City Merchants High Yield Trust Limited

Annual Financial Report

Year Ended 31 December 2020

If you have any queries about City Merchants High Yield Trust Limited, or any of the other specialist funds managed by Invesco please contact Invesco's Client Services Team on

0800 085 8677

www.invesco.co.uk/citymerchants

The Company is a member of

aic

The Association of Investment Companies

Contents

City Merchants High Yield Trust Limited (the "Company") is a Jersey incorporated investment company listed on the London Stock Exchange.

Investment Objective

The Company's investment objective is to seek to obtain capital growth and high income from investment, predominantly in high-yielding fixed-interest securities.

Investment Policy

The Company seeks to provide a high level of dividend income relative to prevailing interest rates mainly through investment in bonds and other fixed-interest securities. The Company also invests in equities and other equity-like instruments consistent with the overall objective.

It should be noted that, although investment in higher-yielding securities may provide greater returns than investment in higher-rated interest-bearing securities, it entails greater risks.

Nature of the Company

The Company is a public listed investment company incorporated in Jersey, Channel Islands, whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on pages 8 and 9), with the aim of spreading investment risk and generating a return for shareholders. The Company may use gearing from repo financing, the proceeds from which can also be invested with the aim of enhancing returns to shareholders. Such additional investment would increase the potential risk to shareholders should the value of the investments fall.

The Company has contracted with an external investment manager, Invesco Fund Managers Limited ('IFML', the 'Manager'), to manage its investments. The Company is an Alternative Investment Fund and IFML is the Alternative Investment Fund Manager. Administrative functions are contracted to external service providers, the main one being with JTC Fund Solutions (Jersey) Limited. The Company has a Board of non-executive Directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment policy is adhered to. The Company has no employees.

The Company's shares qualify to be considered as a mainstream investment product suitable for promotion to retail investors.

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Total Return for the year[1][2]	2020	2019
Net asset value	+6.9%	+13.4%
Share price	+1.8%	+18.7%
Ongoing Charges Ratio[2]	0.99%	1.02%
Dividend for the year	10p	10p

Year End Information

	31 DECEMBER 2020	31 DECEMBER 2019	% CHANGE
Net Assets (£'000)[3]	197,675	192,186	+2.9
Net asset value per ordinary share[2]	194.29p	192.11p	+1.1
Share price[1]	189.75p	197.00p	–3.7
(Discount)/premium[2]	(2.3)%	2.5%	
Gearing[2]			
Gross gearing	6.8%	nil	
Net gearing	5.4%	nil	
Net cash	nil	4.3%	

(1) Source: Refinitiv.

(2) Alternative Performance Measure (APM). See Glossary of Terms and Alternative Performance Measures on pages 68 to 71 of the financial report for details of the explanation and reconciliations of APMs.

(3) Reflects the proceeds of £3.27 million (2019: £5.62 million) from ordinary shares issued in the year.

Ten Year Record – combined CMHYT plc and new CMHYT[1]

TO 31 DECEMBER	DIVIDENDS ON ORDINARY SHARES COST £'000	DIVIDENDS ON ORDINARY SHARES RATE P	ONGOING CHARGES[2] %	NET ASSET VALUE PER ORDINARY SHARE P	SHARE PRICE P
2011	7,280	10.0	1.08	145.56	147.00
2012	7,278	10.0	1.07	171.29	164.50
2013	7,287	10.0	1.02	184.12	184.00
2014	7,872	10.0	1.02	183.40	189.25
2015	8,454	10.0	1.01	178.34	180.75
2016	8,995	10.0	1.01	189.32	191.00
2017	9,429	10.0	0.98	195.40	199.50
2018	9,648	10.0	0.98	178.69	175.00
2019	9,870	10.0	1.02	192.11	197.00
2020	**10,173**	**10.0**	**0.99**	**194.29**	**189.75**

(1) City Merchants High Yield Trust Limited (new CMHYT, the Company) was incorporated on 19 December 2011 as the successor vehicle for City Merchants High Yield Trust plc (CMHYT plc), which was placed in members' voluntary liquidation on 30 March 2012. The terms of the reconstruction allow direct comparison of the Company's financial information with CMHYT plc's financial information prior to 2012 extracted from that company's audited annual financial reports. This includes the aggregate dividends of these companies for the year to 31 December 2012.

(2) The ongoing charges ratio excludes any refund of VAT on management fees and liquidation expenses incurred by the predecessor company.

CHAIRMAN'S STATEMENT

Performance

The Covid-19 pandemic dominated every aspect of life in 2020 and so it's no surprise that the virus's impact is easily discernible in the performance of the high yield market. Markets began 2020 in optimistic mood, buoyed by the prospect of a year of steady economic growth. However, optimism rapidly turned to panic as the full impact of the pandemic became clearer and in March the high yield market sold off to levels not seen since 2012. Governments responded to the pandemic by introducing restrictions on social movement, so-called 'lockdowns', and the resulting shock to activity saw the UK economy contract by 9.9% in 2020, the largest decline for at least 300 years and more than twice the fall caused by the Global Financial Crisis of 2007-08.

Given the pace and scale of Covid-19's economic impact it may seem strange that the high yield market quickly rallied from its March lows and then over the remainder of the year returned to its immediate pre-Covid-19 level. The explanation for the rapid restoration of investor confidence lies with the scale of monetary and fiscal support provided by governments and central banks in their efforts to mitigate the pandemic's economic impact. The huge scale of intervention put the UK on track for government debt to exceed the size of the economy for the first time in more than fifty years (more detail on the market environment and policy response can be found in the Portfolio Managers' Report).

Despite this volatile and challenging market environment the Company's net asset value (NAV) total return for the year was 6.9%, compared to a total return of 3.2% for the ICE Bank of America Merrill Lynch European High Yield Index ('the Index')(1) and an average return of 6.1% for funds in the Investment Association Sterling Strategic Bond Sector. A move from a premium to a small discount to NAV over the course of the year meant the share price return was more modest, at 1.8%.

