



# Half Year Report 2013/14

## JPMorgan European Smaller Companies Trust plc

Half Year Report & Accounts for the six months ended 30th September 2013

# Features

## Contents

### About the Company

- 1 Half Year Performance
- 2 Chairman's Statement
- 4 Investment Managers' Report

### Investment Review

- 6 List of Investments
- 8 Portfolio Analyses

### Accounts

- 10 Income Statement
- 11 Reconciliation of Movements in Shareholders' Funds
- 12 Balance Sheet
- 13 Cash Flow Statement
- 14 Notes to the Accounts
- 16 Interim Management Report

### Shareholder Information

- 17 Glossary of Terms and Definitions
- 21 Information about the Company

## Objective

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

## Investment Policies

- To invest in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom.
- To manage liquidity and borrowings to increase potential returns to shareholders. The Board's current policy is to be between 20% net cash and 20% geared.
- To emphasise capital growth rather than income. Therefore shareholders should expect the dividend to vary from year to year.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

## Risk

It should be noted that the Company invests in the shares of smaller companies, which tend to be more volatile than those of larger companies. The Company also employs gearing to generate greater returns. The Company's shares should therefore be regarded as carrying greater than average risk.

## Benchmark

Euromoney Smaller European Companies (ex UK) Total Return Index in sterling terms, formerly known as the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms.

## Capital Structure

At 30th September 2013, the Company's share capital comprised 33,429,577 ordinary shares of 25p each.

## Management Company

The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM' or the 'Manager') to manage its assets.

# Half Year Performance

for the six months ended 30th September 2013

**+21.0%**

Return to shareholders<sup>1</sup>

**+17.4%**

Return on net assets<sup>2</sup>

**+13.1%**

Benchmark return<sup>3</sup>

Total returns (includes dividends reinvested)

## Financial Data

|  | 30th September<br>2013 | 31st March<br>2013 | %<br>change |
|--|------------------------|--------------------|-------------|
| Shareholders' funds (£'000)                          | <b>379,696</b>         | 349,107            | +8.8        |
| Number of shares in issue                            | <b>33,429,577</b>      | 35,781,923         | -6.6        |
| Net asset value per share                            | <b>1,135.8p</b>        | 975.7p             | +16.4       |
| Share price  | <b>1,016.0p</b>        | 849.0p             | +19.7       |
| Share price discount to net asset<br>value per share | <b>10.5%</b>           | 13.0%              |             |

A glossary of terms and definitions is provided on page 17.

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

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

<sup>3</sup>Source: Morningstar. The Company's benchmark is Euromoney Smaller European Companies (ex UK) Total Return Index in sterling terms (formerly the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms).

# Chairman's Statement



## Performance

For the six months ended 30th September 2013, the Company produced a total return on net assets of +17.4%, significantly outperforming the benchmark index, the Euromoney Smaller European Companies (ex UK) Index (formerly known as the HSBC Smaller European Companies (ex UK) Index) in sterling terms by +4.3%. As highlighted in our annual report and accounts, your Board and Investment Managers have been working actively to increase broader awareness of the Company and it is pleasing to see initial rewards for this effort, with the discount on the Company's shares decreasing from 13.0% to 10.5% over this reporting period. The total return to shareholders was +21.0%.

Longer term performance remains very positive, with a total return on net assets of +348.6% against the benchmark total return of +212.9% over the ten years ended 30th September 2013. In their report, the Investment Managers provide details of the key factors driving performance during the first six months of the Company's financial year.

## Revenue and Dividend

As detailed in my Chairman's Statement for the year ended 31st March 2013, the Board's dividend policy is to pay out the vast majority of revenue available each year. However, shareholders are reminded that the Company's objective is to achieve capital growth and management of the portfolio is not constrained to deliver income in any one period. Gross revenue return for the six months to 30th September 2013 was higher than the corresponding period in 2012 at £7.5 million (2012: £6.5 million). The Board has decided to pay an interim dividend of 6.0 pence per share (2012: 6.0 pence), which will be paid on 15th January 2014 to shareholders on the register as at 20th December 2013 (ex-dividend date 18th December 2013).

