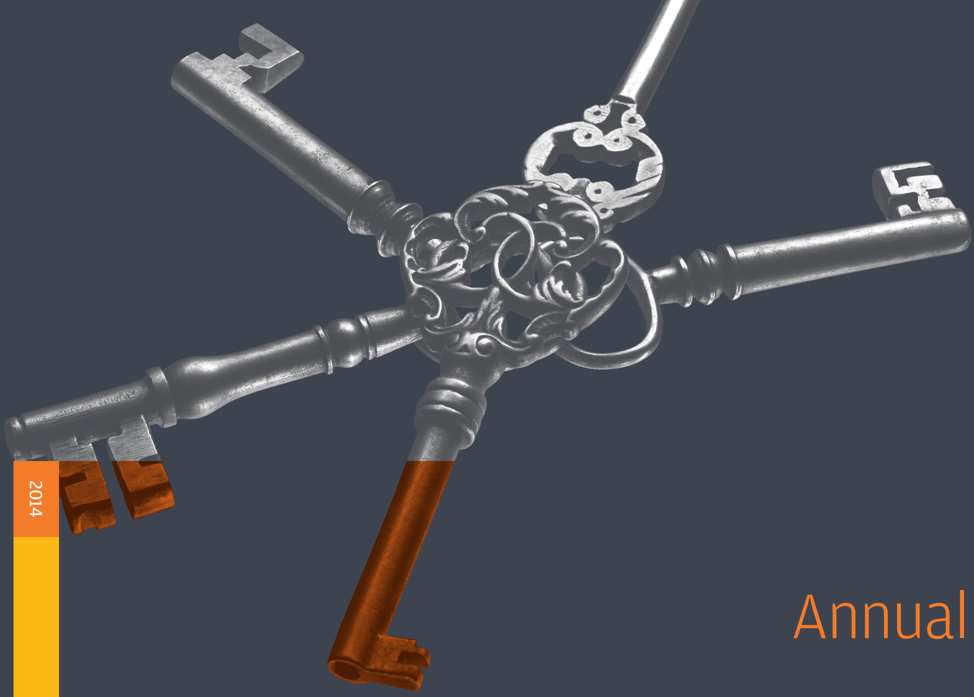


2014

JPMorgan Elect plc

# Annual Report 2014
# JPMorgan Elect plc

Annual Report & Accounts for the year ended 31st August 2014

– Managed Growth shares
– Managed Income shares
– Managed Cash shares

J.P.Morgan
Asset Management

# Features

Contents



JPMorgan Elect plc (the 'Company') has three share classes, each with distinct investment policies, objectives and underlying investment portfolios. Each share class is listed separately and traded on the London Stock Exchange. The Company's capital structure means that shareholders may benefit from greater investment flexibility in a tax-efficient manner.

### Objectives

**Managed Growth** – Long term capital growth from investing in a range of investment trusts and open-ended funds managed principally by JPMorgan Asset Management.

**Managed Income** – A growing income return with potential for long term capital growth by investing in equities, investment companies and fixed income securities.

**Managed Cash** – Preservation of capital with a yield based on short term interest rates by investing in a range of liquidity funds and short dated AAA-rated UK or G7 government securities hedged into sterling. Based on its return characteristics and the costs incurred in transacting in its shares, an investment in Managed Cash should only be considered by existing holders of Managed Growth and/or Managed Income shares who wish to switch into Managed Cash on the designated quarterly conversion dates. Further details are given on page 84.

### Gearing

The Board does not intend to utilise borrowings to increase the funds available for investment.

### Investment Policies

More information on investment policies and risk management is given in the Business Review on pages 28 and 29.

### Benchmarks

**Managed Growth** – A composite comprising 50% FTSE All-Share Index and 50% FTSE World Index (ex-UK).

**Managed Income** – A composite comprising 85% FTSE All-Share Index and 15% Barclays Capital Global Corporate Bond Index (hedged) in sterling terms.

**Managed Cash** – There is no benchmark for this portfolio, other than to maintain the net asset value as close to 100p per share as possible.

### Capital Structure

At 31st August 2014, the following shares were in issue.

**Managed Growth:** 37,294,296 (2013: 37,182,261) Ordinary shares, excluding 499,684 (2013: 307,618) Treasury shares.

**Managed Income:** 51,474,264 (2013: 51,894,454) Ordinary shares, excluding 893,533 (2013: 630,718) Treasury shares.

**Managed Cash:** 4,393,404 (2013: 13,432,185) Ordinary shares. There were no Treasury shares in issue (2013: 106,167).

### Conversions and Repurchase of Managed Cash Shares

Shareholders in any of the three share classes are able to convert some or all of their shares to the other classes on a quarterly basis without such conversion being treated, under current law, as a disposal for UK Capital Gains Tax purposes. It is also possible for holders of Managed Cash shares to elect to have all or part of their holding of those shares repurchased by the Company for cash at a price close to net asset value at each conversion date. Further details are given on page 84.

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

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

### Management Company

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

### Association of Investment Companies

The Company is a member of the Association of Investment Companies ('AIC').

### Website

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

# Strategic Report

## Chairman's Statement

I am delighted to report very positive results from all classes of the Company's shares for the year ended 31st August 2014. Returns from Managed Income were particularly notable, with strong outperformance of the benchmark and above-inflation dividend growth. Managed Growth delivered a total return in excess of 10%, marginally below its benchmark this year but to be seen in the context of longer-term outperformance over two, three, five and ten years. Managed Cash once more achieved its goals despite the difficulties caused by continuing low interest rates.

I urge shareholders to read the detailed analyses given in the Investment Managers' individual reports.

### Managed Growth

#### Performance

The Managed Growth portfolio delivered a total return on net assets of +10.8%, compared with a return of +11.7% for the portfolio's composite benchmark index (comprised equally of the FTSE All-Share and FTSE World (ex-UK) indices). The share price total return was +10.7%, reflecting a slight widening of the discount at which the shares traded over the period.

#### Dividends

There is no specific income objective for the Managed Growth class; the dividend reflects the payments received from the underlying investments net of costs. Dividends, which are paid quarterly, comprised four interim dividends totalling 7.50 pence in respect of the Company's financial year to the end of August 2014, compared with 7.00 pence last year.

#### Share Capital

In the year to 31st August 2014, 227,066 Managed Growth shares were repurchased into Treasury and 35,000 Managed Growth shares were reissued from Treasury. Since the year end, a further 102,946 Managed Growth shares have been repurchased into Treasury. As is the case for all three share classes, repurchases were undertaken at a discount to net asset value and reissues from Treasury were undertaken at a premium to net asset value, thereby benefiting all continuing shareholders.

### Managed Income

The Board has clarified that the investment policy of Managed Income is for a growing income return with potential for long term capital growth, with the growth of income being the first priority. Consequently the Board has asked the Manager to target income growth at least in line with inflation with a secondary objective of long term capital growth through outperformance of the benchmark.

#### Performance

The portfolio produced a total return on net assets of +13.9% during the year ended 31st August 2014, compared with +10.1% for the composite benchmark (comprised of 85% FTSE All-Share Index and 15% Barclays Capital Global Corporate Bond Index (hedged) in sterling terms). The share price total return was +14.5%, reflecting a slight narrowing of the discount over the period.

# Strategic Report continued

## Chairman's Statement continued

### Dividends

Earnings per share amounted to 4.16 pence of which 3.65 pence was paid in dividends, an increase of 2.8% on last year's figure of 3.55 pence, and 0.51 pence was added to reserves.

Dividends on Managed Income shares are paid quarterly in March, June, September and December each year. As the level and timing of dividend receipts from the underlying investments varies throughout the year, the quarterly dividends are not necessarily of equal amounts.

### Share Capital

In the year to 31st August 2014, 432,815 Managed Income shares were repurchased into Treasury and 170,000 Managed Income shares were reissued from Treasury. Since the year end, a further 100,000 Managed Income shares have been repurchased into Treasury.

### Managed Cash

### Performance

The portfolio's primary objective remains capital preservation through investment in high quality liquidity funds. The Bank of England base rate has remained at 0.5% and the returns generated by the portfolio's underlying money market funds therefore continue to be low, providing a total return on net assets of +0.4% with a +0.4% return to shareholders. The Managed Cash portfolio is invested in liquidity funds with AAA ratings as measured by Standard & Poor's, or an equivalent rating agency. As previously reported, although the money market funds within the portfolio are subject to the Institutional Money Markets Funds Association's ('IMMFA') Code of Practice and to scrutiny by rating agencies, shareholders should be aware that such investments are not classified as completely risk free. Returns on such portfolios remain low.

The Board expects cash to remain an unattractive investment choice at this point in the market cycle which has been reflected in the size of the Managed Cash pool. However, the Board considers this class to be an asset allocation tool which continues to benefit shareholders of all of the Company's share classes, hence its decision during the year to change the accounting policy relating to the allocation of costs, details of which are given below.

### Dividends

Income remains very low, which is reflected in the payment of one dividend of 0.35 pence per share compared with one payment of 0.15 pence per share last year. Dividends will always be dependent on the level of interest rates and shareholders should not expect any more than minimal distributions from this portfolio until interest rates return to more conventional levels.

### Share Capital

In the year to 31st August 2014, 376,995 Managed Cash shares were repurchased for cancellation and 35,000 into Treasury. As announced to the Stock Exchange on 20th January 2014 and reported in my half year statement, Managed Cash shares are no longer repurchased into Treasury and those previously held in Treasury were cancelled. Since the year end, a further 92,335 Managed Cash shares have been repurchased for cancellation.

### Change in Accounting Policy

As outlined in the half year report, a change of accounting policy was implemented concerning the allocation of costs. The Board recognises that the Managed Cash share class is predominantly maintained for the benefit of Managed Growth and Managed Income shareholders through the conversion process. Because the Managed Cash share class is not actively marketed, and given the background of very low interest rates and commensurately low income, expenses are allocated as to 0.25% of the total costs of the Company as a whole, excluding marketing expenses which are not charged. This change was backdated to 1st September 2013.

### Directors

I am very pleased to report that Angus Macpherson, who has been an extremely valuable member of your Board since 2008, was appointed Deputy Chairman on 21st October 2014. For my own part, it has been a privilege to act as Chairman since 2012 and a Director for over ten years, a period which has covered both some of the most dramatic market movements of modern times and also very substantial changes in the regulatory backdrop; I now feel that it is time to hand over these responsibilities and will retire as Chairman and Director on 30th April 2015 when the Board will elect a new Chairman. The Board is also seeking a new director to take office in the New Year and be in place before my retirement. As I have previously indicated, the Board continues to follow corporate governance best practice and, in accordance with this, your Directors will continue to seek reappointment at each Annual General Meeting.

### Conversion Opportunities Between Share Classes

Shareholders are able to convert all or part of any class of holding into any other class at the end of February, May, August and November each year. Details on how to convert can be found on page 84 and on the Company's website. During the year, four conversions took place. The net result of these conversions was an increase in the Managed Growth share capital of 304,101 shares, a reduction in the Managed Income share capital of 157,375 shares and a reduction in the Managed Cash share capital of 8,626,786 shares (which included the holders of 7,058,537 Managed Cash shares who elected to have those holdings repurchased). A further conversion took place on 1st September 2014 (31st August 2014 being a non-business day), the result of which was an increase in the Managed Growth share capital of 2,255 shares, a reduction in the Managed Income share capital of 60,322 shares and a reduction in the Managed Cash share capital of 70,921 shares.

# Strategic Report continued

## Chairman's Statement continued

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

As required under AIFMD, with effect from 1st July 2014, the Company appointed JPMorgan Funds Limited as its Alternative Investment Fund Manager under a new investment management agreement. Portfolio management is delegated by JPMorgan Funds Limited to JPMorgan Asset Management (UK) Limited, thus retaining previous portfolio management arrangements. The management fee and notice period arrangements remain unchanged. The Company appointed BNY Mellon Trust & Depositary (UK) Limited to act as the Company's Depositary, a new requirement under AIFMD. JPMorgan Chase Bank, NA remains the Company's Custodian, but as a delegate of the Depositary. JPMorgan Funds Limited was also appointed as Company Secretary to the Company on 1st July 2014.

### Outlook

There is good news: world economic growth continues to be comfortably in positive figures; strength in the US and the UK seems fairly soundly based; the weak oil price provides welcome stimulus. It would be foolhardy, though, to underestimate the risks: the unwinding of quantitative easing and the return to a more normal interest rate policy continues to generate considerable uncertainty; the growth prospects of the eurozone provide further cause for concern; geopolitical risk shows no sign of decreasing. However, our Investment Managers fully comprehend the nature of these risks and I am confident that all share classes are well placed to deal with them. More detailed analyses are to be found in the individual reports.

### Annual General Meeting

The Company's Annual General Meeting will be held at 60 Victoria Embankment, London EC4Y 0JP on Thursday, 18th December 2014 at 12 noon. In addition to the formal part of the meeting, there will be presentations from the Investment Managers of each share class and a question and answer session. Please submit in writing, any detailed questions that you wish to raise at the Annual General Meeting to the Company Secretary, JPMorgan Elect plc, 60 Victoria Embankment, London EC4Y 0JP. Shareholders who are unable to attend the Annual General Meeting in person are encouraged to raise any concerns or comments by writing to me at the Company's registered address above, or via the Company's website by following the 'Ask the Chairman' link at www.jpmelect.co.uk.

**Robert Ottley**
Chairman

30th October 2014

# Managed Growth Share Class
## Financial Results

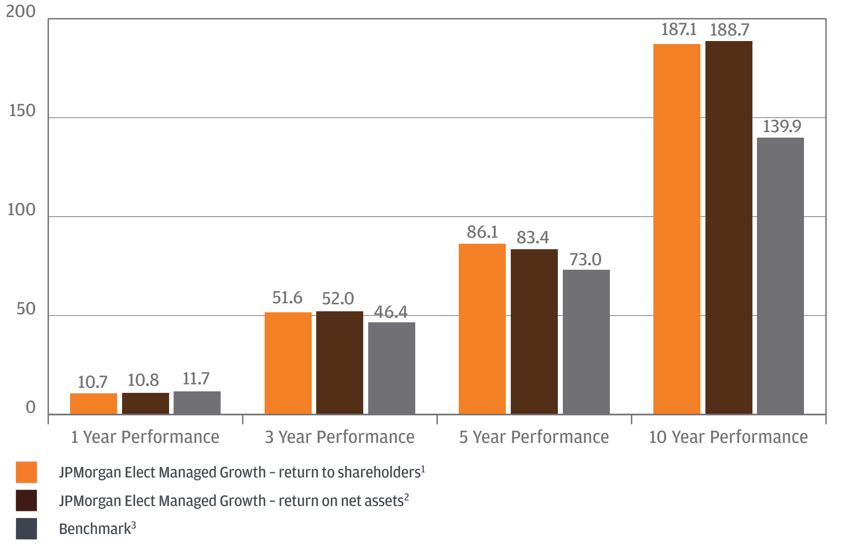
**+10.7%**
Total return to shareholders[1]
(2013: +32.6%)

**+10.8%**
Total return on net assets[2]
(2013: +30.3%)

**+11.7%**
Benchmark total return[3]
(2013: +19.4%)

**7.50p**
Dividend
(2013: 7.00p)

### Managed Growth Long Term Performance




### Financial Data

| | 31st August 2014 | 31st August 2013 | % change |
|---|---|---|---|
| Shareholders' funds (£'000) | **211,625** | 192,737 | +9.8 |
| Number of shares in issue[4] | **37,294,296** | 37,182,261 | +0.3 |
| Net asset value per share | **567.4p** | 518.4p | +9.5 |
| Share price | **554.0p** | 507.5p | +9.2 |
| Share price discount to net asset value per share | **2.4%** | 2.1% | |
| Ongoing Charges[5] | **0.52%** | 0.58% | |

A glossary of terms and definitions is provided on page 83.

[1]Source: Morningstar.

[2]Source: J.P. Morgan.

[3]Source: J.P. Morgan/Bloomberg. The benchmark is a composite comprising 50% FTSE All-Share Index and 50% FTSE World Index (ex-UK).

[4]Excluding 499,684 (2013: 307,618) Treasury shares.

[5]Management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average of the daily net assets during the year. The Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies.

MANAGED GROWTH

# Strategic Report continued

## Managed Growth Share Class continued

### Investment Manager's Report

Katy Thorneycroft

**Market Review**

The 12 months to the end of August 2014 saw most major asset classes deliver positive returns. While developed market equities were among the strongest performers, particularly in the first half of the period, increased uncertainty brought about by an evolving monetary policy environment, geopolitical concerns and some weaker-than-expected economic data led to unexpected gains for global bond markets in the latter half.

Although interest rates remained at record lows in the US, the eurozone, Japan and the UK, the Fed had begun to wind down its US$85 billion programme of monthly asset purchases in January continuing through the period under review, in a move towards eventual rate increases. In the UK, faster-than-anticipated improvement in key economic indicators raised expectations that the Bank of England ('BoE') would raise rates sooner than it had initially indicated. In contrast, the Bank of Japan's ('BoJ's') latest move was to expand its asset purchases, while there was speculation that the European Central Bank ('ECB') could yet embark on a bond buying programme.

The actions of the major central banks were driven by changes in domestic and global economic conditions. While the US economy slowed in the early months of 2014, with weather-related issues causing an unexpected contraction in GDP, the recovery appeared on track towards the end of the second quarter. In the UK, economic recovery continued to beat expectations. In July, the first release of second-quarter GDP showed that the UK economy had recovered all of the output lost during the recession. The International Monetary Fund revised upwards its estimate for UK growth in 2014, against the backdrop of downward revisions for the global economy as a whole.

In the eurozone, the outlook remained sluggish. Although meaningful progress has been made in terms of both economic and financial sector reform, the ECB made it clear in June that it is prepared to act further to support the eurozone economic recovery. Inflation remains worryingly low, unemployment continues to hover at a very high level relative to history and concerns are ongoing about the health of the banking sector, particularly in the eurozone's peripheral states.

In Japan, Prime Minister Abe's comprehensive programme of economic reform aimed at ending decades of deflation, had a mixed impact on the country's prospects. The implementation of a consumption tax increase in April provided a much-needed boost to prices, but also served to dampen consumer spending. While the BoJ continued to maintain its highly accommodative monetary policy stance, Japanese equities delivered relatively lacklustre returns in the second half of the period, following very strong gains in 2013.

In emerging markets, the dominant theme remained the prospect of a hard economic landing in China, which the increasingly accommodative stance of monetary authorities appeared to have helped avert. The Chinese economy continued to transition from an export-led model of growth towards a consumer-driven one – the domestic, regional and global impact of which remains to be seen. Indian equities were supported by the election of Narendra Modi, with the expectation of market-friendly policy orientation.

An improving macroeconomic backdrop and strong investor appetite for risk led to double-digit equity market returns. US equities delivered the highest of the regional returns, with the S&P 500 Index finishing the 12 months 25.2% higher in local currency terms, followed by MSCI AC Asia ex Japan at 21.7%. European equities, as measured by the DJ Euro Stoxx closely followed, returning 20.8%. The UK market was the global laggard, with the FTSE All-Share delivering a return of 10.3%. For the sterling investor, returns were enhanced by US dollar strength. In Japan and Europe ex UK, a weaker euro and yen diminished returns to sterling investors.

### Performance Review

It was a year of two halves for the Managed Growth portfolio, where the strong gains of the first half were diminished in the second. The portfolio returned 10.8%, in line with the UK market; however, underperformed its benchmark return of 11.7%. The return to shareholders was 10.7%.

## Total returns to 31st August 2014 (in sterling terms)

| Managed Growth | Six months | One year | Two years | Three years | Five years | Ten years |
|---|---|---|---|---|---|---|
| NAV Return (%) | -1.3 | +10.8 | +44.5 | +52.0 | +83.4 | +188.7 |
| Benchmark Return[1,2] (%) | +4.6 | +11.7 | +33.3 | +46.4 | +73.0 | +139.9 |
| FTSE All-Share Index (%) | +1.4 | +10.3 | +31.2 | +44.5 | +71.4 | +132.8 |
| FTSE World Index (ex-UK) (%) | +8.2 | +13.7 | +36.8 | +50.7 | +78.1 | +147.4 |

Source: Bloomberg/J.P. Morgan.

[1]Composite Benchmark returns are rebalanced on a month to month basis which will accordingly not necessarily result in the Composite Benchmark comprising exactly 50% of each of the underlying indices' returns.

[2]The Benchmark was changed from 65% FTSE All-Share Index and 35% FTSE World (ex-UK) Index on 1st September 2007.

Asset allocation at the regional level added to performance. The portfolio was overweight US equities and underweight UK equities. However, in a reversal from the first half of the period, small and mid cap equities underperformed large caps from the end of February and this had a negative impact on the portfolio.

Performance in underlying funds was mixed for the period. Of the portfolio's top ten holdings, JPMorgan American Investment Trust, JPMorgan US Select and JPMorgan Claverhouse outperformed their respective benchmarks, while JPMorgan Smaller Companies, JPMorgan Japanese Investment Trust and Schroder UK Growth underperformed. In general, returns for the third party holdings in the portfolio also struggled, with only a small number such as Artemis Alpha, Biotech Growth Trust, Hansa Trust and Allianz Technology outperforming their own benchmarks in net asset value terms over the full 12 month period.

Weak net asset value performance for our holdings was exacerbated by discount movements. The investment trust sector has seen a gradual widening of its average discount during the last few months. This has coincided with more difficult, uncertain market conditions and also a fall in trading volumes over the summer.