The Board believes that investment performance is best assessed over a long-term horizon and hence we pay particular attention to returns over three and five years. For the three and five years to the end of 2020 the Company's NAV total return was 16.9% and 42.6% respectively, compared to total returns of 13.4% and 34.5% for the Index. These strong performance numbers, achieved in challenging market conditions, are in the Board's view, evidence of the Manager's robust and rigorous investment process.

Income Account

Our investment policy is to provide a high level of dividend income relative to prevailing interest rates and despite the fact that interest rates available to savers declined in 2020 the Company maintained its dividend of 10 pence per share. We have now paid a dividend of 10 pence per share since 2011, a period in which the UK Base Rate has remained stubbornly below 1.0%, and far below its long-term average. The Board has stated its intention to continue to target a dividend of 10 pence in the current financial year although, subject to the merger with Invesco Enhanced Income Limited which is discussed in more detail below, the annual dividend target will increase to 11 pence per year over the next three years.

The dividend was paid in four equal instalments, with the fourth dividend payment paid on 25 February 2021 in the form of an interim dividend payment. Paying the final instalment in the form of an interim dividend means that it can be paid earlier than would be the case had we declared a final dividend, since this would require approval at the Annual General Meeting ('AGM'). A dividend payment policy resolution is put to shareholders for approval at each AGM.

Costs

The Board is committed to ensuring that the Company is managed competitively and our key measure of the costs of running the Company is the ongoing charges ratio (OCR). The OCR is a widely used cost measure and expresses the expenses incurred in managing your Company as a percentage of its NAV. At the end of 2020 the OCR was 0.99% (compared to 1.02% at the end of 2019).

(1) Index includes both sterling and euro denominated issuers.

Discount/Premium and Issuance

The relationship between our share price and NAV experienced an unusually high degree of variability in 2020. We began the year with the share price at a premium to the NAV of 2.5% and closed the year at a small discount of 2.3%. The move from a premium to discount coincided with the emergence of the Covid-19 pandemic and resulting uncertainty surrounding economic prospects. Encouragingly, as growing evidence of vaccine efficacy emerged toward the end of the year, the discount narrowed.

We were able to continue to issue new shares to meet demand and in total issued a further 1,700,000 shares during the year. The average price of the shares issued in 2020 was 194.91p. Shares are always issued at a premium sufficient to ensure that existing shareholders do not suffer dilution of the net asset value. The benefits to shareholders of steady growth in the size of the Company include downward pressure on the OCR as costs are spread over a larger asset base.

Gearing

The Portfolio Manager, Rhys Davies, took advantage of market volatility in 2020 to gear the portfolio by means of repo financing, and as at 31 December 2020 the net gearing of the portfolio was 5.4%. The Company's policy on borrowing remains unchanged and the maximum amount of borrowing is 30% of total assets.

Board Composition

2020 saw two Directors, John Boothman and Philip Austin, retire from the Board. John and Philip joined City Merchants High Yield Trust when it was incorporated in Jersey and during their nine years on the Board oversaw a successful period in the Company's history. On behalf of the Board and shareholders I would like to thank them for their valuable contribution to the Company, and to wish them both well for the future.

I am delighted that two new Directors, Caroline Dutot and Tom Quigley, joined the Board in 2020. Caroline and Tom bring new skills and experience to the Board and I have no doubt that Caroline and Tom will have a substantial impact on the Board in 2021 and beyond.

Environmental, Social and Governance Matters (ESG)

The Board recognises and supports the growing regulatory and shareholder emphasis on ESG considerations and on page 18 we explain the Company's approach. I have previously highlighted my belief that the Manager is well-placed to assess the risks and opportunities which will result from accelerating ESG-driven change. Specifically, the Manager is a Tier 1 signatory of the Financial Reporting Council's Stewardship Code and is an active member of the UK Sustainable Investment and Finance Association. The Manager also achieved an A+ rating for its overall approach to responsible investment (Strategy and Governance) for the fourth consecutive year as well as achieving an A or A+ across all categories in the 2020 assessment period from the United Nations sponsored Principles of Responsible Investment (PRI) for Strategy and Governance. In addition, the Manager is a supporter of the Task Force for Climate Related Financial Disclosure (TCFD) since 2019 and has published its inaugural Climate Change report in line with the TCFD in July 2020.

I am pleased to report that the Manager continues to develop its ESG approach. Recent developments include the incorporation of ESG scoring into investment research, engagement with company management on ESG topics in instances where ESG risk is material for bondholders, and ESG-focussed portfolio reviews led by the Manager's Global ESG team. The Manager has also voluntarily complied with a new piece of EU legislation, the Sustainable Finance Disclosure Regulation (SFDR) which came into effect within the European Union on 10 March 2021 and introduces a number of sustainability-related disclosure requirements for financial market participants.

Proposed Merger with Invesco Enhanced Income Limited

On 1 March 2021 we announced that the Company has agreed heads of terms in respect of a proposed merger with Invesco Enhanced Income Limited to be effected by way of a shareholder approved contractual scheme of reconstruction by Invesco Enhanced Income Limited and a transfer of the assets to the Company. It is proposed that the enlarged Company will be renamed as Invesco Bond Income Plus Limited ('BIPS').

The proposals, which are subject to shareholder, regulatory and tax approvals, would, in the opinion of the Board, provide a number of important benefits to shareholders. Shareholders will benefit from lower management fee arrangements and the prospect of a substantial reduction in the OCR, as well as increased scale and improved liquidity of its shares.

In recent years, the Company has paid an annual dividend of 10.0 pence per share by way of four quarterly payments of 2.5 pence per share. In connection with the proposals, it is proposed that BIPS adopt a dividend policy to target an annual dividend of 11.0 pence per share over a three year period following the implementation of the Scheme by way of four quarterly dividends of 2.75 pence per share. It is anticipated that dividends will be substantially covered by net income from the portfolio although BIPS will support the target dividend over this period through the use of revenue and capital reserves if necessary.

Thereafter, the board of BIPS shall give consideration to its ongoing dividend policy, taking into account the annualised net income from its portfolio and the market environment at that time.