## Tender Offer, Share Buybacks and Discount

During the six months ended 30th September 2013, a total of 570,000 shares were repurchased for cancellation. In addition, as a result of a tender offer for up to 5% of the Company's issued share capital, a total of 1,782,346 shares were successfully tendered and bought in by the Company for cancellation at a price of 1,055.69 pence per share in July 2013. The tender offer met its principal objective of providing a liquidity event to shareholders seeking a full or partial exit from the Company, whilst at the same time enhancing the net asset value for ongoing shareholders by 0.2% during the six months under review. Ongoing shareholders also received a final dividend of 10.0 pence per share in late August. The Company has not bought back any further shares for cancellation since the period end and the Board continues to monitor closely the level of the discount.

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

The Board is progressing the implementation of AIFMD, taking advice on the implications for the Company and working closely with JPMorgan. To comply with the requirements of the new regulations, the Board has agreed in principle to appoint JPMorgan as its Manager. A Depositary will also be required to fulfil the newly required role of overseeing the Company's custody and cash management operations.

#### **Outlook**

Our Investment Managers are reporting that many of the companies in which they invest are starting to see signs of a recovery in the European economy and they expect earnings recovery to be rapid next year after company cost cutting efforts of the recession years.

**Carolyn Dobson**  
Chairman

26th November 2013

# Investment Managers' Report



Jim Campbell



Francesco Conte

## Review

Despite a weak first quarter earnings season, markets pressed ahead on expectations that the European economies were no longer deteriorating. Many macroeconomic leading indicators, such as consumer confidence and purchasing managers indices, suggested that consumption and manufacturing would improve later in the year. In particular, there were green shoots in some of the most depressed economies such as Greece and Spain, indicating that, having regained their competitiveness, the worst of austerity is behind them. By the end of September 2013 the large company MSCI World Europe (ex UK) Index rose by 8.3% in sterling terms. Smaller companies did better still with the benchmark Euromoney Smaller European Companies (ex UK) Index (formerly known as the HSBC Smaller European Companies (ex UK) Index) rising by 13.1%.

## Portfolio

The net asset value of the portfolio rose by 17.4% in the first half of the Company's year comfortably outperforming its benchmark index due to positive stock selection and asset allocation. The portfolio's best performing stocks were companies that benefit from improving economies such as the Italian luxury goods internet retailer Yoox, and French automotive suppliers Plastic-Omnium and Faurecia. Companies undergoing heavy restructuring such as Spanish wind turbine manufacturer Gamesa and Danish jewellery company Pandora (the latter no longer in the portfolio) were also amongst our top performers for the period.

Given how well some of the aforementioned had performed, we have taken some profits and reinvested the cash in what we believe will be the next stocks to drive performance. Notably, after a prolonged absence, we have invested once again in Greek companies as the economy is stabilising. Although early days, Jumbo the leading Greek retailer and the Hellenic Exchanges have thus far proven to be successful investments. We have also invested in media companies Modern Times Group in Sweden and (since the half year end) M6-Metropole Television in France as consumer demand is improving across the region. We have also found attractive investments in industries that have experienced a prolonged downturn due to the financial crisis such as textile machinery, on evidence that fundamentals are finally improving.

Due to a timing difference between the selling down of some aforementioned successful investments and the purchasing of new ones gearing, which has been in the mid teens for much of the last two years, temporarily fell to 0.8%. However, as the new purchases have come through it has once again risen and now stands at about 10%.

## **Outlook**

For the first time in several years, we are relieved to report that we have not had to look over our shoulder at an impending Eurozone crisis, but have been able to do what we do best, namely stock picking. On the contrary, there are encouraging signs that the periphery of Europe has made tremendous progress. Ireland, which was the first country to go into a Eurozone rescue programme, is likely to be the first to come out some time next year. It is very pleasing to see that the years of extreme economic hardship should finally be a thing of the past. Other countries like Greece, Portugal and Spain appear to be following in Ireland's footsteps and we hope to be able to report similarly good news in the future.

Companies are generally reporting that the European economy is finally improving and, given that in many cases they have cut costs aggressively, we expect the earnings recovery to be rapid next year. The first year after a recession is usually the best year for earnings growth as companies cost structures lag improving sales. The largest cloud on the horizon is whether central banks will reduce the extremely loose monetary policies of the last few years; but they are likely to err on the side of caution, reticent to bring a nascent recovery to a halt as the Japanese central bank did so many years ago. Finally, we find investor interest in Europe has picked up dramatically and we would expect the recent increased flows into European equities to be sustained into next year.

