technology	2.4%
Temenos	Information Technology	2.3%
Geox	Consumer Discretionary	2.2%
UBI Soft Entertainment	Information Technology	2.2%
Sogefi	Consumer Discretionary	2.1%
Buzzi Unicem	Materials	2.1%
Saft	Industrials	2.1%
Azimut	Financials	2.0%

Statistical analysis review ^H

(as at 31/03/14)

	3 years	5 years
Correlation	0.93	0.92
Annualised volatility	19.04%	20.80%
Tracking error	6.91%	8.35%
Information ratio	0.26	0.02

Please read the Explanatory Notes, Risks and Important Information at the end of this document.

For further information, please contact:

UK-based Investor Services Team 0800 731 111 (or +44 20 7742 9995 if calling from outside the UK)

Agent Services Line 0800 727 770

Our lines are open Monday to Friday, 9.00am to 5.30pm

www.jpmorgan.co.uk/investment-trusts

J.P.Morgan
Asset Management

JPMorgan European Smaller Companies Trust plc



Francesco Conte is a senior portfolio manager for European smaller companies funds within the J.P. Morgan Asset Management European Equity Group. An employee since 1998, Francesco was previously the lead analyst in the Italian Equities Team at Schroder Securities. Prior to this, he worked at Ermgassen & Co., a specialist M&A boutique specialising in cross-border alliances. Francesco obtained a BSc in Economics & Development from the London School of Economics.



Jim Campbell is a senior portfolio manager for European smaller companies funds and head of the European Smaller Companies team within the J.P. Morgan Asset Management European Equity Group. An employee since 1995, Jim previously worked as an investment manager at Ivory and Sime plc, focusing initially on UK smaller companies and later on European smaller companies. Jim obtained an M.A. (Joint Honours) in Economics and Law from the University of Edinburgh.

Sector breakdown¹

(as at 28/02/14)

Sector	Company	Benchmark	Deviation
Industrials	36.6%	24.5%	12.1%
Consumer Discretionary	21.2%	14.0%	7.2%
Information Technology	12.6%	8.7%	3.9%
Financials	11.9%	19.7%	-7.8%
Materials	6.6%	7.4%	-0.8%
Telecommunication Services	4.2%	2.3%	1.9%
Health Care	2.3%	9.3%	-7.0%
Energy	1.2%	4.3%	-3.1%
Consumer Staples	0.9%	6.1%	-5.2%
Utilities	0.0%	3.7%	-3.7%
Cash	2.5%	0.0%	2.5%
Total	100.0%	100.0%	0.0%

Geographical breakdown¹

(as at 28/02/14)

Country	Company	Benchmark	Deviation
Italy	20.7%	12.4%	8.3%
Germany	17.0%	13.8%	3.2%
France	13.3%	11.9%	1.4%
Switzerland	12.9%	9.7%	3.2%
Netherlands	10.2%	4.8%	5.4%
Spain	5.9%	7.6%	-1.7%
Sweden	5.3%	11.0%	-5.7%
Greece	3.6%	2.6%	1.0%
Denmark	2.3%	3.8%	-1.5%
Belgium	2.0%	4.0%	-2.0%
Finland	1.5%	4.9%	-3.4%
Portugal	1.4%	2.5%	-1.1%
Others	1.4%	11%	-9.6%
Cash	2.5%	0.0%	2.5%
Total	100.0%	100.0%	0.0%

Manager's quarterly commentary

(as at 31/03/14)

European equities were flat in March. The economic backdrop was positive, with fourth-quarter eurozone growth ahead of expectations and showing broad-based expansion. Politically, things are shifting, with Francois Hollande in France reacting to poor opinion polls by appointing a more centrist prime minister, and Matteo Renzi in Italy releasing proposals for reform on an almost weekly basis. Peripheral yield spreads continued to contract against the core. Headwinds to earnings remain, though, in the form of weak emerging market currencies, and it is important to see a return to earnings growth before the market can make further headway.

The trust's net asset value and share price underperformed the benchmark, primarily because of our underweight in Italian banks and profit-taking in stocks that had done very well. Positive contributions from Italian premium brake manufacturer Brembo, French construction equipment company Haulotte and Italian autocomponents company Sogefi, were offset by weak performance in two of our prior most successful investments, Dutch temporary employment agency USG People and Italian online luxury retailer Yoox. While not all industries are moving at the same speed, commentary from companies ranges from "the environment is no longer deteriorating" to "strong pick up in the first couple of months of this year." Valuations are no longer cheap but we suspect we are close to the beginning of an upgrade cycle.

Market Outlook

Global issues may cause further volatility, but the broadening regional recovery has the potential to deliver corporate earnings growth, while the European Central Bank appears prepared to act to stave off deflation.

JPMorgan European Smaller Companies Trust plc

Investment trust history and investment policies

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

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom. The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index which, at the end of March 2013, consisted of 1,000 companies with a market value of between £74million and £2.6 billion across 15 countries. The Company manages liquidity and borrowings to increase potential sterling returns to shareholders. The Company borrows in Euros in order to hedge the currency risk in respect of the geared portion of the portfolio. The investment policy emphasises capital growth rather than income and shareholders should therefore expect dividends to vary from year to year. The Board has set no minimum or maximum limits on the number of investments in the portfolio but, in the year under review, the number of investments ranged between approximately 85 to 100. To gain the appropriate exposure, the Investment Managers are permitted to invest in pooled funds. JPMAM is responsible for management of the Company's assets. On a day-to-day basis the assets are managed by two investment managers based in London, supported by a 40-strong European equity team. It should be noted that the Company invests in the shares of smaller companies which tend to be more volatile than those of larger companies and the Company's shares should therefore be regarded as carrying greater than average risk.