# Managed Growth Share Class continued

## Investment Manager's Report continued

### Portfolio review

At the end of August, 45% of the portfolio was invested in JPMorgan managed investment trusts, 27% in JPMorgan managed open-ended funds and 21% in investment trusts managed by third party managers. Transactions during the period were sales out of two funds which had been top ten holdings, JPMorgan US Value Fund and JPMorgan US Growth Fund and a reduction in holdings of Edinburgh Worldwide Investment Trust, Fidelity Special Values, JPMorgan Japanese Investment Trust, JPMorgan Claverhouse, JPMorgan European Smaller Companies Trust and RCM Technology Trust. Proceeds were reinvested into existing positions of JPMorgan US Select, JPMorgan European Growth, Perpetual Income & Growth and Schroder UK Growth. A new addition to the portfolio this period was the JPMorgan US Equity All Cap Fund.

### Outlook

We continue to expect US economic growth to be above trend in the next 12 months while growth in Europe and Japan remains weak. The prospect of higher US rates at the same time as the ECB and BoJ are adding stimulus compounds policy and growth divergence. QE has introduced uncertainties which may eventually constrain potential growth; but this fragility is most apparent today in emerging markets where the unwind of rapid credit expansion could weigh on asset values in the next 12 months.

This backdrop likely means a stronger US dollar, a flatter US yield curve, continued outperformance of US equities, and pockets of outperformance from Europe and Japan in lock step with bouts of central bank stimulus. UK equities remain our preferred underweight.

Risks to our view would come principally from over-zealous policy action, leading to rapid rollover in liquidity conditions; or a slower than expected pick-up in consumer confidence, leading to disappointing end demand.

We have seen something of a widening in investment trust discounts but this has been reasonably well contained and the portfolio has been positioned as well as it could be within the parameters given. We expect discounts in the industry to widen slightly further. However, given greater corporate structure discipline with share repurchase and tender programmes and discount control mechanisms, we do not expect discounts to widen to 2008 levels.

**Katy Thorneycroft**
Investment Manager

30th October 2014

## Financial Record

| As at 31st August | 2004 | 2005[1] | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net asset value per share (p) | 230.2 | 301.5 | 362.0 | 404.2 | 356.0 | 332.0 | 356.3 | 389.4 | 403.8 | 518.4 | **567.4** |
| Share price (p) | 226.0 | 293.8 | 353.5 | 389.5 | 346.5 | 321.0 | 349.0 | 382.0 | 388.5 | 507.5 | **554.0** |
| **Year ended 31st August** | | | | | | | | | | | |
| Revenue return per share (p) | 3.63 | 3.82 | 5.23 | 5.06 | 5.65 | 7.25 | 5.02 | 5.31 | 6.25 | 6.77 | **7.22** |
| Dividends per share (p) | 3.50 | 3.72 | 5.20 | 5.25 | 5.65 | 7.15 | 5.05 | 5.00 | 5.95 | 7.00 | **7.50** |
| Discount (%) | 1.8 | 1.8 | 2.3 | 3.6 | 2.7 | 3.3 | 2.0 | 1.9 | 3.8 | 2.1 | **2.4** |
| Gearing/(Net Cash)[2] (%) | (4.8) | (2.8) | (5.0) | (2.6) | (5.1) | (2.6) | (1.1) | (1.9) | (1.0) | (2.8) | **(5.7)** |
| Ongoing charges[3] (%) | 0.52 | 0.50 | 0.41 | 0.44 | 0.43 | 0.63 | 0.49 | 0.51 | 0.51 | 0.58 | **0.52** |

A glossary of terms and definitions is provided on page 83.

[1]Restated for the change in accounting policy regarding dividends payable, which are included in the accounts in the year in which they are approved by shareholders. The period ended 31st August 2004 has not been restated.

[2]Gearing represents the excess amount above shareholders' funds of total assets expressed as a percentage of shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

[3]Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (2009 to 2011: Total Expense Ratio: Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year; 2008 and prior years: expressed as the average of the opening and closing net assets).

# Strategic Report continued

## Managed Growth Share Class continued

### Ten Largest Investments

| Company | 31st August 2014 Valuation £'000 | %[1] | 31st August 2013 Valuation £'000 | %[2] |
|---|---|---|---|---|
| JPMorgan US Equity All Capital ('C' shares)[3,5] | **23,399** | **11.1** | – | – |
| JPMorgan UK Dynamic ('A' shares)[3] | **21,463** | **10.2** | 19,839 | 10.3 |
| JPMorgan Claverhouse Investment Trust plc | **21,240** | **10.0** | 24,028 | 12.5 |
| JPMorgan American Investment Trust plc | **14,462** | **6.8** | 12,594 | 6.5 |
| JPMorgan US Select Equity ('C' shares)[3] | **12,991** | **6.1** | 9,128 | 4.8 |
| The Mercantile Investment Trust plc | **10,651** | **5.0** | 9,849 | 5.1 |
| JPMorgan European Investment Trust plc (Growth shares) | **9,336** | **4.4** | 8,444 | 4.4 |
| JPMorgan Smaller Companies Investment Trust plc | **8,224** | **3.9** | 7,939 | 4.1 |
| JPMorgan Japanese Investment Trust plc | **7,783** | **3.7** | 8,678 | 4.5 |
| RCM Technology Trust plc[4] | **5,500** | **2.6** | 5,921 | 3.1 |
| **Total[6]** | **135,049** | **63.8** | | |

[1]Based on net assets of £211.6m.
[2]Based on net assets of £192.7m.
[3]Represents holdings in an Open Ended Investment Company ('OEIC') or a Société d'investissements à Capital Variable ('SICAV').
[4]Not included in the ten largest investments at 31st August 2013.
[5]Not held in the portfolio at 31st August 2013.
[6]At 31st August 2013, the value of the ten largest investments amounted to £118.8m, representing 61.7% of net assets.
Futures positions are excluded for the purpose of this table.

### Geographical Analysis
(on a look through basis)

| Region | 31st August 2014 Portfolio %[1] | 31st August 2014 Benchmark % | 31st August 2013 Portfolio %[1] | 31st August 2013 Benchmark % |
|---|---|---|---|---|
| UK | **46.7** | **50.0** | 44.4 | 50.0 |
| North America | **32.5** | **29.8** | 28.8 | 29.3 |
| Continental Europe | **9.8** | **9.1** | 12.0 | 9.2 |
| Japan | **4.9** | **4.5** | 6.0 | 4.9 |
| Asia (excluding Japan) | **4.1** | **3.3** | 2.0 | 3.2 |
| Emerging Markets and others | **2.0** | **3.3** | 6.8 | 3.4 |
| **Total Portfolio** | **100.0** | **100.0** | 100.0 | 100.0 |

[1]Based on total portfolio of £199.4m (2013: £186.8m), including open exposure to futures contracts. Refer to notes 10 and 13 on pages 65 and 66 for further disclosure.

## List of Investments
at 31st August 2014

| | Valuation £'000 |
|---|---|
| **JPMorgan Managed Investment Trusts** | |
| JPMorgan Claverhouse | 21,240 |
| JPMorgan American | 14,462 |
| The Mercantile | 10,651 |
| JPMorgan European (Growth shares) | 9,336 |
| JPMorgan Smaller Companies | 8,224 |
| JPMorgan Japanese | 7,783 |
| JPMorgan Asian | 4,463 |
| JPMorgan European Smaller Companies | 3,904 |
| JPMorgan US Smaller Companies | 3,559 |
| JPMorgan Emerging Markets | 2,956 |
| JPMorgan Income & Capital (Ordinary shares) | 2,769 |
| JPMorgan Japan Smaller Companies | 2,120 |
| JPMorgan Chinese | 1,275 |
| JPMorgan Indian | 1,083 |
| JPMorgan Brazil | 634 |
| JPMorgan Income & Growth (Capital shares) | 604 |
| JPMorgan Russian Securities | 546 |
| JPMorgan Income & Growth (Units) | 404 |
| JPMorgan Overseas[1] | 11 |
| | **96,024** |
| **JPMorgan Managed Open Ended Investment Companies** | |
| JPMorgan US Equity All Capital ('C' shares)[2,3] | 23,399 |
| JPMorgan UK Dynamic ('A' shares)[2,3] | 21,463 |
| JPMorgan US Select Equity ('C' shares)[2,3] | 12,990 |
| | **57,852** |

| | Valuation £'000 |
|---|---|
| **Externally Managed Investment Trusts** | |
| RCM Technology | 5,500 |
| Schroder UK Growth | 5,147 |
| Finsbury Growth & Income | 4,889 |
| Biotech Growth | 4,184 |
| Fidelity European Values | 4,149 |
| Fidelity Special Values | 4,079 |
| Artemis Alpha | 3,197 |
| Perpetual Income & Growth | 3,140 |
| Impax Environmental Markets | 2,615 |
| Jupiter European Opportunities | 1,954 |
| Edinburgh Worldwide | 1,771 |
| BlackRock Frontier | 1,342 |
| Hansa Trust ('A' non-voting shares) | 1,208 |
| Schroder Japan Growth | 1,088 |
| Edinburgh Dragon | 924 |
| | **45,187** |
| **Total Portfolio** | **199,063** |

**Derivative Instruments**

| | |
|---|---|
| **Futures[4]** | |
| S&P500 E-Mini Futures Sep 2014 | 174 |
| FTSE 100 Index Futures Sep 2014 | 75 |
| Euro Stoxx 50 Index Futures Sep 2014 | 52 |
| Hang Seng Index Futures Sep 2014 | 33 |
| Russell 2000 Mini Index Futures Sep 2014 | (16) |
| Topix Index Futures Sep 2014 | (19) |
| **Total Derivative Instruments** | **299** |
| **Total Portfolio and Derivatives** | **199,362** |

[1]Both ordinary and subscription shares held.

[2]Unlisted.

[3]Represents a holding in an Open Ended Investment Company ('OEIC') or a Société d'Investissements à Capital Variable ('SICAV').

[4]Refer to notes 10 and 13 on pages 65 and 66 for further disclosure.

# Strategic Report continued

## Managed Growth Share Class continued

### Income Statement (Unaudited)

for the year ended 31st August 2014

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| **Gains on investments held at fair value through profit or loss** | **–** | **18,666** | **18,666** | – | 43,403 | 43,403 |
| Net foreign currency losses | **–** | **(33)** | **(33)** | – | (3) | (3) |
| Income from investments | **3,313** | **–** | **3,313** | 3,180 | – | 3,180 |
| Other interest receivable and similar income | **9** | **–** | **9** | 1 | – | 1 |
| **Gross return** | **3,322** | **18,633** | **21,955** | 3,181 | 43,400 | 46,581 |
| Management fee | **(154)** | **(461)** | **(615)** | (129) | (387) | (516) |
| Other administrative expenses | **(472)** | **–** | **(472)** | (508) | – | (508) |
| **Net return on ordinary activities before taxation** | **2,696** | **18,172** | **20,868** | 2,544 | 43,013 | 45,557 |
| Taxation credit | **1** | **–** | **1** | 2 | – | 2 |
| **Net return on ordinary activities after taxation** | **2,697** | **18,172** | **20,869** | 2,546 | 43,013 | 45,559 |
| **Return per Managed Growth share** | **7.22p** | **48.64p** | **55.86p** | 6.77p | 114.44p | 121.21p |

### Balance Sheet (Unaudited)

at 31st August 2014

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Fixed assets** | | |
| Investments held at fair value through profit or loss | **199,063** | 186,821 |
| **Current assets** | | |
| Financial assets: Derivative financial instruments | **334** | 72 |
| Debtors | **23,708** | 694 |
| Cash and short term deposits | **12,041** | 5,347 |
| | **36,083** | 6,113 |
| **Creditors:** amounts falling due within one year | **(23,486)** | (126) |
| Financial liability: Derivative financial instruments | **(35)** | (71) |
| **Net current assets** | **12,562** | 5,916 |
| **Net assets** | **211,625** | 192,737 |
| **Net asset value per Managed Growth share** | **567.4p** | 518.4p |

# Managed Income Share Class

## Financial Results

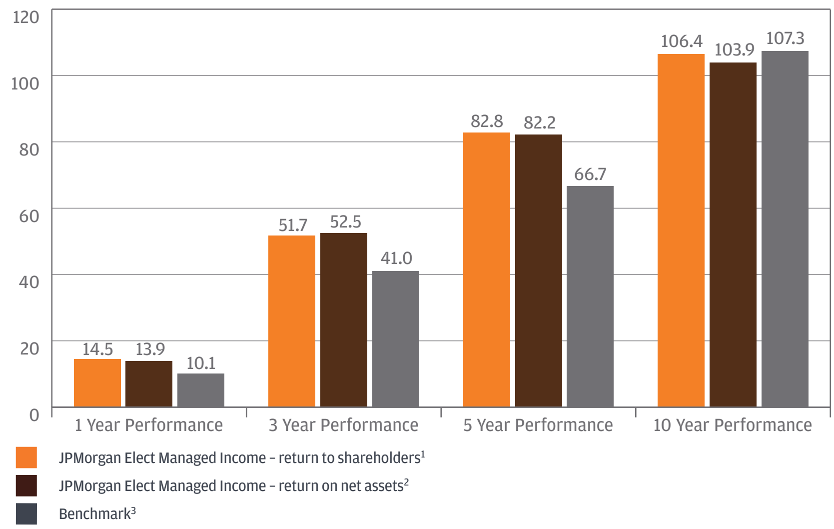
**+14.5%**
Total return to shareholders[1]
(2013: +21.0%)

**+13.9%**
Total return on net assets[2]
(2013: +21.2%)

**+10.1%**
Benchmark total return[3]
(2013: +16.1%)

**+2.8%**
**3.65p** Dividend
(2013: 3.55p)

### Managed Income Long Term Performance




### Financial Data

| | 31st August 2014 | 31st August 2013 | % change |
|---|---|---|---|
| Shareholders' funds (£'000) | **53,681** | 49,271 | +9.0 |
| Number of shares in issue[4] | **51,474,264** | 51,894,454 | -0.8 |
| Net asset value per share | **104.3p** | 94.9p | +9.9 |
| Share price | **100.8p** | 91.3p | +10.4 |
| Share price discount to net asset value per share | **3.4%** | 3.8% | |
| Net yield per share[5] | **3.6%** | 3.9% | |
| Ongoing Charges[6] | **0.72%** | 0.73% | |

A glossary of terms and definitions is provided on page 83.

[1]Source: Morningstar.

[2]Source: J.P. Morgan.

[3]Source: J.P. Morgan/Bloomberg. The benchmark is a composite comprising 85% FTSE All-Share Index and 15% Barclays Capital Global Corporate Bond Index (hedged) in sterling terms.

[4]Excluding 893,533 (2013: 630,718) Treasury shares.

[5]The net yield calculation is based on total dividends per share, expressed as a percentage of the closing share price.

[6]Management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average of the daily net assets during the year. The Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies.

# Strategic Report continued

## Managed Income Share Class continued

### Investment Managers' Report

John Baker

Sarah Emly

**Review**

UK equities had a strong year, with the FTSE All-Share Index rising 10.3% in the 12 months to the end of August 2014 (total return gross). The rapidly improving domestic economy, reflected in rising consumer and business confidence, provided a boost to sentiment over the period. In the latter six months, monetary policy uncertainty and escalating tensions in Ukraine and the Middle East made for more subdued returns, although the UK stock market remained in positive territory.

While there were some signs of a rebound in corporate earnings growth, a meaningful recovery remained elusive. Sterling strength continued to pose an unhelpful headwind for UK companies with US dollar earnings streams, and those which declare their dividends in US dollars. Overall UK market dividend growth was positive during the financial year, although the strength of sterling was unhelpful for the overseas earners. However, many of the more domestically oriented companies succeeded in delivering good profit growth and some were able to deliver strong dividend growth as well, partly as a result of their focus on cash generation over more recent years.

Global corporate bond markets, meanwhile, made up for lacklustre performance in the first half of the period by making good gains in the subsequent half, supported by good fundamentals and a renewed fall in government bond yields. Corporate bond returns lagged the UK stock market, as the Barclays Capital Global Corporate Bond Index hedged to GBP delivered a return of +8.8% for the year (total return gross).

The strength of the UK economic recovery, and the pace at which it accelerated over the year, took many commentators by surprise. Back in July 2013, the new Governor of the Bank of England ('BoE'), Mark Carney, started his term at a time of considerable economic uncertainty, with UK unemployment hovering around 7.8% and the rate of consumer price inflation at its highest level in over a year.

A year into Mr Carney's term, however, UK economic conditions had improved markedly, with the BoE meeting its 2% inflation target for the first time since 2009 and the unemployment rate falling to 6.6% in the three months to April, while the housing market and manufacturing activity continued to grow at a rapid pace. The UK economy grew 0.8% in the second quarter compared to the previous three months. Symbolically, the Office for National Statistics also confirmed that the UK had finally recovered all the output lost during the recession, with the economy estimated to be 0.2% larger in the second quarter of 2014 than the previous peak in the first quarter of 2008.

The stronger economic backdrop led to some worries of the possibility of interest rate increases from the BoE. The messaging from the BoE, however, lacked some consistency. Mr Carney sent ripples through markets in June 2014 with a very hawkish statement suggesting rates could rise as early as the fourth quarter of 2014. He subsequently downplayed the threat of rate increases, saying that the timing of the first rate rise is still very much data dependent. A more dovish August Inflation Report ultimately pushed market expectations for the first rate rise back to early 2015. However, just to add to the interest rate uncertainty, the minutes of the August Monetary Policy Committee meeting showed that UK policymakers were split on a rate rise for the first time since 2011, with a minority vote for an earlier rate rise.

**Dividend Review**

As outlined in the Chairman's statement, the total dividend per share of Managed Income for the year ended 31st August 2014 was 3.65p, an above-inflation increase of 2.8%. This 12 month period has been encouraging in terms of dividend growth from the more domestically focused UK companies and the total revenue generated by Managed Income was up 4.8% on last year, with a number of our companies announcing special dividends, as well as growth in their normal dividends. As a result of this, Managed Income has been able to increase its own dividend, whilst also strengthening its revenue reserve.

A number of our holdings have delivered strong annual dividend growth, including Next, Direct Line Insurance, Prudential, Jupiter Fund Management and the Berkeley Group, often exceeding the market's expectations. In addition to these regular dividends, some of our holdings have also paid special dividends to their shareholders, including ITV which paid another 4p per share, Next which introduced a new special dividend strategy early in 2014 and Compass, who through their focus on cash generation were able to announce a special dividend of 56p per share in the summer of 2014. We continue to focus on income and dividend growth prospects when selecting our best stock ideas for the portfolio, and are aiming to generate a further increase in revenue per Managed Income share in the new financial year to the end of August 2015.

**Performance Review**

In the 12 months to 31st August 2014, the Managed Income portfolio delivered a return on net assets of +13.9% against the total return of the composite benchmark of +10.1%. Over the 12 month period the FTSE All-Share index rose by 10.3% whilst the Barclays Capital Global Corporate Bond Index rose by a slightly more modest 8.8%. Over this most recent year, the portfolio benefited particularly from strong stock selection within the UK equity portfolio.

The table below summarises the performance of the Managed Income portfolio over the past ten years.

## Total returns to 31st August 2014

| Managed Income | Six months | One year | Two years | Three years | Five years | Ten years |
|---|---|---|---|---|---|---|
| NAV Return (%) | +1.2 | +13.9 | +37.9 | +52.5 | +82.2 | +103.9 |
| Benchmark Return[1,2] (%) | +1.9 | +10.1 | +27.9 | +41.0 | +66.7 | +107.3 |
| FTSE All-Share Index (%) | +1.4 | +10.3 | +31.2 | +44.5 | +71.4 | +132.8 |
| Barclays Capital Global Corporate Bond Index (hedged) in sterling terms (%) | +4.3 | +8.8 | +9.8 | +20.6 | +38.3 | +74.1 |

Source: J.P. Morgan/Bloomberg.

[1]Prior to 28th February 2009, the benchmark was a composite comprising 85% FTSE 350 High Yield Index and 15% Merrill Lynch 5-10 year Sterling Corporate Bond Index.

[2]Composite Benchmark returns are rebalanced on a month to month basis which will accordingly not necessarily result in the Composite Benchmark comprising exactly 85% of the FTSE All-Share Index and 15% of the Barclays Capital Global Corporate Bond Index (hedged) in sterling terms.

During the first half of the financial year, the six months to 28th February 2014, the Managed Income portfolio outperformed its benchmark, benefiting from both strong stock selection within the UK equity portfolio and also from being overweight in equities and correspondingly underweight in corporate bonds during this period. During the second half of the year, to the end of August 2014, the asset allocation was

# Strategic Report continued

## Managed Income Share Class continued

### **Investment Managers' Report** continued

less helpful whilst the UK stock selection was broadly in line with the more modest returns from the UK equity market.