The Board intends to recommend shareholders vote in favour of the proposed merger and are confident that if completed it will mark the start of a new, exciting chapter in the Company's history.

AGM

The Company's Annual General Meeting will be held on 22 June 2021 at 9.30am at the offices of JTC Fund Solutions (Jersey) Limited, 28 The Esplanade, St Helier, Jersey JE4 2QP. Details of the business of the meeting are set out in the Notice of AGM on pages 72 to 74.

The Board is mindful of the current travel and meeting restrictions in place in response to the Covid-19 pandemic and shareholders are therefore encouraged to submit their votes by proxy. Attendees will only be permitted to the meeting in line with current regulations at the date of the meeting. You are strongly encouraged to lodge your vote either electronically via the registrar's online portal or using the Form(s) of Proxy to appoint the Chairman of the General Meeting as your proxy to vote on your behalf.

The Board is cognisant of the fact that many shareholders like this opportunity to hear from the Portfolio Managers and the Board and therefore invite you to attend a webinar with us on 16 June 2021 at 11am. A presentation will be made by Rhys Davies followed by a question and answer session. Shareholders can submit questions during the webinar or in advance by writing to the Company Secretary at the address given on page 76. Details on how to register for the event are available via the Company's website www.invesco.co.uk/citymerchants.

Outlook

The Covid-19 pandemic will, unfortunately, remain the dominant influence on the high yield market for the foreseeable future. As we have seen in recent months, predicting a precise path for the pandemic is impossible. However, there are reasons to hope that the roll out of vaccines will allow lockdown restrictions to be gradually eased, and hence for economic activity to recover.

In my opening remarks I noted that the dramatic fiscal and monetary response of governments to the crisis had proved decisive in helping to restore market confidence. At some stage policy will need to be re-established on a sustainable path. However, given the fragility of the economy and expectation that the threat from Covid-19 will linger, it seems likely that monetary policy will remain supportive in 2021, a prospect highlighted by recent comments from the Bank of England indicating that UK interest rates may yet turn negative before the path to sustainable recovery is fully established.

That said, ultimately the corporate sector will not be able to avoid the economic shock caused by Covid-19. We can expect to see a sharper contrast between those companies with sufficient resilience to continue and even flourish, and those which will face growing and possibly insurmountable financial strain. I have commented in previous reports on the importance of a rigorous approach to security selection and I have little doubt this central feature of the Manager's investment process will continue to serve Shareholders well in the year ahead.

Tim Scholefield
Chairman

30 March 2021

PORTFOLIO MANAGERS' REPORT

Market Background

2020 has been an extraordinary year for society and financial markets. Both have been dominated by Covid-19.

The effects of the virus began to be felt in financial markets in late February. As economies were shuttered the high yield market repriced aggressively with valuations reaching levels last seen in the euro sovereign debt crisis in 2012. However, from late March, markets have rebounded. The strongest returns were in Q2 with European high yield delivering a sterling hedged total return during this period of +11.35% – its best quarterly return since 2012. This followed the –14.63% return in Q1, the worst since Q4 2008.

The catalyst for the change in sentiment was the extraordinary monetary and fiscal policy response to the virus from central banks and governments. These measures included the US Federal Reserve directly purchasing corporate bonds. Unlike other central bank asset purchase schemes, the eligible securities for the US programme included bonds downgraded to high yield since the onset of the pandemic. The European Central Bank also extended its quantitative easing programme. In addition, for the first time, European governments agreed to a mutualisation of debt through a €750bn joint recovery fund. The fund includes €390bn of loans and €350bn of debt.

The rally continued until the end of August 2020. Then as autumn began, a resurgence of Covid-19 cases in Europe, as well as rising US political uncertainty, led to some consolidation in the high yield bond market. However, the rally resumed in the autumn as optimism over vaccines, a post Brexit trade deal between the UK and Europe and signs of a Democrat win in the US election outweighed concerns about a second wave of the virus in Europe and the US.

As markets have rallied, the demand for yield has remained very strong. In turn this has led to a surge in corporate bond issuance levels as issuers have sought to build up cash surpluses and repair their balance sheets.

To put the move in credit spreads this year into some context, European currency high yield credit spreads began 2020 at 324bps. By 23 March, at the height of concerns Covid-19, they had widened to 884bps. This was their widest level since the sovereign debt crisis in 2012. By the end of the year, spreads had fallen back to a level of 365bps. It was a similar story in the US high yield market. There, spreads widened from 360bps at the start of 2020 to 1,087bps in late March. They then fell back to 386bps by 31 December 2020.

Portfolio strategy

Over the 12-months to 31 December 2020 the NAV per share rose from 192.11p to 194.29p delivering a total return of 6.9%, which includes a total dividend of 10 pence paid for the year.

We used the significant repricing of markets during March as an opportunity to build exposure across all sectors. We were able to purchase bonds from good quality companies that had dramatically fallen in price, in some cases by over 20 or even 30 points. For example, the trust purchased bonds from Dutch cable operator, Ziggo Bond Finance, that had fallen 25 points below their February issue price. In the midst of the market sell-off we also utilised Credit Default Swaps as a means of protecting the portfolio.

As well as opportunities within the high yield market, we were also able to add some higher yielding investment grade names to the portfolio as issuance re-started in that market. An example was BMW US Capital, which came to the market in April with a 5-year bond offering a coupon of 3.9%. This was more than some high yield issuers were paying to raise capital at the start of the year.

Over the summer we started to take profits on some of the names added earlier in the year that had rallied strongly. However, we were still able to find opportunities. One notable example was Rolls Royce, which came to the market as a high yield issuer in October. Although the aerospace sector has been hard hit by the effects of the pandemic, we were encouraged by the company's decision to raise £2bn of equity capital, which significantly strengthens its balance sheet. We added a 7-year bond paying a 5.75% coupon.

For the remainder of the year we continued to seek out opportunities. Many of these have been in higher quality companies such as Thames Water (Kemble) Finance and National Express as well as a single 'A' rated British Airways Bond that is secured against 14 of the company's aircraft and pays a coupon of 4.25%.