**Jim Campbell**  
**Francesco Conte**  
Investment Managers

26th November 2013

# List of Investments

at 30th September 2013

| Company                        | Country     | Valuation<br>£'000 | %   |
|--------------------------------|-------------|--------------------|-----|
| PostNL                         | Netherlands | 15,899             | 3.9 |
| Ubisoft                        | France      | 15,870             | 3.9 |
| Unit 4 Agresso                 | Netherlands | 11,583             | 2.9 |
| Delta Lloyd                    | Netherlands | 10,421             | 2.6 |
| SBM Offshore                   | Netherlands | 10,049             | 2.5 |
| Eiffage                        | France      | 9,924              | 2.5 |
| Gamesa Corporación Tecnológica | Spain       | 9,521              | 2.4 |
| Fischer (Georg)                | Switzerland | 9,483              | 2.3 |
| Trelleborg                     | Sweden      | 9,469              | 2.3 |
| Aalberts Industries            | Netherlands | 9,182              | 2.3 |
| Wirecard                       | Germany     | 9,014              | 2.2 |
| Modern Times Group             | Sweden      | 8,969              | 2.2 |
| Bankinter                      | Spain       | 8,881              | 2.2 |
| JM                             | Sweden      | 8,799              | 2.2 |
| NCC                            | Sweden      | 8,764              | 2.2 |
| Arcadis                        | Netherlands | 8,133              | 2.0 |
| Hellenic Exchanges             | Greece      | 8,001              | 2.0 |
| Duerr                          | Germany     | 7,970              | 2.0 |
| Faurecia                       | France      | 7,968              | 2.0 |
| Storebrand                     | Norway      | 7,817              | 1.9 |
| Nordex                         | Germany     | 7,551              | 1.9 |
| EFG International              | Switzerland | 7,069              | 1.8 |
| Drillisch                      | Germany     | 6,847              | 1.7 |
| Helvetia                       | Switzerland | 6,734              | 1.7 |
| Rieter                         | Switzerland | 5,890              | 1.5 |
| Folli Follie                   | Greece      | 5,711              | 1.4 |
| Danieli                        | Italy       | 5,490              | 1.4 |
| Jumbo                          | Greece      | 5,452              | 1.4 |
| Eurofins Scientific            | France      | 5,444              | 1.3 |
| Norma Group                    | Germany     | 5,267              | 1.3 |
| Vontobel                       | Switzerland | 5,015              | 1.2 |
| Intrum Justitia                | Sweden      | 4,997              | 1.2 |
| Kingspan                       | Ireland     | 4,971              | 1.2 |
| Nutreco                        | Netherlands | 4,856              | 1.2 |
| Yoox                           | Italy       | 4,584              | 1.1 |
| GN Store Nord                  | Denmark     | 4,240              | 1.1 |
| Amer Sports                    | Finland     | 4,184              | 1.0 |
| Matas                          | Denmark     | 4,179              | 1.0 |
| Jyske Bank                     | Denmark     | 4,168              | 1.0 |



| Company                                      | Country        | Valuation<br>£'000 | %            |
|--|----------------|--------------------|--------------|
| Teleperformance                              | France         | 4,071              | 1.0          |
| Brembo                                       | Italy          | 3,850              | 1.0          |
| Bucher Industries                            | Switzerland    | 3,810              | 0.9          |
| IMA  | Italy          | 3,781              | 0.9          |
| SIAS   | Italy          | 3,749              | 0.9          |
| Sogefi                                       | Italy          | 3,721              | 0.9          |
| Banca Generali                               | Italy          | 3,670              | 0.9          |
| Interpump Group                              | Italy          | 3,575              | 0.9          |
| Plastic-Omnium                               | France         | 3,552              | 0.9          |
| TKH  | Netherlands    | 3,420              | 0.8          |
| Temenos                                      | Switzerland    | 3,415              | 0.8          |
| Grafton                                      | Ireland        | 3,272              | 0.8          |
| Azimut                                       | Italy          | 3,246              | 0.8          |
| Hexpol                                       | Sweden         | 3,125              | 0.8          |
| D/S Norden                                   | Denmark        | 2,930              | 0.7          |
| Royal Unibrew                                | Denmark        | 2,859              | 0.7          |
| Grupo Catalana Occidente                     | Spain          | 2,640              | 0.7          |
| AarhusKarlshamn                              | Sweden         | 2,550              | 0.6          |
| Jungheinrich                                 | Germany        | 2,517              | 0.6          |
| Grammer                                      | Germany        | 2,291              | 0.6          |
| SimCorp                                      | Denmark        | 2,118              | 0.5          |
| Loomis                                       | Sweden         | 2,106              | 0.5          |
| Auriga Industries                            | Denmark        | 2,074              | 0.5          |
| Haulotte Group                               | France         | 1,926              | 0.5          |
| Haldex                                       | Sweden         | 1,841              | 0.5          |
| Rockwool International                       | Denmark        | 1,613              | 0.4          |
| Moleskine                                    | Italy          | 1,557              | 0.4          |
| Bilia  | Sweden         | 1,302              | 0.3          |
| Nobia  | Sweden         | 1,255              | 0.3          |
| AF   | Sweden         | 1,039              | 0.3          |
| Ipsen  | France         | 488                | 0.1          |
| Frigoglass                                   | Greece         | 400                | 0.1          |
| Komax  | Switzerland    | 380                | 0.1          |
| Opera Software                               | Norway         | 141                | —            |
| CFE  | Belgium        | 93                 | —            |
| Trigano                                      | France         | 46                 | —            |
| <b>Total investments</b>                     |                | <b>382,789</b>     | <b>94.6</b>  |
| JPM Euro Liquidity Fund                      | Liquidity fund | 37,657             | 9.3          |
| Net current liabilities                      |                | (15,673)           | (3.9)        |
| <b>Total assets less current liabilities</b> |                | <b>404,773</b>     | <b>100.0</b> |