For the year as a whole, UK stock selection was the primary driver of the portfolio's outperformance of its benchmark, with the UK equity portfolio strongly outperforming the positive returns of the FTSE All-Share index. The most significant contributor to performance over the 12 months was our decision not to own any shares in the major supermarket group, Tesco, which has announced several profit warnings and then cut its interim dividend by 75% at the end of August 2014. Not owning a stock that disappointed so markedly benefited the Company. Direct Line Insurance, the motor insurer that we have held since its flotation, was a strong performer over the year as it consistently delivered better than expected results, whilst having a premium dividend yield and delivering strong dividend growth. Some of our more domestically oriented stocks were strong performers over the financial year, including WHSmith, Halfords and ITV, all of which have delivered positive dividend growth, whilst ITV also announced a special dividend to shareholders as a result of its ongoing focus on cash generation. Other positive contributors included two of our premium dividend yielders, AstraZeneca and Imperial Tobacco. AstraZeneca benefited from improving newsflow and an unrealised takeover bid from the US pharmaceutical giant, Pfizer, whilst our long held position in Imperial Tobacco, a cash generative and defensive stock that has consistently delivered 10% per annum dividend growth, outperformed the wider market over our financial year.

Our holding in Barclays Bank was unhelpful over the year as a whole as its share price was negatively impacted by potentially adverse regulatory issues, despite a business restructuring proposal that was initially well received by investors. Not owning the pharmaceutical group, Shire, due to its low dividend yield, was also detrimental to performance as it received a bid approach from the US group, AbbVie, which boosted its share price significantly. Other detractors included our long term overweight position in the pharmaceutical stock, GlaxoSmithKline, a premium dividend yielder which underperformed the wider market, as did our holdings in HSBC and John Menzies. Overall however, the portfolio's performance was encouraging over the financial year, with the underlying stock selection strongly outperforming the positive returns from the UK equity market.

**Portfolio Review**

There has been no change to the asset allocation of the Company during the financial year. The portfolio is overweight equities relative to its composite benchmark as we believe that the outlook for equities is positive as a better macro economic back drop should lead to an improvement in earnings growth which should, in turn, allow for dividend growth. Additionally, valuations remain supportive and corporate balance sheets are in rude health. Nevertheless, we retain a holding in the JPMorgan Global High Yield fund as a diversified way of enhancing the income yield of the overall portfolio.

When assessing the investment opportunity provided by stocks we focus on whether earnings estimates are being revised up, if the valuation is attractive and the balance sheet and forecast cash flows allow for dividend growth.

As such, portfolio construction is determined by bottom up stock selection. For instance, we bought house building and construction group, Galliford Try. The recovery in the housing market is leading to earnings estimates upgrades. With next to no debt and improving dividend cover we believed that there was a high likelihood of good dividend growth. We also increased the position in National Grid. It has a dividend yield of 5.3% which is a significant premium to the market. We participated in the successful IPO of the discount retailer Poundland; its shares performed very strongly after which the valuation looked less compelling and the dividend yield relatively low so we sold the position. High street retailer Next was another company we added to as its special dividend strategy launched in early 2014 is very attractive. We also increased our holdings in some of our higher yielding holdings such as Vodafone, GlaxoSmithKline and Royal Dutch Shell.

Conversely, we sold the portfolio's position in Drax Group. Drax operates one of the country's largest coal fired electricity generation plants which it is in the process of converting to biomass. A change in the government's view on the conversion process made the success of the company's strategy less certain. Additionally, the company reported weak results. We sold the portfolio's holding in Essentra as its dividend yield was no longer compelling. The company which produces a range of plastic products and cigarette filters was previously known as Filtrona. We also sold the holding in Aberdeen Asset Management which had performed very well for us over time. The company's earnings are very dependent on emerging market funds for which investors' appetite has waned. We reduced the portfolio's position in Legal & General following the budget announcement on individual annuities. DS Smith, a long term holding, was also sold as its earnings outlook became less attractive and there were stocks with superior dividend yields available to us.

**Outlook**

The UK macroeconomic picture may continue to improve over the coming months as consumption and business investment pick up speed, but the deteriorating economic outlook in the eurozone could weigh on the UK's economic progress. Another potential area of concern remains the geopolitical environment, given recent events in the Middle East, Ukraine, Asia and West Africa. Domestically, the expectation of the timing of the first interest rate rise is being extended, given the increasingly uncertain economic and political backdrop. UK interest rate rises are likely to be limited and gradual over the next 12 months.

When they do occur, UK base rate rises may cause some market volatility, whilst the outlook for corporate earnings growth will depend on the progress of the global economy. 75% of UK blue-chip companies source their revenues from overseas, therefore global economic growth should be a positive for UK companies. UK corporate earnings have been hampered over the last couple of quarters by the strength of sterling, but the currency has shown signs of weakening and this could begin to boost export-driven stocks. UK companies remain financially robust. Their ability to pay dividends continues and UK equities remain attractively valued in comparison with other asset classes. Income growth remains an important driver of our stock selection decisions and although there are some international macro and geopolitical uncertainties in the short term, we continue to believe that the UK equity market offers opportunities for both income and capital growth for our shareholders.

John Baker
Sarah Emly
Investment Managers

30th October 2014

# Strategic Report continued

## Managed Income Share Class continued

### Financial Record

| As at 31st August | 2004[1] | 2005[2] | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net asset value per share (p) | 79.1 | 97.2 | 108.7 | 113.8 | 86.4 | 69.6 | 72.9 | 76.9 | 81.4 | 94.9 | **104.3** |
| Share price (p) | 77.0 | 95.0 | 106.5 | 109.0 | 84.5 | 69.5 | 70.0 | 75.0 | 78.5 | 91.3 | **100.8** |
| **Year ended 31st August** | | | | | | | | | | | |
| Revenue return per share (p) | 3.31 | 4.35 | 4.23 | 5.12 | 5.52 | 3.55 | 2.68 | 3.32 | 3.48 | 3.97 | **4.16** |
| Dividends per share (p) | 2.85 | 3.50 | 3.75 | 4.12 | 4.30 | 4.30 | 3.30 | 3.35 | 3.40 | 3.55 | **3.65** |
| Special dividends per share (p) | – | – | – | 1.00 | 1.15 | – | – | – | – | – | **–** |
| Discount (%) | 2.7 | 2.3 | 2.0 | 4.2 | 2.2 | 0.1 | 4.0 | 2.5 | 3.6 | 3.8 | **3.4** |
| Net yield per share[4] (%) | 3.7 | 3.7 | 3.5 | 4.7[3] | 6.4[3] | 6.2 | 4.7 | 4.5 | 4.3 | 3.9 | **3.6** |
| Gearing/(Net Cash)[5] (%) | (0.1) | (2.2) | (1.2) | (2.6) | (1.1) | (1.8) | (1.1) | (5.9) | (2.7) | (1.1) | **(0.9)** |
| Ongoing Charges[6] (%) | 0.50 | 0.71 | 0.79 | 0.79 | 0.74 | 0.92 | 0.66 | 0.69 | 0.71 | 0.73 | **0.72** |

A glossary of terms and definitions is provided on page 83.

[1]Represents the period from commencement of operations on 14th January 2004, which is the date when the investments of JPMorgan Fleming Managed Income were transferred to the Company, to 31st August 2004.

[2]Restated for the change in accounting policy regarding dividends payable, which are now included in the accounts in the year in which they are approved by shareholders. The period ended 31st August 2004 has not been restated.

[3]Includes special dividends.

[4]The net yield calculation is based on total dividends per share, expressed as a percentage of the closing share price.

[5]Gearing represents the excess amount above shareholders' funds of total assets expressed as a percentage of shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

[6]Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (2009 to 2011: Total Expense Ratio: Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year; 2008 and prior years: expressed as the average of the opening and closing net assets).

## Ten Largest Investments

| Company | 31st August 2014 Valuation £'000 | %[1] | 31st August 2013 Valuation £'000 | %[2] |
|---|---|---|---|---|
| Royal Dutch Shell | **4,253** | **7.9** | 3,285 | 6.7 |
| HSBC | **2,997** | **5.6** | 3,259 | 6.6 |
| JPMorgan Global High Yield Bond Fund ('A' Income shares)[3] | **2,808** | **5.2** | 2,737 | 5.6 |
| JPMorgan Income & Growth (Income shares) | **2,448** | **4.6** | 2,278 | 4.6 |
| BP | **2,394** | **4.5** | 2,039 | 4.1 |
| GlaxoSmithKline | **2,208** | **4.1** | 2,013 | 4.1 |
| British American Tobacco | **2,000** | **3.7** | 1,626 | 3.3 |
| AstraZeneca[4] | **1,746** | **3.3** | 1,135 | 2.3 |
| Rio Tinto[4] | **1,583** | **2.9** | 1,284 | 2.6 |
| Vodafone | **1,560** | **2.9** | 2,614 | 5.3 |
| **Total**[5] | **23,997** | **44.7** | | |

[1]Based on net assets of £53.7m.

[2]Based on net assets of £49.3m.

[3]Represents holdings in an Open Ended Investment Company ('OEIC') or a Société d'investissements à Capital Variable ('SICAV').

[4]Not included in the ten largest investments at 31st August 2013.

[5]At 31st August 2013, the value of the ten largest investments amounted to £22.5m, representing 45.7% of net assets.

## Ten Largest Income Payers[1]

For the year ended 31st August 2014

| | £'000 |
|---|---|
| Royal Dutch Shell | 174 |
| JPMorgan Global High Yield Bond Fund ('A' Income Shares) | 173 |
| HSBC | 138 |
| JPMorgan Income & Growth (Income shares) | 115 |
| BP | 112 |
| GlaxoSmithKline | 111 |
| British American Tobacco | 82 |
| AstraZeneca | 65 |
| Direct Line Insurance | 65 |
| Rio Tinto | 59 |
| **Total** (46.0%)[2] | **1,094** |

[1]In terms of amounts of income received by the Managed Income portfolio.

[2]Represents the total ten largest dividend payments expressed as a percentage of income from investments.

# Strategic Report continued

## Managed Income Share Class continued

### Sector Analysis

| | 31st August 2014 Portfolio %[1] | 31st August 2014 Benchmark % | 31st August 2013 Portfolio %[1] | 31st August 2013 Benchmark % |
|---|---|---|---|---|
| Financials | **21.8** | **19.2** | 19.1 | 18.1 |
| Oil & Gas | **12.4** | **12.7** | 10.8 | 12.7 |
| Consumer Goods | **10.2** | **11.8** | 11.5 | 11.5 |
| Consumer Services | **8.4** | **8.6** | 8.9 | 9.0 |
| Industrials | **7.4** | **8.4** | 9.5 | 8.4 |
| Health Care | **7.4** | **7.2** | 6.4 | 6.3 |
| Basic Materials | **7.2** | **6.9** | 6.9 | 6.9 |
| Telecommunications | **6.5** | **3.8** | 8.7 | 5.7 |
| Investment Trusts | **6.3** | **1.9** | 6.3 | 1.8 |
| Utilities | **4.1** | **3.3** | 3.2 | 3.3 |
| Technology | **1.2** | **1.2** | 1.3 | 1.3 |
| Bond Funds | **5.2** | **15.0** | 5.5 | 15.0 |
| Net Current Assets | **1.9** | **–** | 1.9 | – |
| **Total** | **100.0** | **100.0** | 100.0 | 100.0 |

[1]Based on net assets of £53.7m (2013: £49.3m).

# List of Investments
at 31st August 2014

| | Valuation £'000 |
|---|---|
| **UK Equities** | |
| Royal Dutch Shell | 4,253 |
| HSBC | 2,997 |
| BP | 2,394 |
| GlaxoSmithKline | 2,208 |
| British American Tobacco | 2,000 |
| AstraZeneca | 1,746 |
| Rio Tinto | 1,583 |
| Vodafone | 1,560 |
| National Grid | 1,425 |
| Prudential | 1,369 |
| Imperial Tobacco | 1,329 |
| BT | 1,299 |
| Barclays | 1,165 |
| BAE Systems | 1,095 |
| BHP Billiton | 1,066 |
| ITV | 924 |
| Standard Life | 890 |
| Direct Line Insurance | 846 |
| Scottish & Southern Energy | 771 |
| Next | 751 |
| Taylor Wimpey | 675 |
| Schroders | 672 |
| Provident Financial | 670 |
| Kcom | 643 |
| Micro Focus International | 643 |
| WPP | 637 |
| Interserve | 619 |
| Henderson | 619 |
| Berkeley | 598 |
| Halfords | 566 |
| GKN | 565 |
| Compass | 550 |
| Informa | 546 |
| Old Mutual | 545 |
| Glencore Xstrata | 542 |
| Beazley | 540 |

| | Valuation £'000 |
|---|---|
| British Land | 538 |
| Berendsen | 537 |
| Mondi | 474 |
| Legal & General | 460 |
| RPC | 402 |
| Jupiter Fund Management | 400 |
| WH Smith | 329 |
| Bodycote | 328 |
| Persimmon | 303 |
| Galliford Try | 291 |
| Senior | 246 |
| Diploma | 239 |
| Elementis | 226 |
| John Menzies | 222 |
| TUI Travel | 189 |
| | **46,485** |
| **JPMorgan Managed Investment Trusts** | |
| JPMorgan Income & Growth (Income shares) | 2,448 |
| JPMorgan European (Income shares) | 787 |
| JPMorgan Income & Growth (Capital shares) | 136 |
| | **3,371** |
| **JPMorgan Managed Bond Funds** | |
| JPMorgan Global High Yield Bond ('A' Income shares)[1] | 2,808 |
| | **2,808** |
| **Total Portfolio** | **52,664** |

[1]Unlisted and represents holdings in an Open Ended Investment Company ('OEIC') or a Société d'investissements à Capital Variable ('SICAV').

# Strategic Report continued

## Managed Income Share Class continued

### Income Statement (Unaudited)

for the year ended 31st August 2014

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| **Gains on investments held at fair value through profit or loss** | – | 4,607 | 4,607 | – | 6,920 | 6,920 |
| Net foreign currency gains | – | 1 | 1 | – | – | – |
| Income from investments | 2,376 | – | 2,376 | 2,304 | – | 2,304 |
| Other interest receivable and similar income | 3 | – | 3 | 11 | – | 11 |
| **Gross return** | 2,379 | 4,608 | 6,987 | 2,315 | 6,920 | 9,235 |
| Management fee | (125) | (129) | (254) | (100) | (119) | (219) |
| Other administrative expenses | (118) | – | (118) | (126) | – | (126) |
| **Net return on ordinary activities before finance costs and taxation** | 2,136 | 4,479 | 6,615 | 2,089 | 6,801 | 8,890 |
| Taxation credit/(charge) | 1 | – | 1 | (4) | – | (4) |
| **Net return on ordinary activities after taxation** | 2,137 | 4,479 | 6,616 | 2,085 | 6,801 | 8,886 |
| **Return per Managed Income share** | 4.16p | 8.71p | 12.87p | 3.97p | 12.93p | 16.90p |

### Balance Sheet (Unaudited)

at 31st August 2014

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Fixed assets** | | |
| Investments held at fair value through profit or loss | 52,664 | 48,355 |
| **Current assets** | | |
| Debtors | 544 | 622 |
| Cash and short term deposits | 497 | 518 |
| | 1,041 | 1,140 |
| **Creditors:** amounts falling due within one year | (24) | (224) |
| **Net current assets** | 1,017 | 916 |
| **Net assets** | 53,681 | 49,271 |
| **Net asset value per Managed Income share** | 104.3p | 94.9p |

# Managed Cash Share Class

## Financial Results

**+0.4%**
Total return to shareholders[1]
(2013: +0.2%)

**+0.4%**
Total return on net assets[2]
(2013: +0.2%)

**0.35p**
Dividend
(2013: 0.15p)

MANAGED CASH

## Financial Data

| | 31st August 2014 | 31st August 2013 | % change |
|---|---|---|---|
| Shareholders' funds (£'000) | **4,445** | 13,557 | -67.2 |
| Number of shares in issue[3] | **4,393,404** | 13,432,185 | -67.3 |
| Net asset value per share | **101.2p** | 100.9p | +0.3 |
| Share price | **100.5p** | 100.5p | +0.0 |
| Share price discount to net asset value per share | **0.7%** | 0.4% | |
| Ongoing Charges[4] | **0.25%** | 0.22% | |

A glossary of terms and definitions is provided on page 83.

[1]Source: Morningstar.

[2]Source: J.P. Morgan.

[3]Excluding nil (2013: 106,167) Treasury shares.

[4]Operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies.

# Strategic Report continued

## Managed Cash Share Class continued

### Investment Manager's Report

Katy Thorneycroft

The year finished as it began, closing a period of low returns for the Managed Cash portfolio. At its August meeting, the Bank of England's Monetary Policy Committee voted unanimously to keep the Asset Purchase Programme at £375 billion, although there was a 7-2 split in favour of maintaining the base rate of interest at 0.5%, the first voting split in three years. The majority of committee members did not see sufficient evidence of inflationary pressure to vote for a hike, but some questioned the usefulness of slack as a key indicator for forward guidance. The August inflation report was more dovish than expected with mean GDP growth forecasts for 2014 and 2015 revised up, but the CPI inflation forecast on a two year horizon lowered from 1.9% to 1.8% with risks skewed to the downside. Unemployment data continued its downward trend although wage inflation remains weak, despite a larger than expected fall in jobless claims.

The Managed Cash portfolio invests in AAA-rated liquidity funds managed by Deutsche, Insight, Blackrock, JPMorgan, Scottish Widows and Fidelity. The primary aim of the funds the Managed Cash portfolio invests in is to provide preservation of capital and liquidity, with a yield in line with money market rates as a secondary aim. The return for the financial year was 0.4%. Given weak wage inflation and the dovish inflation report, we expect yields to remain low.

**Katy Thorneycroft**
Investment Manager

30th October 2014

MANAGED CASH

## Financial Record

| At 31st August | 2004[1] | 2005[2] | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net asset value per share (p) | 100.1 | 101.2 | 101.1 | 101.4 | 101.5 | 100.3 | 100.7 | 101.2 | 101.1 | 100.9 | **101.2** |
| Share price (p) | 100.0 | 99.5 | 99.0 | 100.0 | 100.5 | 100.0 | 100.0 | 100.5 | 100.5 | 100.5 | **100.5** |
| **Year to 31st August** | | | | | | | | | | | |
| Revenue return per share (p) | 2.08 | 3.97 | 3.65 | 3.98 | 4.17 | 1.56 | 0.22 | 0.43 | 0.39 | 0.17 | **0.34** |
| Dividends per share (p) | 2.00 | 3.96 | 3.73 | 3.93 | 4.07 | 1.70 | 0.00 | 0.35 | 0.50 | 0.15 | **0.35** |
| Discount (%) | 0.1 | 1.7 | 2.1 | 1.4 | 1.0 | 0.3 | 0.7 | 0.7 | 0.7 | 0.4 | **0.7** |
| Gearing/(Net Cash)[3] (%) | nil | nil | nil | nil | nil | nil | nil | nil | nil | nil | **nil** |
| Ongoing Charges[4] (%) | 0.10 | 0.08 | 0.15 | 0.12 | 0.16 | 0.21 | 0.20 | 0.19 | 0.24 | 0.22 | **0.25** |

A glossary of terms and definitions is provided on page 83.

[1]Represents the period from commencement of operations on 14th January 2004 to 31st August 2004.

[2]Restated for the change in accounting policy regarding dividends payable, which are included in the accounts in the year in which they are approved by shareholders. The period ended 31st August 2004 has not been restated.

[3]Gearing represents the excess amount above shareholders' funds of total assets expressed as a percentage of shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

[4]Operating expenses excluding finance costs, expressed as a percentage of the average daily net assets during the year (2009 to 2011: Total Expense Ratio: Operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year: 2008 and prior years: the average of the opening and closing net assets).

# Strategic Report continued

## Managed Cash Share Class continued

### List of Investments

at 31st August 2014

| Company | Yield %[1] | Rating[2] | 31st August 2014 Valuation £'000 | 31st August 2014 Valuation %[3] | 31st August 2013 Valuation £'000 | 31st August 2013 Valuation %[4] |
|---|---|---|---|---|---|---|
| Deutsche Global Liquidity Fund | 0.54 | AAA | **760** | **17.1** | 2,433 | 17.9 |
| Blackrock ICS Institutional Sterling Liquidity Fund | 0.55 | AAA | **749** | **16.8** | 2,637 | 19.5 |
| JPMorgan Sterling Liquidity Fund | 0.52 | AAA | **734** | **16.5** | 2,637 | 19.5 |
| Insight Sterling Liquidity Fund | 0.55 | AAA | **714** | **16.1** | 2,574 | 19.0 |
| Scottish Widows Investment Partnership Liquidity Fund | 0.51 | AAA | **712** | **16.0** | 2,293 | 16.9 |
| Fidelity Institutional Sterling Liquidity Fund | 0.50 | AAA | **710** | **16.0** | 992 | 7.3 |
| **Total Portfolio** | | | **4,379** | **98.5** | 13,566 | 100.1 |
| Net current assets/(liabilities) | | | **66** | **1.5** | (9) | (0.1) |
| **Net assets** | | | **4,445** | **100.0** | 13,557 | 100.0 |

[1]Annual yield to 31st August 2014. Source: IMMFA Money Fund Report, iMoneyNet.
[2]Ratings given by Standard & Poor's as at 31st August 2014.
[3]Based on net assets of £4.4m.
[4]Based on net assets of £13.6m.

MANAGED CASH

### Portfolio Analysis

| | 31st August 2014 %[1] | 31st August 2013 %[1] |
|---|---|---|
| Sterling Liquidity Funds and Cash Funds | **98.5** | 100.1 |
| Net current assets/(liabilities) | **1.5** | (0.1) |
| **Total** | **100.0** | 100.0 |

[1]Based on net assets of £4.4m (2013: £13.6m).