After these adjustments the fund's largest industry exposure remained financials (both subordinated bank and insurance bonds). Elsewhere the largest allocations are to telecoms, autos and food. The Company continues to exploit opportunities in both the European and US markets. Most of the currency exposure from these positions is hedged back to sterling.

As the Chairman stated, we also utilised a modest amount of gearing during the year by means of repo financing. The ability to gear the portfolio when markets offer an opportunity and protect the portfolio, either through Credit Default Swaps or duration (interest rate) hedges, are useful tools for bond funds.

There was a significant increase in defaults within the high yield market during the height of the market uncertainty. Moody's reported that their twelve month European default rate increased from 1.7% at the end of 2019 to a high of 4.9% in November 2020, before starting to fall again. Nonetheless, not all of these saw investors suffer significant losses and many went on to successfully restructure. During the year a handful of positions in the portfolio witnessed credit events that resulted in debt restructurings. As at the end of the financial year one issuer, Petra Diamonds, remained in restructuring. The terms of an exchange into equity have been agreed by bondholders who will receive equity in exchange for their principal plus accrued interest.

Outlook

Markets have rallied significantly from the lows of March 2020. Whilst the volatility provided a fantastic opportunity to add future income to the portfolio, yields in the high yield market are once again heading lower, driven by the prospect of a prolonged period of low interest rates.

Although we will continue to seek out attractive income opportunities, such an environment does create challenges for future income. Furthermore, there are undoubtedly difficult times ahead for many high yield companies.

As we seek out appropriately priced income opportunities, we will continue to apply a thorough and comprehensive analysis of each issuer and we will maintain a diversified portfolio. We believe this approach has served shareholders well during 2020 and will continue to do so as we meet the challenges in the months ahead.

Rhys Davies **Edward Craven**
Portfolio Managers

30 March 2021

Purpose, Business Model and Strategy

City Merchants High Yield Trust Limited is a Jersey domiciled investment company which is listed on the London Stock Exchange and its investment objective is set out below.

The Company's purpose is to generate sustainable returns for its shareholders by investing their pooled capital to achieve the Company's investment objective through the application of its investment policy (set out below) and with the aim of spreading investment risk.

The strategy the Board follows to achieve the objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied.

The business model the Company has adopted to achieve its objective has been to contract investment management and administration to appropriate external service providers, who are subject to oversight by the Board. The principal service providers are:

– Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy; and

– JTC Fund Solutions (Jersey) Limited (the 'Company Secretary') to provide company secretarial and general administration service.

In addition to the management and administrative functions of the Manager and the Company Secretary, the Company has contractual arrangements with Link Market Services (Jersey) Limited to act as registrar and the Bank of New York Mellon (International) Limited (BNYMIL) as depository and custodian.

The Board has oversight of the Company's service providers, and monitors them on a formal and regular basis. The Board has a collegiate culture and pursues its fiduciary responsibilities with independence, integrity and diligence, taking advice and outside views as appropriate and constructively challenging and interacting with service providers, including the Manager. The portfolio managers responsible for the day-to-day management of the portfolio are Rhys Davies, Portfolio Manager and Edward Craven, Deputy Portfolio Manager. Paul Read and Paul Causer, co-heads of the Invesco Henley Fixed Interest team, stepped back as co-fund managers of the Company on 22 July 2020. They continue to support the wider fixed interest team.

The Company is an alternative investment fund for the purposes of the Alternative Investment Fund Managers Directive.

Investment Objective and Policy

Investment Objective

The Company's investment objective is to seek to obtain capital growth and high income from investment, predominantly in high-yielding fixed-interest securities.

Investment Policy

The Company seeks to provide a high level of dividend income relative to prevailing interest rates mainly through investment in bonds and other fixed-interest securities. The Company also invests in equities and other equity-like instruments consistent with the overall objective.

This Investment Policy should be read in conjunction with the descriptions of Investment Style, Investment Limits, Derivatives and Currency Hedging, and Borrowings set out below.

Investment Style

The Manager seeks to ensure that the portfolio is diversified, having regard to the nature and type of securities (including duration, credit rating, performance and risk measures and liquidity) and the geographic and industry sector composition of the portfolio. The Company may hold both illiquid securities (for example, securities where trading volumes are relatively low and unlisted securities) and concentrated positions (for example, where a high proportion of the Company's total assets are comprised of a relatively small number of investments).

Investment Limits

– the Company may invest in fixed-interest securities, including but not restricted to preference shares, loan stocks (convertible and redeemable), corporate bonds and government stocks, up to 100% of total assets;

– investments in equities may be made up to an aggregate limit of 20% of total assets;
– the aggregate value of holdings of shares and securities in a single issuer or company, including a listed investment company or trust, will not exceed 15% of the value of the Company's investments; and
– investments in unlisted investments will not exceed 10% of the Company's total assets for individual holdings and 25% in aggregate.

All the above limits are measured at the time a new investment is made.

Derivatives and Currency Hedging

The Company may enter into derivative transactions (including options, futures, contracts for difference, credit derivatives and interest rate swaps) for the purposes of efficient portfolio management. The Company will not enter into derivative transactions for speculative purposes.

Efficient portfolio management may include reduction of risk, reduction of cost and enhancement of capital or income through transactions designed to hedge all or part of the portfolio, to replicate or gain synthetic exposure to a particular investment position where this can be done more effectively or efficiently through the use of derivatives than through investment in securities or to transfer risk or obtain protection from a particular type of risk which might attach to portfolio investments.

The Company may hedge against exposure to changes in currency rates to the full extent of any such exposure.

Borrowings

The Company's borrowing policy is determined by the Board, which has set a maximum of 30% of the Company's total assets. This limit may be varied from time to time in the light of prevailing circumstances, but has not been changed since the Company's incorporation in its current form. The Manager has discretion to borrow within the limit set by the Board. Any borrowings are covered by investments in matching currencies to manage exposure to exchange rate fluctuations.