# Portfolio Analyses

| Geographical            | at 30th September 2013 |                | at 31st March 2013 |                |
|-------------------------|------------------------|----------------|--------------------|----------------|
|                         | Portfolio<br>%         | Benchmark<br>% | Portfolio<br>%     | Benchmark<br>% |
| Netherlands             | 18.2                   | 4.7            | 14.6               | 4.6            |
| Sweden                  | 13.4                   | 11.0           | 9.2                | 10.8           |
| France                  | 12.2                   | 11.7           | 17.8               | 12.5           |
| Switzerland             | 10.3                   | 9.9            | 12.7               | 10.6           |
| Germany                 | 10.3                   | 14.3           | 14.9               | 14.6           |
| Italy                   | 9.2                    | 11.0           | 15.7               | 10.4           |
| Denmark                 | 5.9                    | 4.4            | 8.5                | 4.0            |
| Spain                   | 5.3                    | 7.5            | 0.3                | 6.3            |
| Greece                  | 4.9                    | 2.5            | 1.1                | 2.8            |
| Ireland                 | 2.0                    | 1.2            | 3.0                | 2.3            |
| Norway                  | 1.9                    | 6.6            | 2.5                | 6.5            |
| Finland                 | 1.0                    | 5.3            | 5.4                | 4.9            |
| Belgium                 | –                      | 3.9            | 0.9                | 4.3            |
| Austria                 | –                      | 3.8            | 1.1                | 3.6            |
| Portugal                | –                      | 2.0            | –                  | 1.6            |
| Luxembourg              | –                      | 0.2            | –                  | –              |
| Russia                  | –                      | –              | –                  | 0.2            |
| Total equities          | 94.6                   | 100.0          | 107.7              | 100.0          |
| Liquidity fund          | 9.3                    | –              | 3.8                | –              |
| Net current liabilities | (3.9)                  | –              | (11.5)             | –              |
| <b>Total</b>            | <b>100.0</b>           | <b>100.0</b>   | <b>100.0</b>       | <b>100.0</b>   |

Based on total assets less current liabilities of £404.8m (31st March 2013: £366.0m).

| Sector                     | at 30th September 2013 |                | at 31st March 2013 |                |
|----------------------------|------------------------|----------------|--------------------|----------------|
|                            | Portfolio<br>%         | Benchmark<br>% | Portfolio<br>%     | Benchmark<br>% |
| Industrials                | 39.4                   | 25.2           | 26.2               | 23.9           |
| Financials                 | 16.7                   | 19.7           | 18.7               | 20.7           |
| Consumer Discretionary     | 16.3                   | 14.0           | 16.8               | 14.0           |
| Information Technology     | 11.3                   | 8.0            | 11.7               | 7.9            |
| Health Care                | 2.9                    | 9.4            | 8.7                | 9.4            |
| Consumer Staples           | 2.5                    | 6.1            | 3.4                | 6.5            |
| Energy                     | 2.5                    | 4.7            | 4.7                | 5.5            |
| Telecommunication Services | 1.7                    | 2.2            | 4.0                | 1.7            |
| Materials                  | 1.3                    | 7.1            | 12.6               | 8.0            |
| Utilities                  | —                      | 3.6            | 0.9                | 2.4            |
| Total equities             | 94.6                   | 100.0          | 107.7              | 100.0          |
| Liquidity fund             | 9.3                    | —              | 3.8                | —              |
| Net current liabilities    | (3.9)                  | —              | (11.5)             | —              |
| <b>Total</b>               | <b>100.0</b>           | <b>100.0</b>   | <b>100.0</b>       | <b>100.0</b>   |