## Income Statement (Unaudited)
for the year ended 31st August 2014

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| Income from investments | **21** | **–** | **21** | 57 | – | 57 |
| Other interest receivable and similar income | **1** | **–** | **1** | – | – | – |
| **Gross return** | **22** | **–** | **22** | 57 | – | 57 |
| Other administrative expenses | **(1)** | **–** | **(1)** | (30) | – | (30) |
| **Net return on ordinary activities before taxation** | **21** | **–** | **21** | 27 | – | 27 |
| Taxation charge | **(2)** | **–** | **(2)** | (3) | – | (3) |
| **Net return on ordinary activities after taxation** | **19** | **–** | **19** | 24 | – | 24 |
| **Return per Managed Cash share** | **0.34p** | **0.00p** | **0.34p** | 0.17p | 0.00p | 0.17p |

## Balance Sheet (Unaudited)
at 31st August 2014

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Fixed assets** | | |
| Investments held at fair value through profit or loss | **4,379** | 13,566 |
| **Current assets** | | |
| Debtors | **1** | 6 |
| Cash and short term deposits | **67** | 3 |
| | **68** | 9 |
| **Creditors:** amounts falling due within one year | **(2)** | (18) |
| **Net current assets/(liabilities)** | **66** | (9) |
| **Net assets** | **4,445** | 13,557 |
| **Net asset value per Managed Cash share** | **101.2p** | 100.9p |

# Strategic Report continued



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

## Business Review

**Business of the Company**
JPMorgan Elect plc is an investment trust company that has a premium listing on the London Stock Exchange. In seeking to achieve its objectives, the Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') which, in turn, delegates portfolio management to JPMorgan Asset Management (UK) Limited ('JPMAM') to manage the Company's assets actively. The Board has determined investment policies and related guidelines and limits. These objectives, investment policies and related guidelines and limits are detailed below.

The Company is subject to UK and European legislation and regulations including UK company law, UK Financial Reporting Standards, the UK Listing, Prospectus, Disclosure and Transparency Rules, taxation law, the Company's own Articles of Association and the Alternative Investment Fund Managers Directive.

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

The Board holds an annual Strategy meeting at which the Company's objectives and policies are reviewed in detail. The Board seeks to determine whether the strategies in place are conducive to meeting the expectations of shareholders. As part of this exercise, the performance of each of the Company's share classes is monitored against the respective objectives, policies and targets. The process also includes the taking into account of shareholder views. Alternative strategies are modelled, considered and discussed to determine whether their implementation may be appropriate.

### Managed Growth

**Objective**
The objective of the Managed Growth portfolio is to achieve long term capital growth from investing in a range of investment trusts and open-ended funds managed principally by J.P. Morgan Asset Management.

**Investment Policies and Risk Management**
In order to achieve its stated investment policy and to seek to manage investment risks, the Managed Growth portfolio is invested in a diversified range of investment trusts and open-ended funds, which themselves invest in the UK and overseas. The number of investments in the portfolio will normally range between 30 and 50.

**Investment Restrictions and Guidelines**

- The Investment Manager must obtain Board approval for any new investment in excess of 10% of the portfolio's gross assets.
- The portfolio does not invest more than 10% of its gross assets in any company that itself may invest more than 15% of its gross assets in UK listed investment companies.
- An investment in any open-ended fund will not exceed 25% of the market capital of the investee fund.
- Investments in third party managed funds will not normally exceed 30% of the portfolio's gross assets.
- Board permission has been granted for the limited use of futures for tactical asset allocation purposes. Other than this, the portfolio will not normally invest in derivative instruments – prior approval is required from the Board if such an investment is desired.
- The Board does not intend to utilise borrowings to increase the funds available for investment. The Board monitors closely the level of indirect gearing through the underlying investments. The underlying portfolio should be invested 95-120%.

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

## Managed Income

### Objective

The objective of the Managed Income portfolio is to achieve a growing income return with potential for long term capital growth by investing in equities, investment companies and fixed income securities.

### Investment Policies and Risk Management

In order to achieve its stated investment policy and to seek to manage investment risks, the Managed Income portfolio is invested in a diversified portfolio of UK equities (including investment companies) and open-ended funds. Please see the Investment Managers' report for more details on portfolio activity. The number of investments in the portfolio will normally range between 50 and 80.

### Investment Restrictions and Guidelines

- The portfolio does not invest more than 10% of its gross assets in any company that itself may invest more than 15% of its gross assets in UK listed investment companies.
- The portfolio will be between 90-100% invested in equities (including investment companies) and fixed interest securities.
- The Investment Managers may write options within parameters set by the Board. Prior approval is required from the Board for investment in all other derivative instruments. Board permission has been granted for the limited use of futures for tactical asset allocation purposes.
- The Board does not intend to utilise borrowings to increase the funds available for investment.

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

## Managed Cash

### Objective

The objective of the Managed Cash portfolio is to provide preservation of capital with a yield based on short term interest rates by investing in a range of sterling liquidity funds, selected for their yield and credit rating, and short dated AAA-rated UK or G7 government securities hedged into sterling.

### Investment Policies and Risk Management

In order to achieve its stated investment policy and to seek to manage investment risks, the Managed Cash portfolio invests no more than 20% of the value of the portfolio in any one liquidity fund or short dated (i.e. with a maturity of less than two years) UK or G7 government securities hedged into sterling. All liquidity funds or government securities shall have a AAA credit rating (as measured by Standard & Poor's) or equivalent rating from a recognised credit rating agency.

### Investment Restrictions and Guidelines

- No more than 20% of the value of the portfolio to be invested in any one sterling liquidity fund.
- To invest no more than 15% of gross assets in other UK listed companies (including investment companies).
- The Board does not intend to utilise borrowings to increase the funds available for investment.

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

### Monitoring of Compliance

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

## Performance

### Managed Growth:

In the year ended 31st August 2014, the Managed Growth portfolio produced a total return to shareholders of +10.7% and a total return on net assets of +10.8%. This compares with the return on the composite benchmark of +11.7%. As at 31st August 2014, the value of the Managed Growth investment portfolio was £199.1 million. The Investment Managers' Report on pages 6 to 8 includes a review of developments during the year as well as information on investment activity within the portfolio.

### Managed Income:

In the year ended 31st August 2014, the Managed Income portfolio produced a total return to shareholders of +14.5% and a total return on net assets of +13.9%. This compares with the return on the composite benchmark of +10.1%. As at 31st August 2014, the value of the Managed Income investment portfolio was £52.7 million. The Investment Managers' Report on pages 14 to 17 includes a review of developments during the year as well as information on investment activity within the portfolio.

# Strategic Report continued

## Business Review continued

**Managed Cash:**
In the year ended 31st August 2014, the Managed Cash portfolio produced a total return to shareholders of +0.4% and a total return on net assets of +0.4%. There is no benchmark for this share class other than to maintain the net asset value as close to 100p per share as possible. As at 31st August 2014, the value of the investment portfolio was £4.4 million. The Investment Managers' Report on page 24 includes a review of developments during the year.

### Revenue and Dividends

Full details of the dividends paid and declared on the Managed Growth, Managed Income and Managed Cash share classes during the year are given in note 7 on pages 62 and 63.

### Key Performance Indicators ('KPIs')

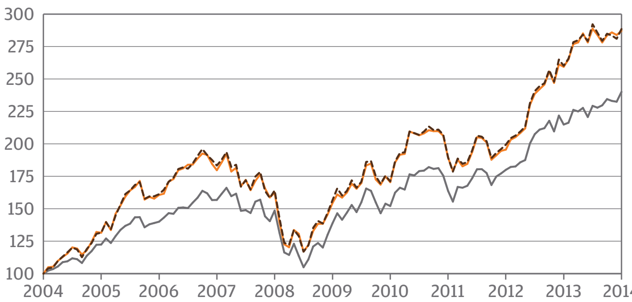
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are performance against the benchmark index; performance against the Company's peers; performance attribution; share price discount/premium to net asset value per share; ongoing charges; and dividends.

- **Performance against the benchmark index:**
  This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and information on the performance of the portfolios is given in the Investment Managers' Reports.

- **Performance against the benchmark index – Managed Growth**

**Ten Year Performance**

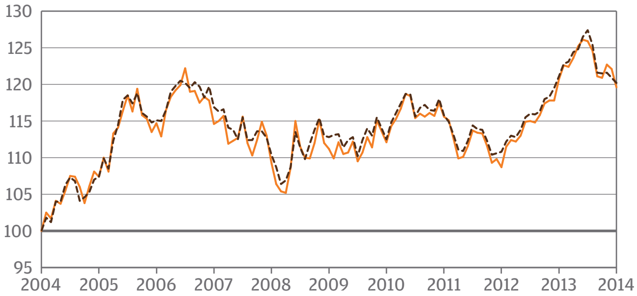
Figures have been rebased to 100 as at 31st August 2004




JPMorgan Elect Managed Growth – share price total return.
JPMorgan Elect Managed Growth – net asset value total return.
Benchmark.
Source: J.P. Morgan/Bloomberg.

**Performance Relative to Benchmark Index**

Figures have been rebased to 100 at 31st August 2004

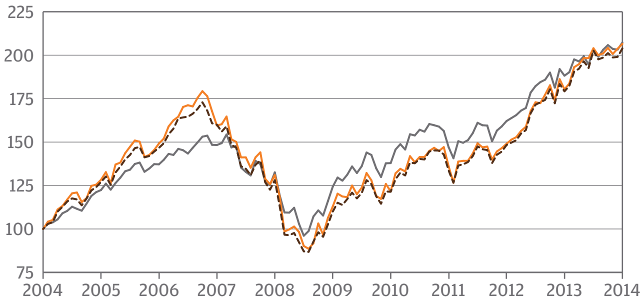



JPMorgan Elect Managed Growth – share price total return.
JPMorgan Elect Managed Growth – net asset value total return.
The benchmark is represented by the horizontal grey line.
Source: J.P. Morgan/Bloomberg.

- **Performance against the benchmark index – Managed Income**

**Ten Year Performance**

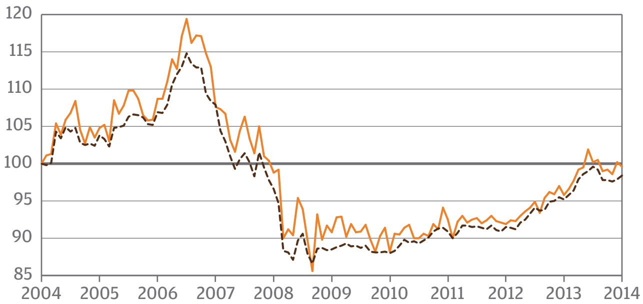
Figures have been rebased to 100 as at 31st August 2004




JPMorgan Elect Managed Income – share price total return.
JPMorgan Elect Managed Income – net asset value total return.
Benchmark.
Source: J.P. Morgan/Bloomberg.

**Performance Relative to Benchmark Index**

Figures have been rebased to 100 as at 31st August 2004




JPMorgan Elect Managed Income – share price total return.
JPMorgan Elect Managed Income – net asset value total return.
The benchmark is represented by the horizontal grey line.
Source: J.P. Morgan/Bloomberg.

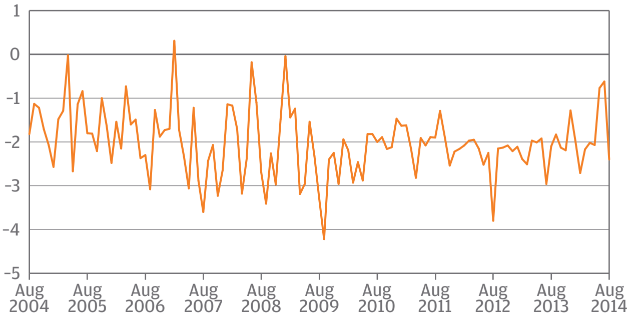
- **Performance against the benchmark index – Managed Cash**
  There is no benchmark for the Managed Cash share class, other than to maintain the net asset value as close to 100p per share as possible.

- **Performance against the Company's peers – Managed Growth and Managed Income**
  The principal objective of the Managed Growth share class is to achieve capital growth. The principal objective of the Managed Income share class is to achieve growing income with the potential for long term capital growth. However, the Board also monitors the performance of the Managed Growth and Managed Income share classes relative to a broad range of competitor funds.

- **Performance attribution – Managed Growth and Managed Income**
  The purpose of performance attribution analysis is to assess how each share class achieved its performance relative to its benchmark index, i.e. to understand the impact on the Managed Growth and Managed Income portfolios' relative performance of the various components, such as asset allocation and stock selection. However, given that the Managed Growth (and a proportion of the Managed Income portfolio) is invested in other funds, rather than entirely in conventional equities, it is difficult to produce precise, verifiable performance attribution data. Therefore the Investment Managers comment on the factors that have significantly impacted on performance in their reports.

- **Share price discount/premium to net asset value ('NAV') per share**
  The Board has for several years operated share issue and repurchase programmes which seek to address imbalances in supply and demand of the Company's shares within the market and thereby seek to reduce the volatility and absolute level of the discount/premium to NAV per share at which the Company's shares trade.

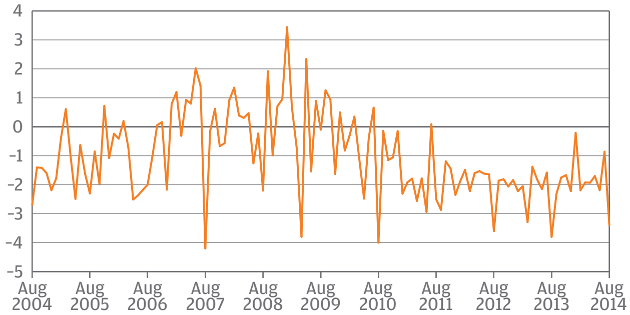
- **Share price discount/premium to NAV per share – Managed Growth**




JPMorgan Managed Growth – premium/(discount).
Source: Datastream.

In the year to 31st August 2014, the Managed Growth shares traded between a discount of -3.0% and -0.6% (on a month end to month end basis).

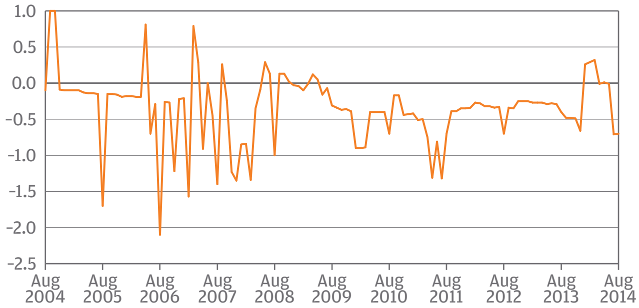
- **Share price discount/premium to NAV per share – Managed Income**




JPMorgan Managed Income – premium/(discount).
Source: Datastream.

In the year to 31st August 2014, the Managed Income shares traded between a discount of -2.8% and -0.2% (on a month end to month end basis).

- **Share price discount/premium to NAV per share – Managed Cash**




JPMorgan Managed Cash – premium/(discount).
Source: Datastream.

In the year to 31st August 2014, the Managed Cash shares traded between a discount of -0.8% and a premium of +0.3% (on a month end to month end basis).

- **Ongoing charges – Managed Growth, Managed Income and Managed Cash**
  The ongoing charges represent the Company's management fee and all other operating expenses, excluding any finance costs, expressed as a percentage of the average of the daily net assets during the year. The Managed Growth ongoing charges for the year ended 31st August 2014 were 0.52% (2013: 0.58%), the Managed Income ongoing charges were 0.72% (2013: 0.73%) and the Managed Cash ongoing charges were 0.25% (2013: 0.22%). Each year, the Board reviews an analysis which shows a comparison of the Managed Growth and Managed Income ongoing charges and its main expenses with those of its peers.

# Strategic Report continued

## Business Review continued

- **Income Return – Managed Income**
  The Board regards growing the income return as the first priority for the Managed Income share class. The Board expects income growth at least in line with inflation and monitors forecast levels at each Board meeting and receives analyses from the Manager accordingly.

### Share Capital

The Company has the authority to issue new shares, reissue shares from Treasury and repurchase shares for cancellation or to be held in Treasury. Further details of the changes during the year are in the Chairman's Statement on pages 1 to 3.

Resolutions to renew the authorities to issue new shares, reissue shares from Treasury and repurchase Managed Growth, Managed Income and Managed Cash shares for cancellation or to be held in Treasury will be put to shareholders at the forthcoming Annual General Meeting. It should be noted that the Board would only reissue shares from Treasury at a premium to NAV. It is not seeking authority to reissue shares from Treasury at a discount to NAV.

The full text of these resolutions are set out in the Notice of Annual General Meeting on pages 79 and 80.

There are 50,000 Founder shares of £1 each in issue, partly paid as to 25p each. The Founder shares are non-voting and carry the right to receive a fixed dividend at the rate of 0.01% on their nominal value. However, the holders of the Founder shares have waived the right to receive such dividends.

**Conversions**
The Company's capital structure allows shareholders the opportunity, four times each year, to convert part or all of their shareholdings into shares of the Company's other share classes without such conversions being treated, under current law, as a disposal for UK capital gains tax purposes. More details are given in the Chairman's Statement on page 3 and also on page 84.

### Principal Risks

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- Investment Strategy: An inappropriate investment strategy, for example asset allocation, or the level of indirect gearing, may lead to underperformance against the relevant benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on by the Manager.
  The Manager provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, transaction reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Board does not intend that any of the Company's portfolios will use borrowings to increase the funds available for investment and it monitors closely the level of indirect gearing through the underlying investments. The Board holds a separate meeting devoted to strategy each year.
- Market: Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of indirect gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by the Manager. The Board monitors the implementation and results of the investment process with the Manager.
- Accounting, Legal and Regulatory: In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' above. Were the Company to breach Section 1158, it might lose investment trust status and, as a consequence, gains within the Company's portfolios could be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by the Manager and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 2006 and, since its shares have premium listings on the London Stock Exchange, the UKLA Listing Rules, the Disclosure and Transparency Rules ('DTRs') and, as an investment trust, the Alternative Investment Fund Managers Directive

the Alternative Investment Fund Managers Directive ('AIFMD'). A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, the Manager and its professional advisers to ensure compliance with the Companies Act 2006, the UKLA Listing Rules, DTRs and AIFMD.

- Corporate Governance and Shareholder Relations: Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 39 to 45.
- Operational: Loss of key staff by the Manager or JPMorgan Asset Management (UK) Limited, such as the Investment Managers, could affect the performance of the Company. 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. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective internal controls are included within the Risk Management and Internal Controls section of the Corporate Governance report on pages 43 and 44.
- Financial: The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 22 on pages 73 to 78.

## 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 August 2014, there were five male Directors on the Board.

## Employees, Social, Community and Human Rights Issues

The Company has a management contract with JPMF. it has no employees and all of its Directors are non-executive. The day to day activities are carried out by third parties. There are therefore no disclosures to be made in respect of employees.

The Board notes the policy statements of JPMorgan Asset Management (UK) Limited ('JPMAM') in respect of Social, Community and Environmental and Human Rights issues, as highlighted in italics:

***Social, Community, Environmental and Human Rights***

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

## Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategies in the light of economic and equity market developments and the continued support of its shareholders. The Investment Managers discuss the outlook for each share class in their reports on pages 6 to 8, 14 to 17 and 24.

By order of the Board
**Rebecca Burtonwood**, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

THE COMPANY

# Governance

## Board of Directors

**Robert Ottley (Chairman)**

A Director since January 2004 and Chairman since December 2012.

Last reappointed to the Board: December 2013.

Successively a partner or director of private client stockbroking firms W Greenwell, James Capel, and HSBC Investment Management, with a particular interest in investment trusts and other collective schemes, Mr Ottley has latterly been a non-executive director of a variety of trusts and companies investing in the US, Japan, Asia and the UK respectively. His former directorships include JPMorgan Fleming Managed Income plc.

Connections with Manager: None.

Shared directorships with other Directors: None.

**Alan Hodson**

A Director since January 2012.

Last reappointed to the Board: December 2013.

Chairman of Blackrock Commodities Income Investment Trust plc, Great Ormond Street Hospital Children's Charity special trustees and Triodos New Horizons Ltd and a non-executive Director of HarbourVest Global Private Equity Limited. Mr Hodson joined SG Warburg (subsequently UBS) in 1984, rising to Global Head of Equities, a member of the Executive Committee of UBS Investment Bank and of the UBS AG Group Managing Board until his retirement in June 2005.

Connections with Manager: None.

Shared directorships with other Directors: None.

**Angus Macpherson**

A Director since March 2008 and Deputy Chairman since October 2014.

Last reappointed to the Board: December 2013.

Chief Executive of ES Noble & Company Limited and a director of BESI Holdings Limited. Mr Macpherson spent much of his career working overseas for Merrill Lynch, latterly as head of Capital Markets and Financing for Asia. He also serves as a member of the Scottish Government's Financial Services Advisory Board.

Connections with Manager: None.

Shared directorships with other Directors: None.

**James Robinson (Chairman of the Audit Committee)**

A Director since April 2012.

Last reappointed to the Board: December 2013.

Chairman of Polar Capital Global Healthcare Growth and Income Trust plc and a director of Aberdeen New Thai Investment Trust PLC, Fidelity European Values PLC, Montanaro UK Smaller Companies Investment Trust plc and Invesco Asia Trust plc. He is also a Council Member and chairman of the Investment Committee of the British Heart Foundation. Mr Robinson was chief investment officer, investment trusts and director of hedge funds at Henderson Global Investors prior to his retirement in 2005. A chartered accountant, Mr Robinson has 33 years' investment experience.