The Board's policy is to limit gearing within the range of 20% net cash to 20% geared. Gearing for this purpose is defined as investments excluding liquidity fund holdings, expressed as a percentage of net assets.

Explanatory Notes, Risks and Important Information

Notes

^ACapital only NAV with debt at par, diluted for treasury and/or subscription shares if applicable.

^BDividend yields are based on mid market prices and the estimated dividend(s) payable in respect of the current financial year. This will include declared and prospective dividends. Source Morningstar

^CActual gearing: Represents the excess amount above shareholders' funds of total assets less cash/cash equivalents, expressed as a percentage of shareholders funds. If the amount calculated is negative, this represents a net cash position.

^DManagement fee charged on market cap.

^EOngoing charges exclude the effect of management fees charged by the underlying funds.

^FTotal return - using capital only NAVs with net dividend (if any) reinvested, in sterling, unless otherwise stated. Source: J.P. Morgan/Morningstar (www.morningstar.co.uk)

^GNet asset value assumes that shares held in treasury (if any) have been re issued at the previous nights closing price.

^HAll figures are calculated on an ex-post basis. Source: J.P. Morgan

^INon-Benchmark are classified in the appropriate sector/region. Cash is net current assets and holdings used as cash substitutes if applicable. All equity indices stated as 'Net' are calculated net of tax as per the standard published approach by the index vendor unless stated otherwise.

All price information is indicative only. Nothing herein is to be construed as a solicitation or an offer to buy or sell any financial products. The interactive factsheets are based on information obtained from sources believed to be reliable but are not guaranteed as being accurate, nor are they a complete statement of these securities. See Glossary of terms for explanations.

The company currently conducts its affairs so that the shares issued by the company can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Important Information

This material should not be relied on as including sufficient information to support an investment decision.

For up-to-date information and performance data please contact your J.P. Morgan Asset Management representative. Telephone lines are recorded and may be monitored for security and training purposes.

You should remember that past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. The level of tax benefits and liabilities will depend on individual circumstances and may change in the future. An investor's capital in a bank or building society is secure whereas in stock market linked investment it is exposed to a degree of risk.

The JPM investment trust may utilise gearing techniques (leverage) which will exaggerate market movements both down and up which could mean sudden and large falls in market value. For further details please refer to the individual trust's annual report and accounts. Some investment trusts may have warrants in issue, which if exercised may have an effect on the Net Asset Value.

The investment objective of a trust may allow some flexibility in terms in portfolio composition. Exchange rate changes may cause the value of underlying overseas investments to go down as well as up. Investments in emerging markets may involve a higher element of risk due to political and economic instability and underdeveloped markets and systems. Trusts which invest in smaller companies may involve a higher degree of risk as small cap markets tend to be much more volatile than their larger capitalisation counterparts. Where a trust invests in non investment grade bonds an increase in the risk to capital will arise. Where permitted, a trust may invest in other investment trusts that utilise gearing (leverage) which will exaggerate market movements both up and down.

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Glossary

Annual volatility: Volatility is one measure used to assess the risk of a portfolio as it helps to describe the likely range of returns achieved by the fund. In statistical terms it is the standard deviation of the return distribution. Greater volatility of monthly Net Asset Value returns means that there is a wider range of likely returns in the future, or greater uncertainty regarding the fund return. Most investors would equate this greater uncertainty with greater risk. Gearing will have an impact on the volatility of an investment trust.

Benchmark comparison: Comparison of the Company's performance is made with the benchmark. 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 therefore there may be a degree of divergence between its performance and that of the Company.

Cash: Net current assets and includes investment in liquidity funds & treasury stocks (if held) and drawn revolving credit facilities (if any) with an original maturity of less than 1 year.

Correlation: Correlation describes the way in which Net Asset Value has moved relative to the benchmark. Correlation coefficients range between +1.0 for assets which consistently move in the same direction, and -1.0 for assets which consistently move in the opposite direction. Assets with a correlation of zero are unrelated. Portfolios combining assets with low correlations provide diversification or risk reduction benefits, potentially without decreasing total portfolio return.

Actual gearing: Total portfolio less liquidity stocks, divided by net assets plus income cash and any effects of performance fees and revenue reserve accruals where applicable.

Gearing range: Indication of the maximum and minimum percentage by which the Company may be geared.

Information ratio: This is the difference between the annualised average fund return and the annualised average benchmark return (calculated geometrically) divided by the annualised tracking error. The higher the ratio, the better, as it shows that the risk taken by the fund manager relative to the benchmark has been rewarded. Gearing will have an impact on the information ratio.

Sector/Geographical breakdowns: These are expressed as a percentage of total portfolio and cash. Investments in liquidity funds will be shown as cash.

Top 10 holdings: These are expressed as a percentage of total portfolio and cash. Investments in liquidity funds / treasury stocks will not be shown in the top 10 holdings.

Ongoing charges: Management fees and all other operating expenses, excluding interest payments and commissions which are treated as a separate capital item, expressed as a percentage of the average of the opening and closing net assets. This calculation is based on the financial year end data and will be updated annually.

Tracking error: Tracking error measures the standard deviation of relative returns, i.e. the Net Asset Value return less the benchmark return. Tracking error is often used as a measure of risk taken against the fund's benchmark with a larger tracking error indicating that greater risks were taken relative to the benchmark in achieving the return of the fund. Gearing will increase a tracking error.