Based on total assets less current liabilities of £404.8m (31st March 2013: £366.0m).

# Income Statement

for the six months ended 30th September 2013

|   | (Unaudited)<br>Six months ended<br>30th September 2013 |                  |                | (Unaudited)<br>Six months ended<br>30th September 2012 |                  |                | (Audited)<br>Year ended<br>31st March 2013 |                  |                |
|---|--|------------------|----------------|--|------------------|----------------|--|------------------|----------------|
|   | Revenue<br>£'000                                       | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                                       | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                           | Capital<br>£'000 | Total<br>£'000 |
| <b>Gains/(losses) on investments held at fair value through profit or loss</b>    | –  | 54,137           | 54,137         | –  | (26,775)         | (26,775)       | –  | 40,908           | 40,908         |
| Net foreign currency (losses)/gains   | –  | (148)            | (148)          | –  | 2,550            | 2,550          | –  | (1,276)          | (1,276)        |
| Income from investments   | 7,450  | –                | 7,450          | 6,388  | –                | 6,388          | 8,240                                      | –                | 8,240          |
| Other interest receivable and similar income                                      | 25   | –                | 25             | 118  | –                | 118            | 241  | –                | 241            |
| <b>Gross return/(loss)</b>  | <b>7,475</b>   | <b>53,989</b>    | <b>61,464</b>  | 6,506  | (24,225)         | (17,719)       | 8,481                                      | 39,632           | 48,113         |
| Management fee  | (601)  | (1,403)          | (2,004)        | (490)  | (1,142)          | (1,632)        | (1,008)                                    | (2,353)          | (3,361)        |
| Other administrative expenses   | (306)  | –                | (306)          | (250)  | –                | (250)          | (570)                                      | –                | (570)          |
| <b>Net return/(loss) on ordinary activities before finance costs and taxation</b> | <b>6,568</b>   | <b>52,586</b>    | <b>59,154</b>  | 5,766  | (25,367)         | (19,601)       | 6,903                                      | 37,279           | 44,182         |
| Finance costs   | (115)  | (268)            | (383)          | (94)   | (219)            | (313)          | (197)                                      | (461)            | (658)          |
| <b>Net return/(loss) on ordinary activities before taxation</b>                   | <b>6,453</b>   | <b>52,318</b>    | <b>58,771</b>  | 5,672  | (25,586)         | (19,914)       | 6,706                                      | 36,818           | 43,524         |
| Taxation  | (384)  | –                | (384)          | (450)  | –                | (450)          | (572)                                      | –                | (572)          |
| <b>Net return/(loss) on ordinary activities after taxation</b>                    | <b>6,069</b>   | <b>52,318</b>    | <b>58,387</b>  | 5,222  | (25,586)         | (20,364)       | 6,134                                      | 36,818           | 42,952         |
| <b>Return/(loss) per share</b> (note 4)   | <b>17.39p</b>  | <b>149.92p</b>   | <b>167.31p</b> | 13.53p   | (66.28)p         | (52.75)p       | 16.47p                                     | 98.88p           | 115.35p        |

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

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.

# Reconciliation of Movements in Shareholders' Funds

| Six months ended<br>30th September 2013<br>(Unaudited)     | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000  |
|--|--|---------------------------|---|------------------------------|-----------------------------|-----------------|
| <b>At 31st March 2013</b>                                  | 8,946                                  | 1,312                     | 6,690                                     | 326,476                      | 5,683                       | <b>349,107</b>  |
| Repurchase and cancellation of the Company's<br>own shares | (588)                                  | –                         | 588                                       | (24,420)                     | –                           | <b>(24,420)</b> |
| Net return on ordinary activities                          | –                                      | –                         | –   | 52,318                       | 6,069                       | <b>58,387</b>   |
| Dividends appropriated in the period                       | –                                      | –                         | –   | –                            | (3,378)                     | <b>(3,378)</b>  |
| <b>At 30th September 2013</b>                              | <b>8,358</b>                           | <b>1,312</b>              | <b>7,278</b>                              | <b>354,374</b>               | <b>8,374</b>                | <b>379,696</b>  |