Connections with Manager: None.

Shared directorships with other Directors: None.

**Roger Yates**

A Director since August 2009.

Last reappointed to the Board: December 2013.

Chairman of Pioneer Investments and Electra Private Equity Trust plc, a director of St James's Place plc and an independent non-executive director of IG Group Holdings plc. He was chief executive of Henderson Group plc from 1999 to 2008 and, prior to that, chief investment officer of Invesco Global and Morgan Grenfell Investment Management Limited. He has 33 years' experience in the fund management industry having begun his career with GT Management Limited in 1981.

Connections with Manager: None.

Shared directorships with other Directors: None.

All Directors are members of the Audit and Nomination Committees and are considered independent of the Manager.

# Governance continued

## Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st August 2014.

A number of disclosures previously incorporated in the Directors' Report are now included in the Strategic Review. These include: Business of the Company; Investment Objectives; Investment Policies and Risk Management; Investment Restrictions and Guidelines; Performance; Revenue and Dividends; KPIs; Share Capital; Principal Risks; Employee, Social, Community and Human Rights Issues and Future Developments.

### Management of the Company

The Manager and Company Secretary is JPMorgan Funds Limited. The Manager is employed under a contract which can be terminated on one year's notice, without penalty. If the Company wishes to terminate the contract on less than one year's notice, the balance of the year's remuneration is payable by way of compensation.

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

Portfolio management is delegated to JPMorgan Asset Management (UK) Limited. The current Management Agreement was entered into with effect from 1st July 2014 following the implementation of a number of changes required by the Alternative Investment Fund Managers Directive, as detailed in the Chairman's Statement on page 4.

The Board conducts a formal evaluation of the performance of, and contractual relationship with, the Manager on an annual basis. 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 evaluated the performance of the Manager this year and confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. In arriving at this view, the Board has considered the investment strategy and process of the Manager, noting performance against the portfolios' respective benchmarks and peers over the long term and the quality of the support that the Company receives from the Manager, including the marketing support provided.

### 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 FCA. For the purposes of the AIFMD the Company is an alternative investment fund ('AIF').

The Company entered into a new investment management agreement with JPMF on 1st July 2014. 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 BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary. BNY has delegated its safekeeping function to the custodian, JPMorgan Chase Bank, N.A. BNY remains responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows.

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. 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.jpmelect.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 polices to the FCA at the appropriate time.

### Management Fee

The management fee is calculated and paid quarterly in arrears and is charged at the following rates:

- Managed Growth assets: The management fee is 0.3% per annum on assets invested in JPMorgan managed funds and 0.6% per annum on assets invested in non-JPMorgan managed funds and direct investments. Investments in JPMorgan's retail open-ended pooled funds qualify for a partial rebate of the underlying fee which is paid back to the Company.

- Managed Income assets: There is no management fee on assets invested in JPMorgan managed funds. The management fee is 0.6% per annum on assets invested in non-JPMorgan managed funds and direct investments. Investments in JPMorgan's retail open-ended pooled funds qualify for a partial rebate of the underlying fee.
- Managed Cash assets: no management fee charged.

The management fees in the financial statements are shown net of rebates.

### Going Concern

The Directors believe that, having considered the Company's investment objectives (see pages 28 and 29); risk management policies (see pages 43 and 44); liquidity risk (see note 22(b) on page 77); capital management policies and procedures (see note 23 on page 78); the nature of the portfolios and expenditure and cashflow projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

### Directors

All Directors served throughout the year and their details are included on pages 34 and 35. Details of their beneficial shareholdings may be found in the Directors' Remuneration Report on page 47.

In accordance with corporate governance best practice, all Directors will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment by shareholders.

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

### Director Indemnification and Insurance

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

An insurance policy is maintained by the Company which insures 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 the Auditor

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

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

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

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

### Independent Auditor

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

### Section 992 Companies Act 2006

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

**Capital Structure**
The Company's capital structure is summarised on the Features page at the front 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 82 and below.

**Notifiable Interests in the Company's Voting Rights**
At 31st August 2014, no declarations had been received of a notifiable interest in the Company's voting rights.

# Governance continued

## Directors' Report continued

There have been no changes to this disclosure since the year end to the date of this report.

The Company is aware that as at 31st August 2014, approximately 58.2% of the Company's total voting rights were held by individuals through the savings products managed by J.P. Morgan Asset Management and registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of the savings products, under certain circumstances J.P. Morgan Asset Management has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

The percentage of total voting rights is calculated by reference to the NAVs per share which, as at 31st August 2014 were as follows:

| | |
|---|---|
| Managed Growth Shares: | 5.67 |
| Managed Income Shares: | 1.04 |
| Managed Cash Shares: | 1.01 |

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

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

### 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.

The full text of the resolutions is set out in the Notice of Meeting on pages 79 and 80:

**(i) Authority to allot new shares and disapply statutory pre-emption rights (resolutions 10 and 11)**

The Directors will seek renewal of the authority at the Annual General Meeting to issue new ordinary shares for cash or by way of a sale of Treasury shares up to 3,719,360 Managed Growth shares, 5,131,383 Managed Income shares and 423,014 Managed Cash shares, such amount being equivalent to approximately 10% of the issued share capital (excluding Treasury shares) of each share class as at the latest practicable date before the publication of this document or, if different, the number of ordinary shares which is equal to approximately 10% of the Company's issued share capital (excluding Treasury shares) of each share class as at the date of the passing of the resolution.

This authority will expire at the conclusion of the Annual General Meeting of the Company in 2015 unless renewed at a prior general meeting.

Resolution 11 will enable the allotment of shares otherwise than by way of a pro rata issue to existing shareholders. It is advantageous for the Company to be able to issue new shares (or to sell Treasury shares) to participants purchasing shares through the JPMorgan savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the net asset value ('NAV'), thereby increasing the NAV per share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

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

The authority to repurchase up to 14.99% of the shares of any class of the Company's issued share capital, granted by shareholders at the 2013 Annual General Meeting, will expire on 18th June 2015 unless renewed at the forthcoming Annual General Meeting. The Directors consider that the renewal of this authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV of a particular share class enhances the NAV of the remaining shares of that share class.

Resolution 12 gives the Company authority to repurchase its own issued ordinary shares of any class in the market as permitted by the Companies Act 2006. The authority limits the number of shares that could be purchased to a maximum number of ordinary shares of each share class, representing approximately 14.99% of the Company's issued ordinary shares of each share class as at the latest practicable date before the publication of this document or, if different, the number of ordinary shares which is equal to 14.99% of the Company's issued share capital (excluding Treasury shares) of each share class as at the date of the passing of the resolution. The authority also sets minimum and maximum prices.

If resolution 12 is passed at the Annual General Meeting, the Board may repurchase the shares for cancellation or hold them in Treasury pursuant to the authority granted to it for possible reissue at a premium to NAV. During the year ended 31st August 2014, shares repurchased were held in Treasury or cancelled. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares of that share class as and when market conditions are appropriate. This authority will expire on 17th June 2016, or when the whole of the 14.99% has been acquired, whichever is the earlier, however it is the Board's intention to seek renewal of the authority at the 2015 Annual General Meeting.

**(iii) Approval of the proposed Contingent Purchase Contract (resolution 13)**

The purchase contract is part of the mechanism by which shareholders are entitled to require the Company to repurchase Managed Cash shares. This resolution gives the Company authority to buy its Managed Cash shares and Deferred shares arising on conversion of any of the Managed Growth, Managed Income or Managed Cash shares into other classes of share. This resolution follows the requirements of Section 694 of the Companies Act 2006. The Deferred shares are repurchased for nominal consideration (as they have no economic value) in order to keep the balance sheet manageable. By law the Company can only purchase these shares off-market if such purchase is pursuant to a contract in the form approved at a general meeting of the Company.

**Recommendation**

The Board considers that resolutions 10 to 13 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do, where voting rights are exercisable, in respect of their own beneficial holdings which amounted in aggregate to 52,833 Managed Growth and 92,040 Managed Income shares representing approximately 0.1% of the voting rights of the Company as at the year end.

## Corporate Governance

### Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 49, 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 Association of Investment Companies' ('AIC') Code of Corporate Governance (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code and the AIC Code and in so far as they are relevant to the Company's business throughout the year under review.

### Role of the Board

The Management Agreement between the Company and JPMF 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 been approved. This includes determination and monitoring of the Company's investment objectives and policies and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers,

# Governance continued

## Directors' Report continued

review of key investment and financial data and the Company's corporate governance and risk control arrangements.

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

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

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

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

### Board Composition

The Board, chaired by Mr Ottley, consists of five non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. 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 pages 34 and 35.

There have been no changes to the Chairman's other significant commitments during the year under review.

Mr Macpherson was appointed Deputy Chairman in October 2014.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board is comprised entirely of non-executive Directors, and has appointed a Deputy Chairman, this is unnecessary. Mr Macpherson leads the evaluation of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussions with the Chairman.

### Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. 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 the length of service in itself necessarily disqualifies a Director from seeking reappointment but when making a recommendation, the Board will take into account the requirements of the UK Corporate Governance Code, including the need to refresh the Board and its Committees. The Company's Articles of Association require that Directors stand for reappointment at least every three years. However, the Board has taken a decision to adopt corporate governance best practice, resulting in annual reappointment for all Directors.

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

### Induction and Training

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

### Meetings and Committees

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

The table below details the number of formal Board and Committee meetings attended by each Director. During the year under review there were six Board meetings and three Audit Committee meetings. The holding of the Nomination Committee meeting was postponed until after the year end. These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals. In addition, there is regular contact between the Directors and the Manager and Company Secretary throughout the year.

### Meetings Attended

| Directors | Board | Audit Committee |
|---|---|---|
| Alan Hodson | 5 | 3 |
| Angus Macpherson | 5 | 3 |
| Robert Ottley | 6 | 3 |
| James Robinson | 6 | 3 |
| Roger Yates | 4 | 2 |

### Board Committees

**Nomination Committee**

The Nomination Committee, chaired by Mr Ottley, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender. A variety of sources, including the use of independent external recruitment consultants, may be used to ensure that a wide range of candidates is considered.

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

Questionnaires, drawn up by the Board, with the assistance of the Manager and a firm of independent consultants, are completed by each Director. The responses are then collated and discussed at a private meeting. The evaluation of individual Directors is led by the Chairman who also meets with each Director. Mr Macpherson leads the evaluation of the Chairman's performance.

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

**Audit Committee**

The Audit Committee, chaired by Mr Robinson, consists of all of the Directors and meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Audit Committee. At least one member of the Audit Committee has recent and relevant financial experience and the qualifications of the members of the Audit Committee are disclosed on pages 34 and 35. The Board has taken the decision that Mr Ottley should be a member of the Audit Committee. This is permitted under corporate governance rules because the Chairman was deemed to be independent on appointment.

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

During its review of the Company's financial statements for the year ended 31st August 2014, the Audit Committee considered the following significant issues, including those communicated by the Auditor during its reporting:

| Significant issue | How the issue was addressed |
|---|---|
| Valuation, existence and ownership of investments | The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1 to the accounts on page 56. Controls are in place to ensure that valuations are appropriate and existence is verified through Depositary and Custodian reconciliations. The audit includes the determination of the existence and ownership of the investments. |

# Governance continued

## Directors' Report continued

| Significant issue | How the issue was addressed |
|---|---|
| Recognition of investment income | The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the accounts on pages 56 and 57. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment. |
| Compliance with Sections 1158 and 1159 Corporation Tax Act 2010 | Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st September 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis. |
| Calculation of management fee | The management fee is calculated in accordance with the Investment Management Agreement and details of the allocation of rebates reviewed. These items are also subject to external audit. |
| Share capital | The conversions undertaken on a quarterly basis are calculated in accordance with the terms of the Company's Articles of Association and separately reviewed by the Company's auditor. |

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager, Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the annual report and accounts for the year ended 31st August 2014, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy, and has reported these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 49.

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

The Committee examines the effectiveness of the Company's internal control systems and receives information from the Manager's Compliance department. The Directors' statement on the Company's system of Risk Management and Internal Controls is set out on pages 43 and 44. The Committee also reviews the scope and results of the external audit, its effectiveness and cost effectiveness, the balance of audit and non-audit services and the independence and objectivity of the external Auditor. In the Directors' opinion the Auditor is independent. The Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of the external Auditor.

Representatives of the Company's Auditor attend the Audit Committee meeting at which the draft annual report and accounts are considered and also engage with the Directors as and when required. Having reviewed the performance of the external Auditor, including assessing the quality of work, timing of communications and work with the Manager, the Committee considered it appropriate to recommend the Auditor's reappointment. The Board supported this recommendation and a resolution will be put to shareholders at the forthcoming Annual General Meeting.

The current audit firm has audited the Company's financial statements since 2004. As part of its review of the continuing appointment of the Auditor, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit. A formal tender exercise was undertaken in 2013 as a result of which Ernst & Young LLP's continued engagement was recommended. In accordance with present professional guidelines, the Audit Partner is rotated after no more than five years and the year ended 31st August 2014 is the fourth year for which the present Audit Partner has served. The Board reviews and approves any non-audit services provided by the independent Auditor and assesses the impact of any non-audit work on the ability of the Auditor to remain independent. No such work was undertaken during the year apart from the audit of the quarterly conversions. Details of the fees paid for audit and non-audit services are included in note 5 on page 60.

The Committee reviews the terms of the management agreements between the Company and the Manager, reviews the performance of the Manager, reviews the notice period that the Board has with the Manager and makes recommendations to the Board on the continued appointment of the Manager following these reviews.

**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 on the Company's website, on request at the Company's registered office and at the Company's Annual General Meeting.

## Relations with Shareholders

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

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, presentations are given by the Investment Managers who review the Company's performance.

During the year the Company's brokers, the Investment Managers and JPMF hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to support these meetings and to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 89. The Chairman can also be contacted via the Company's website by following the 'Ask the Chairman' link at wwwjpmelect.co.uk.

The Company's annual report and accounts are published in time to give shareholders at least twenty working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to do so via the Company's website or write to the Company Secretary at the address shown on page 89.

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

## Risk Management and Internal Controls

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

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

Since investment management, custody of assets and all administrative services are provided to the Company by the Manager and its associates, the Company's system of risk management and internal controls mainly comprises monitoring the services provided by the Manager and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 32 and 33). This process has been in place for the year under review and up to the date of the approval of the annual report and accounts, and it accords with the Turnbull guidance. Whilst the Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of the Manager. This arrangement is kept under review.

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

Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including

## Directors' Report continued

management accounts, revenue projections, analysis of transactions and performance comparisons.

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

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

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

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

- reviews the terms of the management agreement and receives regular reports from the Manager's Compliance department;
- reviews reports on the risk management and internal controls and the operations of its Depositary, BNY Mellon Trust and Depositary (UK) Limited, and Custodian, JPMorgan Chase Bank, which are themselves independently reviewed; and
- reviews every six months an independent report on the risk management and 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 risk management and internal controls for the year ended 31st August 2014 and to the date of approval of this annual report and accounts.

The Board confirms that any failings or weaknesses identified during the course of its review of the system of risk management and internal controls were not significant and did not affect the Company.

### Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager. The following is a summary of the policy statements of JPMorgan Asset Management (UK) Limited ('JPMAM') on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details on social and environmental issues are included in the Strategic Report on page 33.

***Corporate Governance***

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

***Proxy Voting***

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

***Stewardship/Engagement***

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

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

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

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: http://www.jpmorganinvestmenttrusts.co.uk/governance, which also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

By order of the Board
**Rebecca Burtonwood,** for and on behalf of
JPMorgan Funds Limited,
Company Secretary

30th October 2014

# Governance continued

## Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st August 2014, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in its report on pages 50 and 51.

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

### Directors' Remuneration Policy

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

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

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

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

In the year under review, Directors' fees were paid at the following rates: Chairman £33,500; Chairman of the Audit Committee £27,000; and other Directors £23,000. These were increased by £1,000 per annum for each Director and £1,500 per annum for the Chairman compared with the previous year, as detailed on page 47. This includes £23,000 paid to third parties for making available the services of one Director (2013: £22,000, one Director).

Fees remain unchanged for the year ending 31st August 2015.

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

The Company has not sought shareholder views on its remuneration policy. The Nomination Committee considers any comments received from shareholders on remuneration policy on an ongoing basis and takes account of those views.

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 40.

### Directors' Remuneration Policy Implementation

The Directors' Remuneration Report, which includes details of the Directors' remuneration policy and its implementation, is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st August 2013 and no changes are proposed for the year ending 31st August 2015.

At the Annual General Meeting held on 19th December 2013, of votes cast, 98.6% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) the remuneration report and 0.9% voted against. Abstentions were received from 0.5% of the votes cast.

Details of voting on both the Remuneration Policy and the Directors' Remuneration Report from the 2014 Annual General Meeting will be given in the annual report for the year ending 31st August 2015. Thereafter, the reporting will be annually for the advisory vote on the Directors' Remuneration Report and triennially for the Remuneration Policy.

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

### Single total figure of remuneration

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

#### Single total figure table[1]

| | Total fees | |
|---|---|---|
| | 2014 | 2013 |
| Alan Hodson | **£23,000** | £22,000 |
| Angus Macpherson | **£23,000** | £22,000 |
| Simon Miller[2] | **n/a** | £10,667 |
| Robert Ottley[3] | **£33,500** | £29,166 |
| James Robinson | **£27,000** | £26,000 |
| Nigel Sidebottom[4] | **n/a** | £369 |
| Roger Yates | **£23,000** | £22,000 |
| **Total** | **£129,500** | £132,202 |

[1]Audited information.

[2]Retired 13th December 2012.

[3]Appointed Chairman 13th December 2012.

[4]Retired 5th July 2012. Fees paid quarterly in arrears and therefore the final payment fell within the reporting year ended 31st August 2013.

A table showing the total remuneration for the Chairman over the five years ended 31st August 2014 is below:

#### Remuneration for the Chairman over the five years ended 31st August 2014

| Year ended 31st August | Fees |
|---|---|
| 2014 | £33,500 |
| 2013[1] | £32,000 |
| 2012 | £32,000 |
| 2011 | £30,333 |
| 2010 | £30,000 |

[1]Rate applicable to the role – Simon Miller retired 13th December 2012 and was replaced by Robert Ottley.

### Directors' Shareholdings[1]

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

| | 31st August 2014 | | |
|---|---|---|---|
| Directors | Managed Growth Shares | Managed Income Shares | Managed Cash Shares |
| Alan Hodson | 10,000 | 25,000 | – |
| Angus Macpherson | 5,568 | – | – |
| Robert Ottley[2] | 32,265 | 42,040 | – |
| James Robinson | 5,000 | – | – |
| Roger Yates | – | 25,000 | – |

| | 31st August 2013 | | |
|---|---|---|---|
| Directors | Managed Growth Shares | Managed Income Shares | Managed Cash Shares |
| Alan Hodson | 10,000 | 25,000 | – |
| Angus Macpherson | 5,568 | – | – |
| Robert Ottley | 32,004 | 40,645 | – |
| James Robinson | 5,000 | – | – |
| Roger Yates | – | 25,000 | – |

1Audited information.

[2]Increase in holdings due to automatic dividend reinvestment.

As at the latest practicable date before the publication of this document, other than the purchase by Mr Ottley of a further 72 Managed Growth shares and 426 Managed Income shares pursuant to a dividend reinvestment programme, there have been no changes to the Directors' shareholdings. The Directors have no other share interests or share options in the Company and no share schemes are available.

In accordance with the Companies Act 2006, graphs showing the total return of the Managed Growth and Managed Income share classes compared with their respective benchmarks over the last five years is shown below. (The benchmarks are a composite comprising 50% FTSE All-Share Index and 50% FTSE World Index (ex-UK) for Managed Growth and a composite comprising 85% FTSE All-Share Index and 15% Barclays Capital Global Corporate Bond Index (hedged) in sterling terms for Managed Income.) Because these benchmarks are the adopted benchmarks for Managed Growth

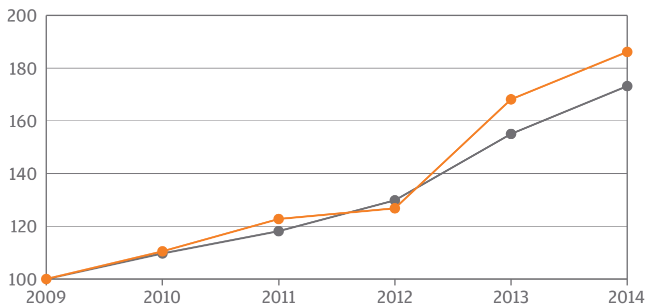
# Governance continued

## Directors' Remuneration Report continued

and Managed Income, they are deemed by the Board to be the most representative comparators for these share classes.

*Managed Growth:*

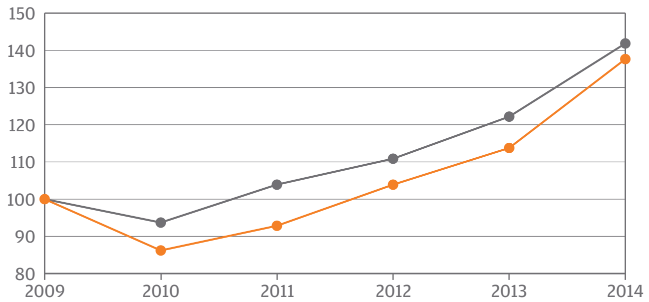
### Five Year Share Price and Benchmark Total Return to 31st August 2014




Share price total return.
Benchmark total return.
Source: Morningstar.