The Board has reviewed the methods of financing available to the Company including repo financing whereby a company participates in sale and repurchase arrangements in connection with its portfolio. Under these arrangements, a company sells fixed interest securities and is contractually obliged to repurchase them at a fixed price on a fixed date, whilst retaining economic exposure to the securities sold. The difference between the (lower) sale price and the later purchase price is the cost (effectively interest) of the repo financing. Repo financing agreements are in place and may be used subject to the aggregate 30% ceiling. The Company started using repo financing during the year to 31 December 2020 and at year end the sum borrowed using this method was £13.5 million (2019: none). This represents gross gearing of 6.8% with cash of 1.4% giving net gearing of 5.4%.

Key Performance Indicators

The Board reviews performance by reference to a number of Key Performance Indicators which include the following:

- Performance
- Dividends
- Premium/Discount
- Ongoing Charges Ratio

Performance

As the Company's objective is to seek to obtain capital growth and high income, the performance is best measured in terms of total return. There is no single index against which the Company's performance may be meaningfully assessed. Therefore, the Board refers to a variety of relevant data and this is reflected in both the Chairman's Statement and the Portfolio Managers' Report on pages 3 to 7. The Manager has a long-term horizon and consequently the Board pays close attention to returns over three and five years in its assessment of investment performance. As explained in the Chairman's Statement, the Board has noted the performance in the year and is satisfied with the longer term performance of the portfolio.

When considering historical returns, the terms of the reconstruction in 2012 allow direct comparison of the Company's financial information with that of its predecessor, City Merchants High Yield

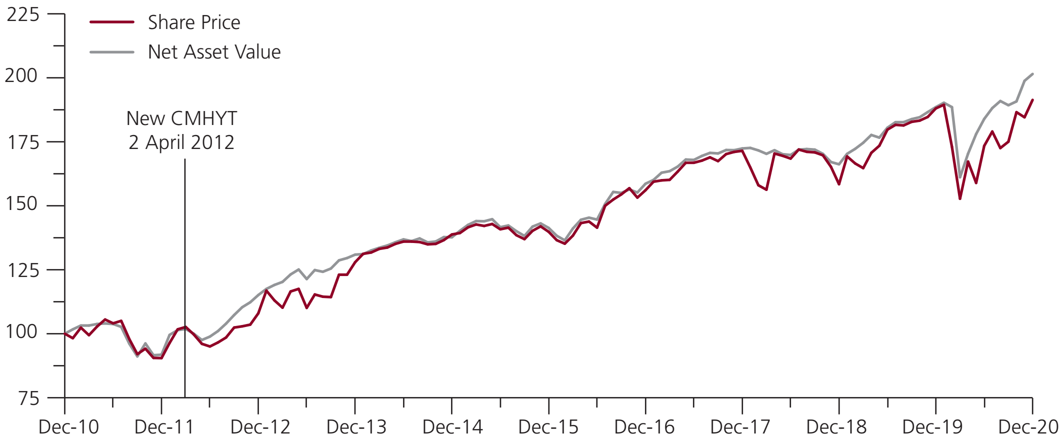
BUSINESS REVIEW

continued

Trust plc. It is therefore appropriate to combine the information from both companies, and the graph that follows shows the performance of the share price and net asset value (both on a total return basis) for the last ten years.

Ten Year Total Return Graph

All figures rebased to 100 at 31 December 2010.



Source: Refinitiv.

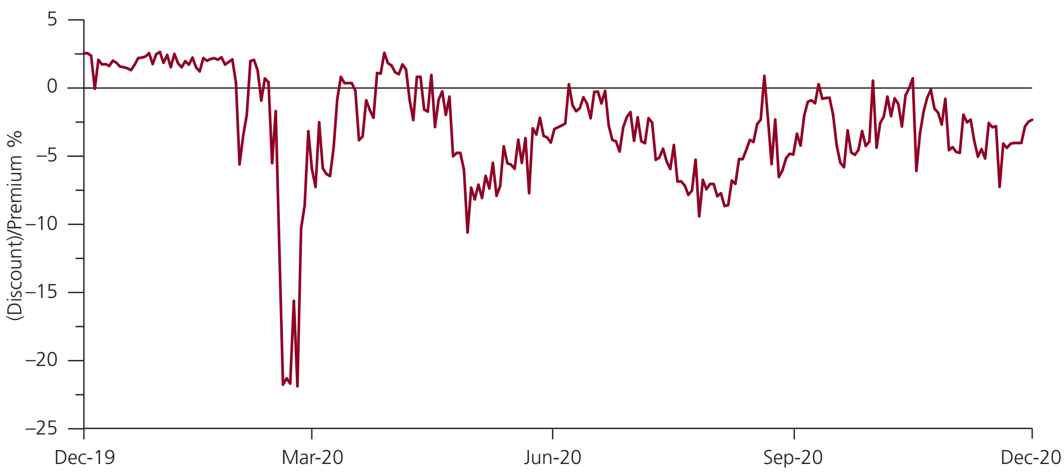
Dividends and Dividend Payment Policy

Dividends form a key component of the total return to shareholders and the Board currently targets dividends of 10p per year. This target has been met in the year under review. Dividends paid over the last ten years are shown in the table on page 2.

The Board's Dividend Payment Policy is to pay dividends on a quarterly basis in May, August, November and February in respect of each accounting year. The timing of these regular three-monthly payments means that shareholders do not have an opportunity to vote on a final dividend. Recognising the importance of shareholder engagement, and although not required by any regulation, shareholders are given an opportunity to vote on this policy at the forthcoming AGM.

Premium/Discount

The Board monitors the price of the Company's shares in relation to their net asset value and the premium/discount at which the shares trade. Powers are taken each year to issue and buy back shares, which can assist short term management, however the level of discount or premium is mostly a function of investor sentiment and demand for the shares, over which the Board may have limited influence. The ideal would be for the shares to trade close to their net asset value. The following graph shows the discount/premium through the year, ending with a discount of 2.3%. As explained in the Chairman's Statement, demand for shares prior to the Covid-19 pandemic, during the year resulted in the issue of 1,700,000 shares at an average price of 194.91p.



Source: Refinitiv.