  

| Six months ended<br>30th September 2012<br>(Unaudited)     | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000  |
|--|--|---------------------------|---|------------------------------|-----------------------------|-----------------|
| <b>At 31st March 2012</b>                                  | 10,021                                 | 1,312                     | 5,615                                     | 319,700                      | 5,651                       | <b>342,299</b>  |
| Repurchase and cancellation of the Company's<br>own shares | (1,039)                                | –                         | 1,039                                     | (28,943)                     | –                           | <b>(28,943)</b> |
| Net (loss)/return on ordinary activities                   | –                                      | –                         | –   | (25,586)                     | 5,222                       | <b>(20,364)</b> |
| Dividends appropriated in the period                       | –                                      | –                         | –   | –                            | (3,952)                     | <b>(3,952)</b>  |
| <b>At 30th September 2012</b>                              | <b>8,982</b>                           | <b>1,312</b>              | <b>6,654</b>                              | <b>265,171</b>               | <b>6,921</b>                | <b>289,040</b>  |

  

| Year ended<br>31st March 2013<br>(Audited)                 | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000  |
|--|--|---------------------------|---|------------------------------|-----------------------------|-----------------|
| <b>At 31st March 2012</b>                                  | 10,021                                 | 1,312                     | 5,615                                     | 319,700                      | 5,651                       | <b>342,299</b>  |
| Repurchase and cancellation of the Company's<br>own shares | (1,075)                                | –                         | 1,075                                     | (30,042)                     | –                           | <b>(30,042)</b> |
| Net return on ordinary activities                          | –                                      | –                         | –   | 36,818                       | 6,134                       | <b>42,952</b>   |
| Dividends appropriated in the year                         | –                                      | –                         | –   | –                            | (6,102)                     | <b>(6,102)</b>  |
| <b>At 31st March 2013</b>                                  | <b>8,946</b>                           | <b>1,312</b>              | <b>6,690</b>                              | <b>326,476</b>               | <b>5,683</b>                | <b>349,107</b>  |

# Balance Sheet

at 30th September 2013

|  | (Unaudited)<br>30th September 2013<br>£'000 | (Unaudited)<br>30th September 2012<br>£'000 | (Audited)<br>31st March 2013<br>£'000 |
|--|---|---|---------------------------------------|
| <b>Fixed assets</b>  |   |   |                                       |
| Investments held at fair value through profit or loss  | 382,789                                     | 299,223                                     | 394,223                               |
| Investments in liquidity funds held at fair value through profit or loss                               | 37,657                                      | 25,558                                      | 13,911                                |
| <b>Total investments</b>   | <b>420,446</b>                              | <b>324,781</b>                              | <b>408,134</b>                        |
| <b>Current assets</b>  |   |   |                                       |
| Debtors  | 16,423                                      | 5,559                                       | 7,971                                 |
| Cash and short term deposits   | 1,419                                       | 7,152                                       | 347                                   |
| Derivative financial instruments: forward currency contracts held at fair value through profit or loss | 2   | 2   | –                                     |
|  | 17,844                                      | 12,713                                      | 8,318                                 |
| <b>Creditors:</b> amounts falling due within one year  | <b>(33,515)</b>                             | <b>(48,454)</b>                             | <b>(50,429)</b>                       |
| Derivative financial instruments: forward currency contracts held at fair value through profit or loss | (2)   | –   | (3)                                   |
| <b>Net current liabilities</b>   | <b>(15,673)</b>                             | <b>(35,741)</b>                             | <b>(42,114)</b>                       |
| <b>Total assets less current liabilities</b>   | <b>404,773</b>                              | <b>289,040</b>                              | <b>366,020</b>                        |
| <b>Creditors:</b> amounts falling due after more than one year   | <b>(25,077)</b>                             | <b>–</b>                                    | <b>(16,913)</b>                       |
| <b>Net assets</b>  | <b>379,696</b>                              | <b>289,040</b>                              | <b>349,107</b>                        |
| <b>Capital and reserves</b>  |   |   |                                       |
| Called up share capital  | 8,358                                       | 8,982                                       | 8,946                                 |
| Share premium  | 1,312                                       | 1,312                                       | 1,312                                 |
| Capital redemption reserve   | 7,278                                       | 6,654                                       | 6,690                                 |
| Capital reserves   | 354,374                                     | 265,171                                     | 326,476                               |
| Revenue reserve  | 8,374                                       | 6,921                                       | 5,683                                 |
| <b>Equity shareholders' funds</b>  | <b>379,696</b>                              | <b>289,040</b>                              | <b>349,107</b>                        |
| <b>Net asset value per share</b> (note 5)  | <b>1,135.8p</b>                             | <b>804.5p</b>                               | <b>975.7p</b>                         |