*Managed Income:*

### Five Year Share Price and Benchmark Total Return to 31st August 2014




Share price total return.
Benchmark total return.
Source: Morningstar.

Although the Managed Cash share class has no adopted benchmark, it is a requirement of the Companies Act 2006 to provide a benchmark against which to measure performance for the purposes of the Directors' Remuneration Report. The Board's main objective is to protect investors' capital and so the Managed Cash share price is measured relative to a benchmark of 100.0p. The Managed Cash share price traded in the range of 99.0p to 100.5p in the five year period ended 31st August 2014.

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

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

| | Year ended 31st August 2014 | 2013 |
|---|---|---|
| Remuneration paid to all Directors | **£129,500** | £132,202 |
| Distribution to shareholders | | |
| – by way of dividend | **£4,689,000** | £4,512,000 |
| – by way of share repurchases | **£9,231,000** | £6,666,000 |

For and on behalf of the Board
**Robert Ottley**
Chairman

30th October 2014

## Statement of Directors' Responsibilities

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

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

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

and the Directors confirm that they have done so.

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

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

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

Each of the Directors, whose names and functions are listed on pages 34 and 35, confirms that, to the best of their knowledge:

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

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

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

For and on behalf of the Board
**Robert Ottley**
Chairman
30th October 2014

# Independent Auditor's Report

## to the Members of JPMorgan Elect plc

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st August 2014 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

We have audited the financial statements of JPMorgan Elect plc for the year ended 31st August 2014 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Our assessment of risks of material misstatement

We identified the following risks of material misstatement that we believe to have had the greatest impact on our audit strategy, the scope of our work, the allocation of resources and directing the efforts of the engagement team:

- Management fees are not calculated correctly in accordance with the investment management agreements;
- Income is recognised by the Company before the proper entitlement to receive the income is established;
- Share capital transactions are not accounted for in accordance with legislative requirements; and
- Incorrect valuation and ownership of the investment portfolio.

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements on the financial statements, and in forming our audit opinion. For the purposes of obtaining evidence sufficient to give reasonable assurance that the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined the magnitude of omissions or uncorrected misstatements that we judged would be material to the financial statements as a whole. We determined materiality for the Company to be £2.7 million, which is 1% of total equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessment, together with our assessment of the Company's overall control environment, our judgment is that overall performance materiality for the Company i.e. our tolerance for misstatement in an individual account or balance, should be 75% of materiality, namely £2.0 million. Our objective in adopting this performance materiality was to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds our materiality level for the financial statements as a whole.

We agreed with the Audit Committee that we would report any audit differences in excess of £0.13 million, as well as any differences below that threshold that, in our view, warranted reporting on qualitative grounds.

### An overview of the scope of our audit

Our response to the risks identified above was as follows:

- We independently recalculated management fees for the year with reference to the investment management agreements and agreed the calculation inputs to third party source data;
- We agreed the Company's income entitlements to third party sources and assessed the recoverability of amounts accrued at the balance sheet date by agreeing a sample of accrued dividends to post year-end bank statements;
- We agreed share capital transactions during the year to external confirmations and agreed proceeds received to year end bank statements; and
- We agreed the year end prices of the investments to an independent source and the investment holdings to a third party custodian report.

### Opinion 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; and
- 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.

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

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 38, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

**Michael-John Albert (Senior Statutory Auditor)**
for and on behalf of
Ernst & Young LLP, Statutory Auditor
London

30th October 2014

# Financial Statements

## Income Statement
for the year ended 31st August 2014

| | Notes | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|---|
| Gains on investments held at fair value through profit or loss | 2 | – | 23,273 | 23,273 | – | 50,323 | 50,323 |
| Net foreign currency losses | | – | (32) | (32) | – | (3) | (3) |
| Income from investments | 3 | 5,710 | – | 5,710 | 5,541 | – | 5,541 |
| Other interest receivable and similar income | 3 | 13 | – | 13 | 12 | – | 12 |
| **Gross return** | | 5,723 | 23,241 | 28,964 | 5,553 | 50,320 | 55,873 |
| Management fee | 4 | (279) | (590) | (869) | (229) | (506) | (735) |
| Other administrative expenses | 5 | (591) | – | (591) | (664) | – | (664) |
| **Net return on ordinary activities before taxation** | | 4,853 | 22,651 | 27,504 | 4,660 | 49,814 | 54,474 |
| Taxation | 6 | – | – | – | (5) | – | (5) |
| **Net return on ordinary activities after taxation** | | 4,853 | 22,651 | 27,504 | 4,655 | 49,814 | 54,469 |
| **Return per share:** | 8 | | | | | | |
| Managed Growth | | 7.22p | 48.64p | 55.86p | 6.77p | 114.44p | 121.21p |
| Managed Income | | 4.16p | 8.71p | 12.87p | 3.97p | 12.93p | 16.90p |
| Managed Cash | | 0.34p | 0.00p | 0.34p | 0.17p | 0.00p | 0.17p |

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies. The Total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason a STRGL has not been presented.

The notes on pages 56 to 78 form an integral part of these accounts.

## Reconciliation of Movement in Shareholders' Funds
for the year ended 31st August 2014

| | Called up share capital £'000 | Share premium £'000 | Other reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **At 31st August 2012** | 24 | 77,197 | 89,770 | 42,876 | 2,282 | **212,149** |
| Issue of ordinary shares | – | 10 | – | – | – | **10** |
| Repurchase and cancellation of the Company's own shares | – | – | (4,482) | – | – | **(4,482)** |
| Repurchase of shares into Treasury | – | – | (2,184) | – | – | **(2,184)** |
| Share conversions during the year | – | 1,052 | (1,052) | – | – | **–** |
| Net return on ordinary activities | – | – | – | 49,814 | 4,655 | **54,469** |
| Dividends paid in the year | – | – | – | – | (4,397) | **(4,397)** |
| **At 31st August 2013** | 24 | 78,259 | 82,052 | 92,690 | 2,540 | **255,565** |
| Repurchase and cancellation of the Company's own shares | – | – | (7,519) | – | – | **(7,519)** |
| Issue of shares from Treasury (net of costs) | – | 15 | 337 | – | – | **352** |
| Repurchase of shares into Treasury | – | – | (1,712) | – | – | **(1,712)** |
| Share conversions during the year | – | 3,802 | (3,802) | – | – | **–** |
| Net return on ordinary activities | – | – | – | 22,651 | 4,853 | **27,504** |
| Dividends paid in the year | – | – | – | – | (4,439) | **(4,439)** |
| **At 31st August 2014** | 24 | 82,076 | 69,356 | 115,341 | 2,954 | **269,751** |

The notes on pages 56 to 78 form an integral part of these accounts.

# Financial Statements continued

## Balance Sheet
at 31st August 2014

| | Notes | 2014 Growth £'000 | 2014 Income £'000 | 2014 Cash £'000 | 2014 Audited Total £'000 | 2013 Audited Total £'000 |
|---|---|---|---|---|---|---|
| **Fixed assets** | | | | | | |
| Investments held at fair value through profit or loss | 9 | 199,063 | 52,664 | 4,379 | 256,106 | 248,742 |
| **Current assets** | | | | | | |
| Financial assets: Derivative financial instruments | 10 | 334 | – | – | 334 | 72 |
| Debtors | 11 | 23,708 | 544 | 1 | 24,253 | 1,322 |
| Cash and short term deposits | | 12,041 | 497 | 67 | 12,605 | 5,868 |
| | | 36,083 | 1,041 | 68 | 37,192 | 7,262 |
| **Creditors:** amounts falling due within one year | 12 | (23,486) | (24) | (2) | (23,512) | (368) |
| Financial liability: Derivative financial instruments | 13 | (35) | – | – | (35) | (71) |
| **Net current assets** | | 12,562 | 1,017 | 66 | 13,645 | 6,823 |
| **Net assets** | | 211,625 | 53,681 | 4,445 | 269,751 | 255,565 |
| **Capital and reserves** | | | | | | |
| Called up share capital | 14 | 18 | 4 | 2 | 24 | 24 |
| Share premium | 15 | 28,264 | 34,805 | 19,007 | 82,076 | 78,259 |
| Other reserve | 15 | 76,558 | 7,441 | (14,643) | 69,356 | 82,052 |
| Capital reserves | 15 | 105,203 | 10,149 | (11) | 115,341 | 92,690 |
| Revenue reserve | 15 | 1,582 | 1,282 | 90 | 2,954 | 2,540 |
| **Total equity shareholders' funds** | | 211,625 | 53,681 | 4,445 | 269,751 | 255,565 |

| | Notes | 31st August 2014 Net asset value per share (pence) | 31st August 2014 Net assets attributable £'000 | 31st August 2013 Net asset value per share (pence) | 31st August 2013 Net assets attributable £'000 |
|---|---|---|---|---|---|
| Managed Growth | 16 | 567.4 | 211,625 | 518.4 | 192,737 |
| Managed Income | 16 | 104.3 | 53,681 | 94.9 | 49,271 |
| Managed Cash | 16 | 101.2 | 4,445 | 100.9 | 13,557 |

The accounts on pages 52 to 78 were approved and authorised for issue by the Directors on 30th October 2014 and are signed on their behalf by:

**James Robinson**
Director

The notes on pages 56 to 78 form an integral part of these accounts.

**Company registration number: 3845060.**

## Cash Flow Statement
for the year ended 31st August 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 17 | **4,097** | 3,994 |
| **Taxation received** | | **2** | 16 |
| **Capital expenditure and financial investment** | | | |
| Purchases of investments | | **(19,840)** | (34,056) |
| Sales of investments | | **35,299** | 44,097 |
| Settlement of futures and options contracts | | **538** | (132) |
| Other capital charges | | **(9)** | (6) |
| **Net cash inflow from capital expenditure and financial investment** | | **15,988** | 9,903 |
| **Management of liquid resources** | | | |
| Purchases of term deposits | | **(615,600)** | – |
| Sales of term deposits | | **606,600** | – |
| **Net cash outflow from management of liquid resources** | | **(9,000)** | – |
| Dividends paid | | **(4,439)** | (4,397) |
| **Net cash inflow before financing** | | **6,648** | 9,516 |
| **Financing** | | | |
| Repurchase of shares into Treasury | | **(1,712)** | (2,184) |
| Issue of shares from Treasury (net of costs) | | **352** | – |
| Issue of shares | | **–** | 10 |
| Repurchase and cancellation of the Company's own shares | | **(7,519)** | (4,482) |
| **Net cash outflow from financing** | | **(8,879)** | (6,656) |
| **(Decrease)/increase in cash for the year** | 18 | **(2,231)** | 2,860 |

The notes on pages 56 to 78 form an integral part of these accounts.

# Financial Statements continued

## Notes to the Accounts
for the year ended 31st August 2014

### 1. Accounting policies

**(a) Basis of accounting**

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the AIC in January 2009.

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

The financial statements for the Company comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the 'Total' column of the Balance Sheet, the Cash Flow Statement and the 'Total' column within the Notes to the Accounts.

The Managed Growth, Managed Income and Managed Cash Income Statements and Balance Sheets, together with the notes to those Income Statements and Balance Sheets are not required under UK Generally Accepted Accounting Practice or the SORP, and have not been audited but have been disclosed to assist shareholders' understanding of the net assets and liabilities, and income and expenses of the different share classes.

The accounts have been prepared on a going concern basis.

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

**(b) Valuation of investments**

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. This 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 in the capital column of the income statement at the time of acquisition. Subsequently the investments are valued at fair value which are quoted bid prices for investments traded in active markets.

Realised gains and losses on sales of investments are recognised in the Capital column of the Income Statement and form part of capital reserves within 'Gains and losses on sales of investments' and represent the excess or shortfall of sales proceeds over the carrying value at the previous balance sheet date. Increases and decreases in the valuation of investments held at the year end are recognised in the Income Statement and form part of capital reserves within 'Holding gains and losses on investments'.

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

**(c) Accounting for reserves**

Gains and losses on sales of investments and derivatives including the related foreign exchange gains and losses, management fee and finance costs allocated to capital and any other capital charges, are included in the Income Statement and dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments and derivatives held at the year end including the related foreign exchange gains and losses, are included in the Income Statement and form part of capital reserves within 'Holding gains and losses on Investments'.

**(d) Income**

Dividends receivable 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.

UK dividends are accounted for net of tax credits and unfranked income is recognised gross of any income tax. Overseas dividends are included gross of any withholding tax.

Income from written options is included in revenue on a time apportionment basis.

Bank interest, deposit interest and underwriting commission are included in revenue on an accruals basis.

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

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

**(e) Expenses**

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue except for items in (i) to (iii) below.

(i) The management fee on the Managed Growth pool of assets is allocated 25% to revenue and 75% to capital in line with the Board's expected split of the revenue and capital return from the Managed Growth investment portfolio;

(ii) The management fee on the Managed Income pool of assets is allocated 50% to revenue and 50% to capital in line with the Board's expected split of the revenue and capital return from the Managed Income investment portfolio.

(iii) Expenses incidental to the purchase of an investment are charged to capital and those incidental to the sale are deducted from the sales proceeds and then recognised in capital alongside the realised gain or loss on the investment. These expenses are commonly referred to as transaction costs and include items such as stamp duty and brokerage commissions.

0.25% of the total costs of the Company as a whole, excluding marketing expenses, are allocated to Managed Cash.

Expenses charged to the Company, common to Managed Growth and Managed Income are apportioned to the revenue account of each pool in the same proportion as their net assets at the month end immediately preceding the date on which the cost is to be accounted for.

Expenses charged to the Company in relation to a specific pool are allocated directly to that pool, with the other two pools remaining unaffected.

**(f) Finance costs**

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

**(g) Financial instruments**

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at carrying value as reduced by appropriate allowances for estimated irrecoverable amounts.

Derivative financial instruments, including futures contracts and written options, are valued at fair value and are included in current assets or current liabilities. Financial instruments are initially recognised and de-recognised on a trade date basis.

**(h) Taxation**

Tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

For the Company, any allocation of tax relief to capital is based on the marginal basis, such that tax allowable capital expenses are offset against taxable income.

As an investment trust which has received approval under the appropriate tax regulations, the Company is not liable for taxation on capital gains.

# Financial Statements continued

## Notes to the Accounts continued

**1. Accounting policies** continued

**(h) Taxation** continued

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

Tax is computed for each pool of assets separately. Where unrelieved expenses in one pool are utilised in another pool, a credit is made in the donor pool and a charge in the recipient pool, based on half the value of these expenses to the Company as a whole.

**(i) Functional currency**

The Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Assets and liabilities 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 on monetary assets from a change in exchange rates subsequent to the date of the transaction is recognised as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature. Gains and losses on investments held at the year end arising from changes in foreign exchange rates are included in capital reserves within 'Holding gains and losses on investments'.

**(j) Dividends**

Dividends proposed by the Company are included in the accounts in the year in which they become payable.

**(k) Value Added Tax ('VAT')**

Irrecoverable VAT is included in the expense on which it has been suffered. Recoverable VAT is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies.

**(l) Share capital conversions**

Share capital conversions are accounted for on the first working day following the quarterly conversion dates. Deferred shares, which have no economic value, are allotted as part of the conversion process to ensure that the conversions do not result in a reduction of the par value of the Company's share capital.

**(m) Repurchase of Ordinary shares for cancellation**

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Other reserves' and dealt with in the Reconciliation of Movement in Shareholders' Funds. 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'.

**(n) Repurchase of Ordinary shares to hold in Treasury**

The cost of repurchasing shares into Treasury, including the related stamp duty and transaction costs is charged to 'Other reserves' and dealt with in the Reconciliation of Movements in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into capital redemption reserve.

Should shares held in Treasury be reissued, the sales proceeds will be treated as recognised in 'Other reserves' at the value of the original purchase price of those shares. The excess of the sales proceeds over the purchase price will be transferred to share premium.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **2. Gains on investments held at fair value through profit or loss** | | |
| Realised gains on sales of investments held at fair value through profit or loss based on historical cost | **12,017** | 10,805 |
| Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year | **(7,604)** | (5,992) |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | **4,413** | 4,813 |
| Realised gain/(loss) on close out of futures contracts | **537** | (125) |
| Net movement in investment holding gains and losses | **18,033** | 45,631 |
| Unrealised gains on futures held at fair value through profit or loss | **299** | 1 |
| Unrealised gains on options | **–** | 8 |
| Other capital charges | **(9)** | (5) |
| Total capital gains on investments held at fair value through profit or loss | **23,273** | 50,323 |

| | Managed Growth 2014 £'000 | Managed Income 2014 £'000 | Managed Cash 2014 £'000 | Total 2014 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|
| **3. Income** | | | | | |
| **Income from investments** | | | | | |
| UK dividend income | **2,846** | **2,086** | **–** | **4,932** | 4,729 |
| Income from OEICs | **467** | **173** | **–** | **640** | 565 |
| Overseas dividends | **–** | **110** | **21** | **131** | 226 |
| Property income distribution from UK REITS | **–** | **7** | **–** | **7** | 15 |
| Scrip dividends | **–** | **–** | **–** | **–** | 6 |
| | **3,313** | **2,376** | **21** | **5,710** | 5,541 |
| **Other interest receivable and similar income** | | | | | |
| Deposit interest | **9** | **–** | **1** | **10** | 1 |
| Underwriting commission | **–** | **3** | **–** | **3** | 1 |
| Option income | **–** | **–** | **–** | **–** | 10 |
| | **9** | **3** | **1** | **13** | 12 |
| Total income | **3,322** | **2,379** | **22** | **5,723** | 5,553 |

# Financial Statements continued

## Notes to the Accounts continued

| | Managed Growth 2014 £'000 | Managed Income 2014 £'000 | Managed Cash 2014 £'000 | Total 2014 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|
| **4. Management fee** | | | | | |
| Charged to revenue | 154 | 125 | – | 279 | 229 |
| Charged to capital | 461 | 129 | – | 590 | 506 |
| | 615 | 254 | – | 869 | 735 |

The management fees are included net of rebates. Details of the management fee of each share class are given in the Directors' Report on pages 36 and 37.

| | Managed Growth 2014 £'000 | Managed Income 2014 £'000 | Managed Cash 2014 £'000 | Total 2014 £'000 | Total 2013 £'000 |
|---|---|---|---|---|---|
| **5. Other administrative expenses** | | | | | |
| Other administration expenses | 193 | 49 | 1 | 243 | 296 |
| Directors' fees[1] | 103 | 26 | – | 129 | 132 |
| Savings scheme costs[2] | 151 | 34 | – | 185 | 202 |
| Fees paid to the Company's Auditor for the audit of the financial statements[3] | 20 | 6 | – | 26 | 26 |
| Audit related assurance services | 5 | 3 | – | 8 | 8 |
| Total charged to revenue | 472 | 118 | 1 | 591 | 664 |

[1]Full disclosure is given in the Directors' Remuneration Report on pages 46 to 48.

[2]These costs were paid to the Manager for the marketing and administration of savings scheme products.

[3]Includes £5,000 (2013: £5,000) of irrecoverable VAT.

Further details on how expenses are apportioned between each portfolio are given in note 1(e) on page 57.

## 6. Taxation

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

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| UK corporation tax at 22.16% (2013: 23.58%) | **–** | **–** | **–** | – | – | – |
| Overseas withholding tax | **–** | **–** | **–** | 5 | – | 5 |
| Current tax charge for the year | **–** | **–** | **–** | 5 | – | 5 |

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

The tax assessed for the year is lower (2013: lower) than the Company's applicable rate of corporation tax for the year of 22.16% (2013: 23.58%). The factors affecting the current tax charge for the year are as follows:

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| Net return on ordinary activities before taxation | **4,853** | **22,651** | **27,504** | 4,660 | 49,814 | 54,474 |
| Net return on ordinary activities before taxation multiplied by the applicable rate of corporation tax of 22.16% (2013: 23.58%) | **1,076** | **5,019** | **6,095** | 1,099 | 11,746 | 12,845 |
| Effects of: | | | | | | |
| Non taxable capital gains | **–** | **(5,150)** | **(5,150)** | – | (11,865) | (11,865) |
| Non taxable UK dividends | **(1,196)** | **–** | **(1,196)** | (1,189) | – | (1,189) |
| Non taxable overseas dividends | **(24)** | **–** | **(24)** | (40) | – | (40) |
| Unutilised expenses | **144** | **131** | **275** | 131 | 119 | 250 |
| Overseas withholding tax | **–** | **–** | **–** | 5 | – | 5 |
| Non taxable scrip dividends | **–** | **–** | **–** | (1) | – | (1) |
| Current tax charge for the year | **–** | **–** | **–** | 5 | – | 5 |

The Company has an unrecognised deferred tax asset of £939,000 (2013: £680,000) based on a prospective corporation tax rate of 20% (2013: 21%). The reduction in the standard rate of corporation tax was substantively enacted on 2nd July 2013 and is effective from 1st April 2014. 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 accounts.