Ongoing Charges Ratio

The expenses of managing the Company are carefully monitored by the Board. The standard measure of these is the ongoing charges ratio (OCR), which is calculated by dividing the sum of such expenses over the course of the year, including those charged to capital, by the average net asset value. This ongoing charges ratio provides a guide to the effect on performance of annual operating costs. The Company's ongoing charges ratio for the current year was 0.99%, compared to 1.02% for the previous year.

Investment Process

At the core of the portfolio managers' philosophy is a belief in active investment management. They seek to invest where they see the potential for attractive returns and to avoid risks that they do not think are well rewarded. Fundamental principles drive a genuinely unconstrained investment approach, with a strong emphasis on value.

The investment process comprises four key elements to deliver the information the portfolio managers use to make their decisions:

- top down, macroeconomic analysis – examining the factors that shape the economy;
- credit analysis using internal and external research with a view to maximising returns from acceptable and understood credit risk exposure;
- value assessment, considering the risk/return profile of any bond in relation to cash, core government bonds and the rest of the fixed interest universe; and
- risk considerations, analysing all holdings to allow for a comprehensive understanding of risks involved to ensure diversification of the portfolio.

The portfolio managers enter into the majority of positions with a view to holding them until their call or maturity date and their investment process is based on making investments where the yield to maturity or call appears to them to be at least an adequate reward for the risk. The nature of the high yield market and the Company's mandate mean that there will be occasions when the value the portfolio managers assessed in an investment is fully realised by the market. On these occasions, they may exit the position before maturity.

The portfolio managers believe that it is good investment practice to try and keep the level of turnover low, whilst at the same time recognising that this should not at any time act as a deterrent to effective portfolio management. Turnover will generally be very low due to the long term nature of many of the holdings and given the closed end nature of the Company, the portfolio managers are not presented with regular daily inflows and outflows which require managing.

Internal Control and Risk Management

The Directors have overall responsibility for the Company's system of internal controls and are responsible for reviewing the effectiveness of these controls. This includes safeguarding of the Company's assets. The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The Audit Committee (the 'Committee'), on behalf of the Board, has established an ongoing process for identifying and assessing the risks to which the Company is exposed by reference to a risk control summary, which maps the risks, mitigating controls in place, and monitoring and reporting of relevant information to it. The review of the risk control summary also incorporated a robust assessment of new and emerging risks for monitoring purposes.

As part of the process, the Committee has identified four risk categories: strategic; investment management; third party service providers; and regulation and corporate governance. An explanation of these categories follows.

Strategic Risk

The Board sets the Company's strategy, including setting its objective and how this should be achieved. The Board assesses the performance of the Company in the context of the market and macro conditions and gives direction to, and monitors, the Manager's actions, and those of other third parties, on behalf of the Company.

Investment Management Risk

Investment management covers management of the portfolio together with cash management, gearing and hedging, all being areas the portfolio managers can control, and which generate the Company's investment performance.

Third Party Service Providers Risk

The Company has no employees and its Directors are appointed on a non-executive basis. The Company is reliant on third party service providers (TPPs) for its executive functions. The Company's most significant TPPs are the Manager, to which portfolio management is delegated, fund accounting and the Company Secretary. Other significant TPPs are the corporate broker, depositary, custodian, registrar and auditor.

Regulation and Corporate Governance Risk

The Company is required to comply with many regulations. For the year under review these included but were not limited to, the provisions of the Companies (Jersey) Law 1991, the UK Listing Rules, the Alternative Investment Fund Managers Directive, the Market Abuse Regulation, the FCA's Disclosure Guidance and Transparency Rules, the UK Corporate Governance Code and International Financial Reporting Standards.

A matrix of the risks, set out according to their assessed risk levels after mitigation, enables the Directors to concentrate on those risks that are most significant, and also forms the basis of the list of principal risks and uncertainties on pages 13 to 15. The ratings take into account the Directors' risk appetite and the ongoing monitoring by the Manager.

Oversight of the control environment is based on the Company's relationship with its TPPs, all of which have clearly defined lines of responsibility, delegated authority, and control procedures and systems. The Company's main TPPs, the Manager, fund accounting and the Company Secretary, all have, a 'Three Lines of Defence Model', which is embedded into their risk management systems.

The effectiveness of the Company's internal control and risk management system is reviewed at least twice a year by the Committee. The Committee received and considered, together with representatives of the Manager, reports in relation to operations and systems of internal controls of the Manager, Company Secretary, accounting administrator, custodian and registrar. The Committee also receives regular reports from the Manager's internal audit and compliance departments. The Committee also received a comprehensive and satisfactory report from the depositary at the year end Committee meeting. The Company's risk management policies and procedures for financial instruments are set out in note 19 on pages 55 to 62.

Due diligence is undertaken before any contracts are entered into with any third party service provider. The Manager regularly reviews, against agreed service standards, the performance of TPPs through formal and informal meetings, and by reference to third party independently audited control reports. The results of the Manager's reviews are reported to and reviewed by the Committee. These various reports and reviews did not identify any significant failings or weaknesses which were relevant to the Company during the year and up to the date of this annual financial report. If any had been identified, the required remedial action would have been taken.

Reporting to the Board at each board meeting comprises, but is not limited to: financial reports, including any hedging and gearing; performance against relevant indices and the Company's peers; the portfolio managers' review, including of the market, the portfolio, transactions and prospects; revenue forecasts; and investment monitoring against investment guidelines. The portfolio managers are permitted discretion within these investment guidelines, which are set by the Board. Compliance with the guidelines is monitored daily by the Manager. Any proposed variation to these guidelines is referred to the Board for consideration and approval.

The Board, through the Management Engagement Committee, formally reviews the performance of the Manager and the Company Secretary annually and informally at every board meeting. The Board has reviewed and accepted both the Manager's and Company Secretary's whistleblowing policy under which staff of both Invesco Fund Managers Limited and JTC Fund Solutions (Jersey) Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Principal Risks and Uncertainties

The Board has carried out a robust assessment of the risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. As part of this process, new and emerging risks are considered. These are not necessarily principal risks for the Company, but may have the potential to be in the future. The principal risks that follow are those identified by the Board after consideration of mitigating factors. In carrying out this assessment, consideration was given to market uncertainty in relation to Brexit and the continuing impact of Covid-19.