Company registration number: 2431143

# Cash Flow Statement

for the six months ended 30th September 2013

|  | (Unaudited)<br>Six months ended<br>30th September 2013<br>£'000 | (Unaudited)<br>Six months ended<br>30th September 2012<br>£'000 | (Audited)<br>Year ended<br>31st March 2013<br>£'000 |
|--|---|---|---|
| <b>Net cash inflow from operating activities</b> (note 6)                | <b>4,024</b>  | 4,123   | 3,033   |
| Net cash outflow from returns on investments<br>and servicing of finance | (382)   | (339)   | (712)   |
| Overseas tax recovered   | 297   | 84  | 107   |
| Net cash inflow from capital expenditure<br>and financial investment     | 34,125  | 35,264  | 17,607  |
| Dividend paid  | (3,378)   | (3,952)   | (6,102)   |
| Net cash outflow from financing  | (32,743)  | (29,305)  | (13,019)  |
| <b>Increase in cash in the period</b>                                    | <b>1,943</b>  | 5,875   | 914   |
| <b>Reconciliation of net cash flow to movement in<br/>net debt</b>       |   |   |   |
| Net cash movement  | 1,943   | 5,875   | 914   |
| Net loans drawn down/(repaid) in the period                              | 8,322   | —   | (17,384)  |
| Exchange movements   | (150)   | 2,549   | (1,274)   |
| Movement in net funds in the period                                      | 10,115  | 8,424   | (17,744)  |
| Net debt at the beginning of the period                                  | (58,850)  | (41,106)  | (41,106)  |
| <b>Net debt at the end of the period</b>                                 | <b>(48,735)</b>   | (32,682)  | (58,850)  |
| <b>Represented by:</b>   |   |   |   |
| Cash and short term deposits and bank overdrafts                         | 1,419   | 7,152   | 347   |
| Debt falling due within one year   | (25,077)  | (39,834)  | (42,284)  |
| Debt falling due in more than two years but not<br>more than five years  | (25,077)  | —   | (16,913)  |
| <b>Net debt at the end of the period</b>                                 | <b>(48,735)</b>   | (32,682)  | (58,850)  |

# Notes to the Accounts

for the six months ended 30th September 2013

## 1. Financial statements

The information contained within the financial statements in this half year report has not been audited or reviewed by the Company's auditors. The figures and financial information for the year ended 31st March 2013 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either Section 498(2) or 498(3) of the Companies Act 2006.

## 2. Accounting policies

The accounts have been prepared in accordance with 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' issued by the Association of Investment Companies in January 2009.

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

The accounting policies applied to these half year accounts are consistent with those applied in the accounts for the year ended 31st March 2013.

## 3. Dividends

|   | (Unaudited)<br>Six months ended<br>30th September 2013<br>£'000 | (Unaudited)<br>Six months ended<br>30th September 2012<br>£'000 | (Audited)<br>Year ended<br>31st March 2013<br>£'000 |
|---|---|---|---|
| Final dividend in respect of the year ended<br>31st March 2013 of 10.0p (2012: 11.0p) | 3,578   | 3,952   | 3,578   |

An interim dividend of 6.0p (2012: 6.0p) has been declared in respect of the six months ended 30th September 2013, amounting to £2,006,000.