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 deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

# Financial Statements continued

## Notes to the Accounts continued

### 7. Dividends

#### (a) Dividends paid

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Managed Growth shares 2013 4th interim dividend of 1.35p (2012: 1.10p) | **502** | 424 |
| Managed Growth shares 1st interim dividend of 2.55p (2013: 2.20p) | **947** | 836 |
| Managed Growth shares 2nd interim dividend of 1.75p (2013: 1.75p) | **657** | 657 |
| Managed Growth shares 3rd interim dividend of 1.35p (2013: 1.70p) | **505** | 633 |
| Managed Income shares 2013 4th interim dividend of 1.00p (2012: 0.85p) | **519** | 448 |
| Managed Income shares 1st interim dividend of 0.85p (2013: 0.85p) | **438** | 451 |
| Managed Income shares 2nd interim dividend of 0.85p (2013: 0.85p) | **436** | 449 |
| Managed Income shares 3rd interim dividend of 0.85p (2013: 0.85p) | **435** | 444 |
| Managed Cash shares 2013 4th interim dividend of £nil (2012: 0.25p) | **–** | 34 |
| Managed Cash shares interim dividend of £nil (2013: 0.15p) | **–** | 21 |
| Total dividends paid in the year | **4,439** | 4,397 |

In respect of dividends paid during the year ended 31st August 2014:

The 2013 4th interim dividends were paid on 20th September 2013 to shareholders on the register as at the close of business on 30th August 2013.

The 1st interim dividends were paid on 18th December 2013 to shareholders on the register as at the close of business on 22nd November 2013.

The 2nd interim dividends were paid on 19th March 2014 to shareholders on the register as at the close of business on 21st February 2014.

The 3rd interim dividends were paid on 18th June 2014 to shareholders on the register as at the close of business on 30th May 2014.

#### (b) Dividends declared

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Managed Growth shares 4th interim dividend of 1.85p (2013: 1.35p) | **690** | 502 |
| Managed Income shares 4th interim dividend of 1.10p (2013: 1.00p) | **566** | 519 |
| Managed Cash shares interim dividend of 0.35p (2013: £nil) | **15** | – |
| Total dividends declared | **1,271** | 1,021 |

In respect of the dividends declared, but not paid, during the year ended 31st August 2014, the dividends were paid on 24th September 2014 to shareholders on the register as at the close of business on 29th August 2014.

**(c) Dividend for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')**

The requirements of Section 1158 are considered on the basis of dividends paid and proposed in respect of the financial year, as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Managed Growth shares 1st interim dividend of 2.55p (2013: 2.20p) | **947** | 836 |
| Managed Growth shares 2nd interim dividend of 1.75p (2013: 1.75p) | **657** | 657 |
| Managed Growth shares 3rd interim dividend of 1.35p (2013: 1.70p) | **505** | 633 |
| Managed Growth shares 4th interim dividend of 1.85p (2013: 1.35p) | **690** | 502 |
| Managed Income shares 1st interim dividend of 0.85p (2013: 0.85p) | **438** | 451 |
| Managed Income shares 2nd interim dividend of 0.85p (2013: 0.85p) | **436** | 449 |
| Managed Income shares 3rd interim dividend of 0.85p (2013: 0.85p) | **435** | 444 |
| Managed Income shares 4th interim dividend of 1.10p (2013: 1.00p) | **566** | 519 |
| Managed Cash shares interim dividend of £nil (2013: 0.15p) | **–** | 21 |
| Managed Cash shares 4th interim dividend of 0.35p (2013: £nil) | **15** | – |
| Total dividends for Section 1158 purposes | **4,689** | 4,512 |

The revenue available for distribution by way of dividend for the year is £4,853,000 (2013: £4,655,000).

## 8. Return per share

**Managed Growth**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Return per Managed Growth share is based on the following: | | |
| Revenue return | **2,697** | 2,546 |
| Capital return | **18,172** | 43,013 |
| Total return | **20,869** | 45,559 |
| Weighted average number of shares in issue | **37,357,221** | 37,586,399 |
| Revenue return per share | **7.22p** | 6.77p |
| Capital return per share | **48.64p** | 114.44p |
| Total return per share | **55.86p** | 121.21p |

## Notes to the Accounts continued

### 8. Return per share continued

**Managed Income**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Return per Managed Income share is based on the following: | | |
| Revenue return | **2,137** | 2,085 |
| Capital return | **4,479** | 6,801 |
| Total return | **6,616** | 8,886 |
| Weighted average number of shares in issue | **51,411,573** | 52,592,307 |
| Revenue return per share | **4.16p** | 3.97p |
| Capital return per share | **8.71p** | 12.93p |
| Total return per share | **12.87p** | 16.90p |

**Managed Cash**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Return per Managed Cash share is based on the following: | | |
| Revenue return | **19** | 24 |
| Capital return | **–** | – |
| Total return | **19** | 24 |
| Weighted average number of shares in issue | **5,551,280** | 13,739,505 |
| Revenue return per share | **0.34p** | 0.17p |
| Capital return per share | **–** | – |
| Total return per share | **0.34p** | 0.17p |

## 9. Investments

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Investments listed on a recognised stock exchange | **191,067** | 185,157 |
| Unlisted investments[1] | **65,039** | 63,585 |
| Total investments held at fair value | **256,106** | 248,742 |

[1]Unlisted investments comprise investments in Open Ended Investment Companies, bond funds and liquidity funds.

| | Listed £'000 | Unlisted £'000 | 2014 Total £'000 |
|---|---|---|---|
| Opening book cost | 134,011 | 51,733 | **185,744** |
| Opening investment holding gains | 51,146 | 11,852 | **62,998** |
| Opening valuation | 185,157 | 63,585 | **248,742** |
| Movement in the year: | | | |
| Purchases at cost | 14,762 | 28,268 | **43,030** |
| Sales – proceeds | (25,133) | (32,979) | **(58,112)** |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | 1,588 | 2,825 | **4,413** |
| Net movement in investment holding gains and losses | 14,693 | 3,340 | **18,033** |
| Closing valuation | 191,067 | 65,039 | **256,106** |
| Closing book cost | 131,832 | 50,847 | **182,679** |
| Closing investment holding gains | 59,235 | 14,192 | **73,427** |
| Total investments held at fair value | 191,067 | 65,039 | **256,106** |

During the year, prior year investment holding gains amounting to £7,604,000 were transferred to gains on sales of investments as disclosed in note 15.

Transaction costs on purchases during the year amounted to £91,000 (2013: £120,000) and on sales during the year amounted to £32,000 (2013: £44,000). These costs comprise mainly stamp duty and brokerage commission.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **10. Financial instruments – assets** | | |
| Futures contracts[1] | **334** | 72 |

[1]Euro Stoxx Index Futures at a contract cost of £1,574,000 and a market value of £1,522,000 giving an unrealised asset of £52,000. FTSE 100 Index futures at a contract cost of £8,699,000 and a market value of £8,774,000 giving an unrealised asset of £75,000. HANG SENG Index futures at a contract cost of £2,050,000 and a market value of £2,017,000 giving an unrealised asset of £33,000. S&P 500 Index futures at a contract cost of £7,479,000 and a market value of £7,653,000 giving an unrealised asset of £174,000.

# Financial Statements continued

## Notes to the Accounts continued

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **11. Current assets** | | |
| **Debtors** | | |
| Securities sold awaiting settlement | **23,293** | 480 |
| Overseas tax recoverable | **12** | – |
| Dividends and interest receivable | **863** | 781 |
| Taxation recoverable | **61** | 42 |
| Other debtors | **24** | 19 |
| Total | **24,253** | 1,322 |

The Directors consider that the carrying amount of debtors approximates to their fair value. No amounts are considered to be past due or impaired (2013: £nil).

**Cash and short term deposits**

Cash and short term deposits comprises bank balances and short term deposits. The carrying amount of these balances represents their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **12. Creditors:** amounts falling due within one year | | |
| Securities purchased awaiting settlement | **23,399** | 209 |
| Other creditors and accruals | **113** | 159 |
| | **23,512** | 368 |

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **13. Financial instruments – liabilities** | | |
| Futures contracts[1] | **35** | 71 |

[1]TOPIX Index futures at a contract cost of £503,000 and a market value of £522,000 giving an unrealised liability of £19,000. RUSSELL Index futures at a contract cost of £2,320,000 and a market value of £2,336,000 giving an unrealised liability of £16,000.

## 14. Called up share capital

| | 2014 Number of shares | 2013 Number of shares |
|---|---|---|
| **Managed Growth** | | |
| Shares in issue at the beginning of the year | **37,182,261** | 38,344,436 |
| Shares issued from Treasury | **35,000** | – |
| Net share conversion increase/(reduction) | **304,101** | (123,777) |
| Shares repurchased for cancellation | – | (730,780) |
| Shares repurchased into Treasury | **(227,066)** | (307,618) |
| **Closing balance of shares in issue (excluding Treasury shares)** | **37,294,296** | 37,182,261 |
| Shares held in Treasury at the beginning of the year | **307,618** | – |
| Shares repurchased into Treasury | **227,066** | 307,618 |
| Shares issued from Treasury | **(35,000)** | – |
| **Closing balance of shares held in Treasury** | **499,684** | 307,618 |
| **Closing balance of shares in issue (including Treasury shares)** | **37,793,980** | 37,489,879 |
| **Founder Shares** | | |
| Shares of £1 each 25p partly paid in issue at the beginning and end of the year | **50,000** | 50,000 |
| **Managed Income** | | |
| Shares in issue at the beginning of the year | **51,894,454** | 53,274,946 |
| Net share conversion reduction | **(157,375)** | (337,990) |
| Shares repurchased for cancellation | – | (411,784) |
| Shares issued from Treasury | **170,000** | – |
| Shares repurchased into Treasury | **(432,815)** | (630,718) |
| **Subtotal** | **51,474,264** | 51,894,454 |
| Shares held in Treasury at the beginning of the year | **630,718** | – |
| Shares repurchased into Treasury | **432,815** | 630,718 |
| Shares issued from Treasury | **(170,000)** | – |
| **Closing balance of shares held in Treasury** | **893,533** | 630,718 |
| **Closing balance of shares in issue (including Treasury shares)** | **52,367,797** | 52,525,172 |
| **Managed Cash** | | |
| Shares in issue at the beginning of the year | **13,432,185** | 13,781,140 |
| Shares issued | – | 10,000 |
| Net share conversion (reduction)/increase | **(1,568,249)** | 827,084 |
| Shares redeemed | **(7,058,537)** | (878,853) |
| Shares repurchased for cancellation | **(376,995)** | (201,019) |
| Shares repurchased into Treasury | **(35,000)** | (106,167) |
| **Subtotal** | **4,393,404** | 13,432,185 |
| Shares held in Treasury at the beginning of the year | **106,167** | – |
| Shares repurchased into Treasury | **35,000** | 106,167 |
| Shares cancelled from Treasury in the period | **(141,167)** | – |
| **Closing balance of shares held in Treasury** | – | 106,167 |
| **Closing balance of shares in issue (including Treasury shares)** | **4,393,404** | 13,538,352 |

# Financial Statements continued

## Notes to the Accounts continued

**14. Called up share capital** continued

During the year, nil Managed Growth shares, nil Managed Income shares and 376,995 Managed Cash shares were repurchased for cancellation for an aggregate consideration of £377,000. The reason for these purchases was to address imbalances in supply of and demand for the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to net asset value per share at which those shares trade.

During the year, 227,066 Managed Growth shares, 432,815 Managed Income shares and 35,000 Managed Cash shares were repurchased into Treasury for a total consideration of £1,712,000.

Shareholders of Managed Growth, Managed Income and Managed Cash shares are entitled to convert some or all of their holdings in any of these share classes into one or more of the other two share classes on 28th February, 31st May, 31st August and 30th November each year (or, if such days are not business days, the next business day).

Managed Cash shareholders can also elect to have all or part of their holding of such shares repurchased by the Company for cash at the net asset value on each conversion date. During the year, the holders of 7,058,537 Managed Cash shares elected to have those holdings repurchased by the Company in these conversion opportunities for a total consideration of £7,142,000.

During the year, 35,000 Managed Growth shares and 170,000 Managed Income shares were issued from Treasury for a total net consideration of £352,000.

During the year, the 141,167 Managed Cash shares held in Treasury were cancelled, resulting in a nil balance.

Full details of transactions in share capital during the year are given in the Chairman's Statement on pages 1 to 4 and earlier in this note on page 67.

The Founder shares are non-voting and carry the right to receive a fixed dividend at the rate of 0.01% on their nominal value, but the holders have waived the right to receive such dividends.

Further details of the Company's capital structure are given on page 32.

**Deferred Shares**

The Company Articles allow for Deferred shares to be allotted as part of the quarterly share conversion process to ensure that the conversion does not result in a reduction of the par value of the Company's issued share capital (in contravention of the Companies Act 2006). The Deferred shares are economically valueless and will be repurchased by the Company from time to time for a nominal sum. The issue and repurchase of the Deferred shares has no effect on the net asset value attributable to the holders of Managed Growth, Managed Income or Managed Cash shares. The shares have no voting rights and no entitlement on a winding up or entitlement to dividends.

There were no Deferred shares issued or purchased in the current or prior year.

## 15. Reserves

| | Called up share capital £'000 | Share premium £'000 | Other reserve £'000 | Capital reserves: Gains and losses on sales of investments £'000 | Capital reserves: Holding gains and losses on investments £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|
| Opening balance | 24 | 78,259 | 82,052 | 29,682 | 63,008 | 2,540 |
| Realised foreign currency losses on cash and short term deposits | – | – | – | (32) | – | – |
| Realised gains on investments | – | – | – | 4,413 | – | – |
| Unrealised gains on investments | – | – | – | – | 18,033 | – |
| Transfer on disposal of investments | – | – | – | 7,604 | (7,604) | – |
| Realised gains on close out of futures | – | – | – | 537 | – | – |
| Unrealised gains on futures from prior period now realised | – | – | – | 1 | (1) | – |
| Unrealised gains on futures | – | – | – | – | 299 | – |
| Issue of shares from Treasury (net of costs) | – | 15 | 337 | – | – | – |
| Repurchase of ordinary shares into Treasury | – | – | (1,712) | – | – | – |
| Repurchase of ordinary shares for cancellation | – | – | (337) | – | – | – |
| Shares redeemed during the year (at Conversion point) | – | – | (7,142) | – | – | – |
| Issue proceeds arising from ordinary share conversion | – | 3,802 | – | – | – | – |
| Repurchase of ordinary shares for cancellation arising from share conversion | – | – | (3,802) | – | – | – |
| Expenses charged to capital | – | – | – | (590) | – | – |
| Other capital charges | – | – | – | (9) | – | – |
| Dividends paid in the year | – | – | – | – | – | (4,439) |
| Net revenue return for the year | – | – | – | – | – | 4,853 |
| Closing balance | **24** | **82,076** | **69,356** | **41,606** | **73,735** | **2,954** |

**Repurchase and cancellation of the Company's own shares**

During the year, nil Managed Growth shares, nil Managed Income shares and 376,995 Managed Cash shares shares were repurchased by the Company and cancelled. In addition, the holders of 7,058,537 Managed Cash shares elected to have those holdings repurchased by the Company in the four conversion opportunities available to holders of those shares in the year. The transfer from share capital to capital redemption reserve is not shown above as the total nominal value of the shares cancelled is less than £1,000. No capital redemption reserve is shown as the cumulative balance on the reserve at 31st August 2014 is less than £1,000.

# Financial Statements continued

## Notes to the Accounts continued

### 16. Net asset value per share

The net asset values per share are calculated as follows:

| | 2014 Managed Growth | 2014 Managed Income | 2014 Managed Cash | 2013 Managed Growth | 2013 Managed Income | 2013 Managed Cash |
|---|---|---|---|---|---|---|
| Net assets attributable (£'000) | **211,625** | **53,681** | **4,445** | 192,737 | 49,271 | 13,557 |
| Shares in issue at the year end (excluding shares held in Treasury) | **37,294,296** | **51,474,264** | **4,393,404** | 37,182,261 | 51,894,454 | 13,432,185 |
| Net asset value per share (pence) | **567.4** | **104.3** | **101.2** | 518.4 | 94.9 | 100.9 |

### 17. Reconciliation of net return on ordinary activities before taxation to net cash inflow from operating activities

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Net return on ordinary activities before taxation | **27,504** | 54,474 |
| Less capital return before taxation | **(22,651)** | (49,814) |
| Increase in accrued income | **(82)** | (151) |
| (Increase)/decrease in other debtors | **(5)** | 10 |
| (Decrease)/increase in accrued expenses | **(48)** | 16 |
| Scrip dividends received as income | **–** | (6) |
| Management fee charged to capital | **(590)** | (506) |
| Taxation on unfranked income | **(31)** | (29) |
| Net cash inflow from operating activities | **4,097** | 3,994 |

### 18. Analysis of changes in net funds

| | At 31st August 2013 £'000 | Cash flow £'000 | Exchange movement £'000 | At 31st August 2014 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 5,868 | (2,231) | (32) | **3,605** |
| Short term deposits | – | 9,000 | – | **9,000** |
| Total cash and short term deposits | 5,868 | 6,769 | (32) | **12,605** |

## 19. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments at the balance sheet date (2013: none).

## 20. Related Party Transactions

Details of the management contracts are set out in the Directors' Report on page 36. The total amount payable to the Manager for the year in respect of these contracts was £869,000 (2013: £735,000), of which £nil (2013: £nil) was outstanding at the year end. In addition £185,000 (2013: £202,000) was payable to the Manager for the marketing and administration of savings scheme products of which £nil (2013: £39,000) was outstanding at the year end.

Included in 'Other administrative expenses' in note 5 are safe custody fees amounting to £4,000 (2013: £3,000) payable to JPMorgan Investor Services Limited, an affiliate of the Manager, of which £1,000 (2013: £1,000) was outstanding at the year end.

The Manager carries out some of its investment transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities Limited for the year was £12,000 (2013: £21,000) of which £nil (2013: £nil) was outstanding at the year end. The Company has been informed that certain of its dealing transactions may be subject to commission sharing arrangements.

The Company holds investments in funds managed by the Manager. At 31st August 2014 these were valued at £160.8 million (2013: £152.9 million) and represented 62.78% (2013: 61.5%) of the Company's investment portfolio. During the year the Company made purchases of such investments with a total value of £4.9 million (2013: £17.4 million) and sales with a total value of £34.4 million (2013: £24.4 million). Income amounting to £2.7 million (2013: £3.0million) was receivable from these investments during the year of which £476,000 (2013: £432,000) was outstanding at the year end.

At the year end, a bank balance of £12,604,000 (2013: £5,868,000) was held with JPMorgan Chase. Interest amounting to £10,000 (2013: £1,000), was receivable by the Company during the year from JPMorgan Chase of which £nil (2013: £nil) was outstanding at the year end.

Details of Directors' transactions in the Company's shares and Directors' fees are included in the Directors' Remuneration Report on pages 46 to 48.

# Financial Statements continued

## Notes to the Accounts continued

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

The Company's financial instruments that are held at fair value comprise its investment portfolio and derivative financial instruments comprising written options and futures contracts.

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

Level 1 – valued using quoted prices in active markets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

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 notes 1(b) and 1(g) on page 57.

The following table sets out the fair value measurements using the FRS 29 hierarchy at 31st August:

| | 2014 | | | |
|---|---|---|---|---|
| | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
| **Financial assets held at fair value through profit or loss** | | | | |
| Equity investments[1] | 248,919 | – | – | 248,919 |
| Investments in liquidity funds | 4,379 | – | – | 4,379 |
| Bond funds | 2,808 | – | – | 2,808 |
| Derivative financial instruments – futures assets | – | 334 | – | 334 |
| Derivative financial instruments – futures liabilities | – | (35) | – | (35) |
| Total | 256,106 | 299 | – | 256,405 |

[1]Includes investments in OEIC funds shown on page 11.

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
| **Financial assets held at fair value through profit or loss** | | | | |
| Equity investments | 232,439 | – | – | 232,439 |
| Investments in liquidity funds | 13,566 | – | – | 13,566 |
| Bond funds | 2,737 | – | – | 2,737 |
| Derivative financial instruments – futures assets | – | 72 | – | 72 |
| Derivative financial instruments – futures liabilities | – | (71) | – | (71) |
| Total | 248,742 | 1 | – | 248,743 |

There have been no transfers between Levels 1, 2 or 3 during the current or comparative year.

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

As an investment trust, the Company invests in equities and other securities for the long term so as to pursue the investment objectives stated on the 'Features' page of this report. In pursuing these objectives, 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 revenue available for distribution. These 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 identified and the methods used to measure these risks that are set out below, have not changed from those applying in the comparative year.

The Company's financial instruments may comprise the following:

- investments in equity shares with UK exposure;
- investments in investment trusts, equities, investment companies, open ended investment companies, bond funds and sterling liquidity funds;
- derivative financial instruments including futures contracts and forward currency contracts;
- call and put options written by the Company to generate additional income; and
- short term debtors, creditors and cash arising directly from its operations.

The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied to financial instruments.

### (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 market price risk. Information to enable an evaluation of the nature and extent of these three elements of market price 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 of the investment portfolio on an ongoing basis.

#### (i) Currency risk

The Company has no direct material exposure to foreign currencies. The Company's investments and other financial assets are almost entirely denominated in sterling (the Company's functional currency and the currency in which it reports). As a result, movements in exchange rates will have no direct material effect on the value of those items. The investments in the Managed Cash pool of assets comprise sterling liquidity funds and consequently there is no foreign currency exposure. The investments in the Managed Growth and Managed Income pools of assets are almost entirely priced in sterling. However, there is some indirect exposure to foreign currencies, particularly in the Managed Growth portfolio which includes holdings in investment trusts and open ended investment companies which invest in overseas markets.