Strategic Risks

Market Risk

The Risk: The Company invests primarily in fixed interest securities, the majority of which are traded on global security markets. The principal risk for investors in the Company is a significant fall and/or a prolonged period of decline in these markets. This could be triggered by unfavourable developments globally and/or in one or more regions, contemporary examples being the market uncertainty in relation to Brexit and the Covid-19 outbreak during 2020. The Board cannot control the effect of such external influences on the portfolio. Market risk also arises from movements in foreign currency exchange rates and interest rates.

Mitigating Procedures and Controls: An explanation of market risk and how this is addressed is given in note 19.1 to the financial statements. The Portfolio Managers' report summarises particular macro economic factors affecting performance during the year and the portfolio managers' views on those most relevant to the outlook for the portfolio.

Investment Objectives

The Risk: The Company's investment objective and strategy no longer meet investors' demands.

Mitigating Procedures and Controls: The Board receives regular reports reviewing the Company's investment performance against its stated objectives and peer groups, and reports from discussion with its broker and major shareholders. The Board also has a periodic strategy meeting.

Lack of Liquidity in the Company's Shares

The Risk: Lack of liquidity and lack of marketability of the Company's shares leading to stagnant share price and wide discount.

Mitigating Procedures and Controls: The Board receives regular reports from both the Manager and the Company's broker on the Company's share price performance and level of discount (or premium), together with regular reports on marketing and meetings with shareholders and prospective investors. The Board recognises the importance of the Company's scale in terms of the aggregate value of its shares in the market ('market cap') in creating liquidity and the benefit of a wide shareholder base, and has the ability to both issue and buy back shares to assist with market volatility. The foundation to this lies in solid investment performance and a high level of dividend. Powers are also taken to issue and buy back shares.

Investment Management Risks

Performance

The Risk: The portfolio persistently underperforms relevant indices and/or peers because of the investments selected. Performance will also be affected by market risk, which was addressed above, and by credit risk. A significant portion of the Company's portfolio consists of non-investment grade securities which by their nature have a higher risk of default as well as the likelihood of price volatility.

Mitigating Procedures and Controls: The Company does not have a formal benchmark, however, the ICE Bank of America Merrill Lynch European Currency High Yield Index ('the Index') is used in contribution analysis. This index tracks the performance of EUR and GBP denominated sub-investment grade corporate debt publicly issued in the eurobond, sterling domestic and euro domestic markets. The Board regularly compares the Company's NAV performance over both the short and long term to that of the Index and relevant peers as well as reviewing analyses breaking out contributory elements of the portfolio's performance compared with the

Index. The Board also receives reports on and reviews: the constituents of the portfolio, transactions in the period and, if applicable, gearing and hedging. The investment process the portfolio managers employ to address risk versus return is explained on page 11, and an explanation of credit risk and how this is addressed is given in note 19.3 to the financial statements.

Borrowing Risk

The Risk: Borrowings for investment purposes will amplify the reduction in NAV in a falling market, which in turn is likely to adversely affect the Company's share price. There is no guarantee that it will be possible to re-finance repo financing arrangements on their maturity either at all or on terms that are acceptable to the Company, in which case any amounts owing by the Company would need to be funded by the sale of investments and the Company may not be able to realise the expected value of those assets. Repo financing introduces an element of counterparty risk. Repo financing transactions require the counterparty to sell the relevant assets to the Company on the repurchase date at a fixed price but if a counterparty failed to do so, the Company would be left with a contractual claim against the defaulting counterparty and there is no guarantee the Company would be able to recover all of the value of the assets from that counterparty. In adverse market conditions, the risks of counterparty default may be greater than at other times.

Mitigating Procedures and Controls: All borrowings are actively managed by the Manager and monitored by the Board. The Company will only enter into repo arrangements with counterparties who are authorised or regulated by an appropriate regulator and whose credit rating is not less than the minimum investment grade credit ratings issued by internationally recognised agencies. There is a maximum limit allowed with any one counterparty, and transactions typically have a maturity tenor of three months or less.

Third Party Service Provider Risks

Unsatisfactory Performance of Third Party Service Providers (TPPs)

The Risk: Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operations of the Company and affect its ability to pursue successfully its investment policy and expose it to reputational risk. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.

Mitigating Procedures and Controls: Details of how the Board monitors the services provided by the Manager and the other TPPs, and the key elements designed to provide effective internal control, are included in the internal control and risk management section on pages 11 and 12.

Information Technology Resilience and Security

The Risk: The Company's operational structure means that all cyber risk (information technology and physical security) arises at its TPPs. This cyber risk includes fraud, sabotage or crime perpetrated against the Company or any of its TPPs.

Mitigating Procedures and Controls: The Audit Committee on behalf of the Board regularly reviews TPPs' service organisation control reports and meets with representatives of the Manager's Investment Management, Compliance, Internal Audit and Investment Trust teams as well as the Company Secretary's senior staff and Compliance team. The Board receives regular updates on the Manager's and the Secretary's information security arrangements. The Board monitors TPPs' business continuity plans and testing – including their regular 'live' testing of workplace recovery arrangements.

Business Continuity Risk

The Risk: Impact of a major event, such as Covid-19, on the operations of the service providers, including any prolonged disruption.

Mitigating Procedure and Controls: The Manager's business continuity plans are reviewed on an ongoing basis and the Directors are satisfied that the Manager has in place robust plans and infrastructure to minimise the impact on its operations so that the Company can continue to trade, meet regulatory obligations, report and meet shareholder requirements.

The Manager has mandated work from home arrangements and implemented split team working for those whose work is deemed necessary to be carried out on business premises. Any meetings are being held virtually or via conference calls.

Other similar working arrangements are in place for the Company's third-party service providers. The Directors remain confident that with these measures in place, the Company is in a good position to continue operating as normal in these exceptional conditions. In addition, due to the nature of the Company being a closed end investment company, the portfolio managers are not presented with regular daily inflows and outflows that require managing.