## 4. Return/(loss) per share

|  | (Unaudited)<br>Six months ended<br>30th September 2013<br>£'000 | (Unaudited)<br>Six months ended<br>30th September 2012<br>£'000 | (Audited)<br>Year ended<br>31st March 2013<br>£'000 |
|--|---|---|---|
| Return/(loss) per share is based on the following: |   |   |   |
| Revenue return                                     | 6,069   | 5,222   | 6,134   |
| Capital return/(loss)                              | 52,318  | (25,586)  | 36,818  |
| Total return/(loss)                                | 58,387  | (20,364)  | 42,952  |
| Weighted average number of shares in issue         | 34,898,199  | 38,601,926  | 37,234,966  |
| Revenue return per share                           | 17.39p  | 13.53p  | 16.47p  |
| Capital return/(loss) per share                    | 149.92p   | (66.28)p  | 98.88p  |
| Total return/(loss) per share                      | 167.31p   | (52.75)p  | 115.35p   |



## 5. Net asset value per share

The net asset value per share is calculated by dividing shareholders' funds of £379,696,000 (30th September 2012: £289,040,000 and 31st March 2013: £349,107,000) by the number of shares in issue at 30th September 2013 of 33,429,577 (30th September 2012: 35,926,923 and 31st March 2013: 35,781,923).

## 6. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities

|  | (Unaudited)<br>Six months ended<br>30th September 2013<br>£'000 | (Unaudited)<br>Six months ended<br>30th September 2012<br>£'000 | (Audited)<br>Year ended<br>31st March 2013<br>£'000 |
|--|---|---|---|
| Total return/(loss) on ordinary activities before finance costs and taxation | 59,154  | (19,601)  | 44,182  |
| Less capital (return)/loss before finance costs and taxation                 | (52,586)  | 25,367  | (37,279)  |
| Scrip dividends received as income   | (1,415)   | (442)   | (441)   |
| Decrease/(increase) in accrued income  | 846   | 631   | (272)   |
| Decrease/(increase) in other debtors   | 14  | (3)   | 9   |
| (Decrease)/increase in accrued expenses                                      | (32)  | (36)  | 3   |
| Overseas withholding tax   | (554)   | (651)   | (816)   |
| Management fee charged to capital  | (1,403)   | (1,142)   | (2,353)   |
| Net cash inflow from operating activities                                    | 4,024   | 4,123   | 3,033   |

# Interim Management Report

The Company is required to make the following disclosures in its half year report:

## Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company have not changed and fall into the following broad categories: investment and strategy; market; accounting, legal and regulatory; corporate governance and shareholder relations; operational and financial. Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 31st March 2013.

## Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company.

## Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

## Directors' Responsibilities

The Board of Directors confirms that, to the best of its knowledge:

- (i) the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half Yearly Financial Reports' and gives a true and fair view of the state of affairs of the Company and of the assets, liabilities, financial position and net return of the Company, as at 30th September 2013, as required by the UK Listing Authority Disclosure and Transparency Rules 4.2.4R; and
- (ii) the interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the UK Listing Authority Disclosure and Transparency Rules.

In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

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

and the Directors confirm that they have done so.

For and on behalf of the Board

**Carolyn Dobson**  
Chairman

26th November 2013

# 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 shares 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 shares 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 when calculating the total return on net assets.

## Benchmark Return

Total return on the 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 benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

## 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 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.

## 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](http://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](http://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](http://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**



# Information about the Company

## Financial Calendar

|   |                |
|---|----------------|
| Financial year end                      | 31st March     |
| Final results announced                 | May/June       |
| Half year end                           | 30th September |
| Half year results announced             | November       |
| Interim Management Statements announced | January/July   |
| Annual General Meeting                  | 8th July 2014  |
| Dividend                                | July           |

## History

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

## Directors

Carolán Dobson (Chairman)  
Anthony Davidson  
Ashok Gupta  
Federico Marescotti  
Stephen White

## Company Numbers

Company registration number: 2431143  
London Stock Exchange number: 0341969  
ISIN: GB0003419693  
Bloomberg code: JESC LN

## Market Information

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

## 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](http://www.jpmorganwealthmanagerplus.co.uk)

## Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

Finsbury Dials  
20 Finsbury Street  
London EC2Y 9AQ  
Telephone: 020 7742 4000

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

## Custodian

JPMorgan Chase Bank, N.A.  
25 Bank Street  
Canary Wharf  
London E14 5JP

## Registrars

Equiniti Limited  
Reference 1083  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone number: 0871 384 2325

Calls to this number cost 8p per minute from a BT landline plus network charges. Lines open 8.30am to 5.30pm 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 Registrar quoting reference 1083.

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

## Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London SE1 2RT

## Brokers

Cenkos Securities plc  
6.78 Tokenhouse Yard  
London EC2R 7AS

## 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.



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Your telephone call may be recorded for your security

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