## Notes to the Accounts continued

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

**(a) Market risk** continued

**(ii) Interest rate risk**

Interest rate movements may affect the level of income receivable on cash deposits and the yield on the liquidity funds held in the Managed Cash pool of assets. The Company had no borrowings at the year end (2013: none). Interest rate movements may also affect the income receivable from and the fair value of investments in bond funds held by the Company. However, it is not possible to assess the impact of interest rate movements on the value of these investments accurately and therefore the exposure has been included in other price risk in part (iii) to this note. The Company has no other direct exposure to fair value interest rate risk.

**Management of interest rate risk**

The Company does not normally hold significant cash balances other than for short term working capital management and would expect to be fully invested in normal market conditions.

**Interest rate exposure**

At the balance sheet date, the exposure of financial assets to floating interest rates, giving cash flow interest rate risk when rates are reset, was as follows:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 |
| Exposure to floating interest rates: | | | | | | | | |
| Cash and short term deposits | 12,041 | 497 | 67 | 12,605 | 5,347 | 518 | 3 | 5,868 |
| Investments in liquidity funds | – | – | 4,379 | 4,379 | – | – | 13,566 | 13,566 |
| Total exposure | 12,041 | 497 | 4,446 | 16,984 | 5,347 | 518 | 13,569 | 19,434 |

Interest receivable on cash balances is at a margin below the sterling London Interbank Offer Rate. The liquidity funds generally aim to produce a yield comparable to the seven day sterling London Interbank Bid Rate.

The above year end exposures are not representative of the exposure to interest rates during the year as the cash balances and investments in liquidity funds have fluctuated. The maximum and minimum exposures during the year were as follows:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 |
| Maximum interest rate exposure to floating rates | 12,041 | 667 | 13,569 | 26,277 | 5,679 | 1,186 | 14,170 | 21,035 |
| Minimum interest rate exposure to floating rates | 5,390 | 213 | 4,446 | 10,049 | 903 | 119 | 13,569 | 14,591 |

### Interest rate sensitivity

The following tables illustrate the sensitivity of the return after taxation for the year and net assets to a 1.0% (2013: 1.0%) increase or decrease in interest rates in regards to the Company's monetary financial assets. 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 with a direct interest rate exposure held at the balance sheet date, with all other variables held constant.

A 1.0% increase in interest rates would have the following effect:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 |
| Income statement – return after taxation | | | | | | | | |
| Revenue return | **120** | **5** | **44** | **169** | 53 | 5 | 136 | 194 |
| Net assets | **120** | **5** | **44** | **169** | 53 | 5 | 136 | 194 |

In the opinion of the Directors, the above sensitivity analysis may not be representative of the Company's future exposure to an interest rate rise due to fluctuations in the level of cash balances and investment in liquidity funds.

In the event of a 1.0% decrease in interest rates, the interest receivable on cash balances and liquidity funds would fall to zero, as the interest earned on these balances is currently less than 1.0%.

### (iii) Other price risk

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

#### Other price risk exposure

The Company's exposure to changes in market prices at the year end comprises its holdings in equity investments, OEIC funds, bond funds, futures contracts and options as follows. Holdings in liquidity funds are not deemed to be exposed to other price risk.

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 |
| Equity investments held at fair value through profit or loss[1] | **199,063** | **49,856** | **–** | **248,919** | 186,821 | 45,618 | – | 232,439 |
| Investments in bond funds held at fair value through profit or loss | **–** | **2,808** | **–** | **2,808** | – | 2,737 | – | 2,737 |
| Derivative instruments – futures contracts | **299** | **–** | **–** | **299** | 1 | – | – | 1 |
| | **199,362** | **52,644** | **–** | **252,026** | 186,822 | 48,355 | – | 235,177 |

[1]Includes investments in OEIC funds shown on page 11.

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

# Financial Statements continued

## Notes to the Accounts continued

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

**(a) Market risk** continued

**(iii) Other price risk** continued

**Concentration of exposure to other price risk**

A list of investments in the Managed Growth and Managed Income portfolios is given on pages 11 and 21. This shows that the Managed Growth portfolio comprises investments with a broad geographical exposure through investment in UK listed investment trusts and open-ended funds, with no concentration of exposure to any one country with the exception of the UK. A substantial proportion of the Managed Income portfolio is invested in UK equities and accordingly there is a concentration of exposure. However it should be noted that an investment may not necessarily be wholly exposed to the economic conditions in its country of domicile or of listing.

**Other price risk sensitivity**

The following table illustrates the sensitivity of revenue after taxation for the year and net assets to an increase or decrease of 10% (2013: 10%) in the fair value of equity investments, options, bond funds and futures contracts held in the Managed Growth and Managed Income portfolios. 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 investments and adjusting for a change in the management fee, but with all other variables held constant.

A 10% increase in fair values would have the following effect:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 |
| Income statement – return after taxation: | | | | | | | | |
| Revenue return | **(20)** | **(14)** | **–** | **(34)** | (17) | (13) | – | (30) |
| Capital return | **19,846** | **5,252** | **–** | **25,098** | 18,630 | 4,823 | – | 23,453 |
| Total return after taxation and net assets | **19,826** | **5,238** | **–** | **25,064** | 18,613 | 4,810 | – | 23,423 |

A 10% decrease in fair values would have the following effect:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 | Managed Growth £'000 | Managed Income £'000 | Managed Cash £'000 | Total £'000 |
| Income statement – return after taxation: | | | | | | | | |
| Revenue return | **20** | **14** | **–** | **34** | 17 | 13 | – | 30 |
| Capital return | **(19,846)** | **(5,252)** | **–** | **(25,098)** | (18,630) | (4,823) | – | (23,453) |
| Total return after taxation and net assets | **(19,826)** | **(5,238)** | **–** | **(25,064)** | (18,613) | (4,810) | – | (23,423) |

**(b) Liquidity risk**

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

**Management of the risk**

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, which can be sold to meet funding requirements if necessary. The Board would expect to be fully invested in normal market conditions but to retain sufficient cash balances to settle short term liabilities. The Company has no fixed term borrowings.

**Liquidity risk exposure**

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

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Three months or less £'000 | More than three months but less than six months £'000 | Total £'000 | Three months or less £'000 | More than three months but less than six months £'000 | Total £'000 |
| Creditors: amounts falling due within one year | | | | | | |
| Securities purchased awaiting settlement | **23,399** | **–** | **23,399** | 209 | – | 209 |
| Other creditors and accruals | **113** | **–** | **113** | 159 | – | 159 |
| Derivative instruments held at fair value through profit or loss – futures contracts | **35** | **–** | **35** | 71 | – | 71 |
| | **23,547** | **–** | **23,547** | 439 | – | 439 |

**(c) Credit risk**

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which could result in loss to the Company.

**Management of credit risk**

*Portfolio dealing*

The Company invests in markets that operate DVP (Delivery Versus Payment) 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*

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively.

*Exposure to JPMorgan Chase*

JPMorgan Chase is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. 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. However, no absolute guarantee can be given to investors on the protection of all the assets of the Company.

# Financial Statements continued

## Notes to the Accounts continued

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

**(c) Credit risk** continued

**Credit risk exposure**

The Company's investments in liquidity funds and the amounts shown in the balance sheet under debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year ends.

The liquidity funds held in the Company's investment portfolio all have a AAA (2013: AAA) credit rating.

Cash and short term deposits comprise balances held at banks that have a minimum rating of A1/P1 (2013: A1/P1) from Standard & Poor's and Moody's respectively.

**(d) Fair values of financial assets and financial liabilities**

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

### 23. Capital management policies and procedures

The Company's capital is divided into three share classes, each with distinct objectives and investment policies. The capital of the three share classes is as disclosed in the balance sheet and is managed on a basis consistent with the investment objectives and policies disclosed in the Directors' Report on pages 28 and 29.

The Company's capital structure is as detailed in note 14 on pages 67 and 68. The Company has no gearing. 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 need to buy back equity shares, either for cancellation or to be held in Treasury, which takes into account the share price discount or premium; and the need for issues of new shares;
- the Board does not intend to utilise borrowings to increase the funds available for investment;
- the opportunity for issues of new shares, including from Treasury; and
- the level of dividend distribution in excess of that which is required to be distributed.

### 24. Alternative Investment Fund Managers Directive ('AIFMD')

The Company's maximum and actual leverage (see Glossary of Terms and Definitions on page 83) levels for each of the share classes at 31st August 2014 are shown below. Although the Company does not have bank loan facilities in place, the calculation includes exposure through the use of derivatives and short term cash borrowings. An actual figure of less than 100% reflects a holding of cash as at the year end.

| | Leverage Exposure | |
|---|---|---|
| | Gross method % | Commitment method % |
| **Managed Growth** | | |
| Maximum limit | 200.0 | 200.0 |
| Actual | 128.8 | 128.8 |
| **Managed Income** | | |
| Maximum limit | 200.0 | 200.0 |
| Actual | 98.0 | 98.0 |
| **Managed Cash** | | |
| Maximum limit | 200.0 | 200.0 |
| Actual | 98.7 | 98.7 |

# Shareholder Information

## Notice of Annual General Meeting

Notice is hereby given that the fourteenth Annual General Meeting of JPMorgan Elect plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Thursday, 18th December 2014 at 12 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditor's Report for the year ended 31st August 2014.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st August 2014.
4. To reappoint Alan Hodson as a Director of the Company.
5. To reappoint James Robinson as a Director of the Company.
6. To reappoint Angus Macpherson as a Director of the Company.
7. To reappoint Robert Ottley as a Director of the Company.
8. To reappoint Roger Yates as a Director of the Company.
9. To reappoint Ernst & Young LLP as the Auditor of the Company and to authorise the Directors to determine their remuneration.

### Special Business

To consider the following resolutions:

**Authority to allot relevant securities – Ordinary Resolution**

10. THAT the Board be and is hereby generally and unconditionally authorised (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006, to exercise all the powers of the Company to allot relevant securities in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company, up to 3,719,360 Managed Growth Shares, 5,131,383 Managed Income Shares and 423,014 Managed Cash Shares (being 10% of the issued share capital of the Managed Growth, Managed Income and Managed Cash share classes of the Company as at 29th October 2014 or, if different, the aggregate amount representing approximately 10% of the issued share capital of each share class of the Company 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 2015 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, or rights to be granted, after such expiry and so that the Directors of the Company may allot relevant securities, and grant rights, in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

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

11. THAT, subject to the passing of resolution 10 set out above, the Directors of the Company be and are hereby empowered pursuant to Sections 570 and 573 of the Companies Act 2006 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 Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in the Company by way of rights issue, open offer or otherwise to holders of Managed Growth shares, Managed Income shares and Managed Cash shares where the equity securities respectively attributable to the interest of all Managed Growth shares, Managed Income shares and Managed Cash shares are proportionate to the respective numbers of Managed Growth shares, Managed Income shares and Managed Cash shares held by them subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or local or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange or any territory or otherwise howsoever; and/or

(b) the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities for cash or by way of a sale of Treasury shares up to 3,719,360 Managed Growth Shares, 5,131,383 Managed Income Shares and 423,014 Managed Cash Shares (being 10% of the total issued share capital of the Managed Growth, Managed Income and Managed Cash share classes of the Company as at 29th October 2014 or, if different, the aggregate amount representing approximately 10% of the issued share capital of each share class of the Company as at the date of the passing of this resolution) at a price 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

# Shareholder Information continued

## Notice of Annual General Meeting continued

Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

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

12. THAT the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Companies Act 2006 to make market purchases (within the meaning of Section 693 of the Companies Act 2006) of its issued Managed Growth shares, Managed Income shares and Managed Cash shares (all being classes of ordinary shares in the capital of the Company), on such terms and in such manner as the Directors may from time to time determine.

    PROVIDED ALWAYS THAT:

    (i) the maximum number of Managed Growth, Managed Income and Managed Cash shares hereby authorised to be purchased shall be 5,575,321, 7,691,943 or 634,099 respectively, or, if different, that number of Managed Growth, Managed Income and Managed Cash shares which is equal to 14.99% of the issued share capital of the relevant share class as at the date of the passing of this resolution;

    (ii) the minimum price which may be paid for a Managed Growth, Managed Income and Managed Cash share shall be 0.01p, 0.003p and 0.003p respectively;

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

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

    (v) the authority hereby conferred shall expire on 17th June 2016 unless the authority is renewed at the Company's Annual General Meeting in 2015 or at any other general meeting prior to such time; and

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

**Authority to make off-market purchases – Special Resolution**

13. THAT the proposed Contingent Purchase contract between Winterflood Securities Limited and JPMorgan Elect plc to enable the Company to make off-market purchases of its own securities pursuant to Section 694 of the Companies Act 2006 in the form produced at the meeting and initialled by the Chairman, be and is hereby approved and the Company be and is hereby authorised to enter into and perform such contract, but so that the approval and authority conferred by this resolution shall expire on the day immediately preceding the date which is 18 months after the passing of this resolution or, if earlier, the next Annual General Meeting of the Company.

By order of the Board
**Rebecca Burtonwood**, for and on behalf of
JPMorgan Funds Limited,
Company Secretary.

6th November 2014

**Notes**

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

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form no later than 12 noon two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 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 6.00 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 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 Annual General Meeting ('AGM'); or (b) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditor no later than the time it makes its statement available on the website.
   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 Companies Act 2006, 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

# Shareholder Information continued

## Notice of Annual General Meeting continued

later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

11. A copy of this Notice of Meeting has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy 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 of Meeting will be available on the Company's website www.jpmelect.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 AGM. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hard copy Form of Proxy/Voting 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 29th October 2014 (being the latest business day prior to the publication of this Notice of Meeting), the Company's issued share capital consists of 37,193,605 Managed Growth shares, 51,313,831 Managed Income shares and 4,230,148 Managed Cash shares. Voting rights are calculated by reference to the Share Voting numbers which, as at 31st August 2014, were 5.67 (Managed Growth), 1.04 (Managed Income) and 1.01 (Managed Cash). Therefore the total voting rights in the Company are 268,526,573.

### 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.

## Glossary of Terms and Definitions

### Return to Shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, into the relevant share class of the Company at the time the shares were quoted ex-dividend.

### Return on Net Assets

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 relevant share class of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV per share when calculating the total return on net assets.

### Benchmark Return

Total return on the relevant benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at the time the shares were quoted ex-dividend.

The benchmarks are composites of recognised indices of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not track these indices and consequently, there may be some divergence between the performance of the relevant portfolio and that of its benchmark.

### Gearing/Net Cash

Gearing represents the excess amount above shareholders' funds of total assets, expressed as a percentage of shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

### Leverage

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

### 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 of the daily net assets during the year. The method of calculating the ongoing charges has been changed. From 2009 to 2011, the total expense ratio ('TER') was calculated, which represented the Company's management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average month end net assets during the year. For 2008 and prior years the TER was expressed as a percentage of the average of the opening and closing net assets.

### Share Price Discount/Premium to Net Asset Value ('NAV') Per Share

If the share price of an investment trust is lower than the NAV per share, the Company's 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.

# Shareholder Information continued

## Capital Structure and Conversion between Share Classes

The name JPMorgan Elect plc reflects the capital structure and the investment flexibility the Company offers to shareholders.

### Capital Structure

- **Managed Growth Shares**
  Designed to provide long term capital growth by investing in a range of closed and open-ended funds managed principally by JPMAM.
- **Managed Income Shares**
  Designed to provide a growing income together with the potential for long term capital growth by investing in equities, investment trusts and fixed income securities.
- **Managed Cash Shares**
  Designed to preserve capital with a yield based on short term interest rates by investing in a range of liquidity funds, selected for their yield and credit rating, and short dated AAA-rated UK or G7 government securities hedged into sterling.

### Investing in Managed Cash Shares

Based on its return characteristics and the costs incurred in transacting in its shares, an investment in Managed Cash should only be considered by existing holders of Managed Growth and/or Managed Income who wish to switch into Managed Cash on the designated quarterly conversion dates. Accordingly, Managed Cash shares are not available for purchase through the J.P. Morgan Investment Account, J.P. Morgan ISA or J.P. Morgan SIPP or on J.P. Morgan WealthManager+.

### Repurchase of Managed Cash Shares

In order to mitigate the impact of the market spread on the Managed Cash shares it is possible for holders of Managed Cash shares to elect to have all or part of their holding of such shares repurchased by the Company for cash at a price close to net asset value on each conversion date (see below).

The amount payable per Managed Cash share on repurchase is the net asset value of a Managed Cash share at the date of the relevant conversion calculation, less the applicable stamp duty at a rate of 0.5%.

### Conversion Opportunities

Shareholders in any of the three share classes are able to convert some or all of their shares into shares of the other classes on a quarterly basis without such conversion being treated, under current law, as a disposal for UK capital gains tax purposes.

The conversion mechanism allows shareholders to alter their investment profile to match their changing investment needs in a tax-efficient manner. Conversion dates arise every three months on 28th/29th February, 31st May, 31st August and 30th November (if such a date is not a business day, then the conversion date will move to the next business day). The Company, or its Manager, will make no administrative charge for any of the above conversions.

### Conversion Between the Share Classes

Those who hold shares through the J.P. Morgan Investment Account, J.P. Morgan ISA or J.P. Morgan SIPP must complete and submit a conversion instruction form which can be found at www.jpmelect.co.uk. Instructions for CREST holders can also be found at this address. Those who hold shares in certificated form on the main register must complete the conversion notice printed on the reverse of their certificate and send it to the Company's Registrars at the following address:

Equiniti Limited
Repayments Team
Corporate Actions
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Instructions must be received no earlier than 45 and no later than 14 calendar days before the chosen conversion date.

The number of shares that will arise upon conversion will be determined on the basis of the relative net asset values of each share class, taking into account the costs of the conversion process. Conversion will not affect the net asset value per share of those shares held by any shareholder who does not convert.

With regard to those who hold shares through the J.P. Morgan Investment Account, J.P. Morgan ISA or J.P. Morgan SIPP, the minimum number of shares of any class which may be converted is 1,000 shares (subject to a minimum value of £500). Conversion of fewer shares may only take place if the number to be converted constitutes the shareholder's entire holding in that class.

Shareholders who hold shares in certificated form on the main register or those who hold their shares in electronic form through CREST may convert a minimum of 1,000 shares or, if lower, their entire holding.

More details concerning conversion dates and conversion instruction forms can be found on the Company's website: www.jpmelect.co.uk.

THE COMPANY

Financial Conduct Authority

# Beware of share fraud

**Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.**

## How to avoid share fraud

1. Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. **Remember:** if it sounds too good to be true, it probably is!

## Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams**, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

**5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000**

In association with: icsa Registrars Group

# Notes

# Notes

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# Information about the Company

## Financial Calendar

| | |
|---|---|
| Financial year end | 31st August |
| Final results announced | October/November |
| Half year end | 28th February |
| Half year results announced | April |
| Interim Management Statements announced | June/December |
| Dividends payable (if any) | |
| Managed Growth, Managed Income and Managed Cash | March, June, September and December |
| Annual General Meeting | December |

**History**
The Company was incorporated on 16th September 1999 and launched as an investment trust on 24th November 1999 with assets of £28 million.
The Company changed its name to JPMorgan Fleming Managed Growth plc on 5th December 2002. The Company's name was changed to JPMorgan Fleming Elect plc on 14th January 2004 following the capital reorganisation and combination of JPMorgan Fleming Managed Growth plc and JPMorgan Fleming Managed Income plc. The Company adopted its present name on 2nd February 2006.

There are three share classes, each with distinct investment policies, objectives and underlying investment portfolios. Each share class is listed separately and traded on the London Stock Exchange. This capital structure means that shareholders may benefit from greater investment flexibility in a tax-efficient manner.

**Company Numbers**
Company registration number: 3845060
London Stock Exchange Sedol numbers:
Managed Growth: 0852814, Managed Income: 3408021,
Managed Cash: 3408009

ISIN:

| | |
|---|---|
| Managed Growth: | GB0008528142 |
| Managed Income: | GB0034080217 |
| Managed Cash: | GB0034080092 |

Bloomberg Codes:

| | |
|---|---|
| Managed Growth: | JPE LN |
| Managed Income: | JPEI LN |
| Managed Cash: | JPEC LN |

**Market Information**
Net asset values per share for each share class are published daily via the London Stock Exchange. The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman and on the JPMorgan internet site at www.jpmelect.co.uk, where the share prices are updated every fifteen minutes during trading hours.

**Website**
www.jpmelect.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 SIPP. These products are all available on the online wealth manager service, J.P. Morgan WealthManager+ available at www.jpmorganwealthmanagerplus.co.uk.

aic
The Association of Investment Companies
A member of the AIC

**Manager and Company Secretary**
JPMorgan Funds Limited

**Company's Registered Office**
60 Victoria Embankment
London EC4Y 0JP
Telephone number: 020 7742 4000

For company secretarial and administrative matters, please contact Rebecca Burtonwood.

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

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

**Registrars**
Equiniti Limited
Reference 2018
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone number: 0871 384 2530

Calls to this number cost 8p per minute plus network charges. Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. The overseas helpline number is +44 (0)121 415 7047.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrars quoting reference 2018.

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

**Independent Auditor**
Ernst & Young LLP
Chartered Accountants and Statutory Auditor
1 More London Place
London SE1 2AF

**Brokers**
Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA
Telephone number: 020 7621 0004

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

JPMorgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.jpmelect.co.uk