Regulation and Corporate Governance Risk

Failure to Comply With or Adverse Changes to Law or Regulation

The Risk: A serious breach of law or regulation could lead to suspension from the Official List and from trading on the London Stock Exchange, a fine or a qualified audit report. Adverse changes to law or regulation could affect the ability of the Company to operate or the practicality of its domicile.

Mitigating Procedures and Controls: The Board, the Company Secretary and the Manager monitor compliance with and changes to government policy, legislation and other regulations relevant to the Company.

Viability Statement

This Company is an investment company whose business consists of investing the pooled funds of its shareholders to provide them with capital growth and a high income over the long term, predominantly from a portfolio of high yielding fixed income securities. Long term for this purpose is considered to be at least five years and the Directors have assessed the Company's viability over that period. However, the life of the Company is not intended to be limited to that or any other period.

The main risk to the Company's continuation is shareholder dissatisfaction through failure to meet the Company's investment objective, through poor investment performance or the investment policy not being appropriate in prevailing market conditions, either of which could affect the demand for and liquidity of the Company's shares. Accordingly, failure to meet the Company's investment objective, and contributory market and investment risks, are deemed by the Board to be principal risks of the Company and are given particular consideration in the continuing assessment of its long term viability.

The Company's investment objective and policy are kept under review. In essence they are the same as they have been since the Company commenced trading in 2012, which in turn were unchanged from those of the Company's UK based predecessor, City Merchants High Yield Trust plc. The continued relevance of the investment objective and policy are underlined by the Company's annual continuation vote. Last year nearly 100% of the votes registered were in favour of continuation and the Board has no reason to believe that the continuation resolution will not be passed at the forthcoming and subsequent AGMs.

Performance derives from returns for risk taken. The Portfolio Managers' Report on pages 6 and 7 sets out the current investment strategy of the portfolio managers. The portfolio contains a high level of relatively high-yielding non-investment grade bonds and these carry a higher risk of default than investment grade paper. This is discussed further in note 19 to the financial statements. The Board has adopted investment limits within which the portfolio managers operate. The Directors and the portfolio managers constantly monitor the portfolio, its ratings and default risk. A bond rating analysis of the portfolio at the year-end is shown on page 21. Exposure is weighted towards higher quality issuers where the risk of default is considered to be more remote.

The terms of the Company's corporate transition in 2012 allow direct comparison of the Company's financial information with its UK predecessor. Taking the two together, performance has been strong for many years through different, and difficult, market cycles – as shown by the ten year total return performance graph on page 10. The investment policy has effectively been stress tested by market events in 2007/8 and earlier cycles, and in recent times by both global and domestic events such as Covid-19. These events affected performance, but at no time did they threaten the viability of the Company. Whilst past performance may not be indicative of performance in the future, the investment policy has been consistent throughout those past periods.

Performance and demand for the Company's shares are not things that can be forecast. Indeed the Covid-19 outbreak continues to have an impact on the economy and markets. The portfolio manager and other service providers have taken steps to mitigate and control the impact on their own businesses thereby ensuring that the Company can continue to trade, report and meet shareholder needs. There are no current indications that the Company is unable to weather the Covid-19 impact or that performance and demand for the Company's shares may be permanently affected over the next five years so as to affect the Company's viability.

As described in note 19.2 to the financial statements on pages 60 and 61 liquidity risk is not viewed by the Directors as a significant risk. The majority of the Company's assets are readily realisable and amount to many times the value of its short term liabilities and annual operating costs. The Company is permitted to borrow up to a maximum of 30% of the Company's total assets but currently has no long term debt obligations.

The Board announced on 1 March 2021 that it has signed Heads of Terms with the Board of Invesco Enhanced Income Limited ("IPE") in respect of a proposed merger with IPE to be effected by way of a shareholder approved contractual scheme of reconstruction by IPE and a transfer of assets to the Company. Subject to shareholder approval, the Board believes that this will enable the Company's shareholders to benefit from the greater economies of scale that are expected to result from the enlarged asset base of the Company through lower management fee arrangements, lower ongoing charges, improved liquidity and the potential for strong share price rating.

Based on the above analysis, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their assessment. Despite the recent disruption from Covid-19 and the impact on global markets, the Directors consider that the Company's investment strategy will continue to serve shareholders well over the longer term.

Investment Management

As noted earlier, the Manager provides investment management and certain administrative services to the Company. The agreement is terminable by either party giving no less than three months' prior written notice and subject to earlier termination without compensation in the event of a material breach of the agreement or the insolvency of either party. The management fee is payable quarterly in arrears and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of the relevant quarter. In addition, the Manager is paid a fee, based on an initial amount of £22,500 plus RPI per annum, for administrative services.

The portfolio managers responsible for the day-to-day management of the portfolio are Rhys Davies Portfolio Manager and Edward Craven, Deputy Portfolio Manager.

The Manager's Responsibilities

The Directors have delegated to the Manager the responsibility for the investment management activities of the Company, for seeking and evaluating investment opportunities and for analysing the accounts of investee companies. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies as determined from time to time by the Board and approved by shareholders. Within the guidelines specified by the Board, the Manager has discretion to make purchases and sales, make and withdraw cash deposits, enter into underwriting commitments and exercise all rights over the investment portfolio. The Manager also advises on currency exposures and borrowings.

Assessment of the Manager

The performance of the Manager is reviewed continuously by the Board and the ongoing requirements of the Company and services received are assessed annually with reference to key performance indicators as set out on pages 9 to 11.

The Management Engagement Committee is responsible for reviewing the Manager. Based on its recent review of activities, the Board believes that the continuing appointment of Invesco Fund Managers Limited remains in the best interests of the Company and its shareholders.

Financial Position

The Company's balance sheet on page 46 shows the assets and liabilities at the year end. A £20 million revolving credit facility was available until 4 May 2019 when this lapsed and was not renewed. The Company also has repo financing agreements in place, with an amount of £13.5 million borrowed at year end, representing gross gearing of 6.8% and net gearing of 5.4%, after taking cash and cash equivalents in account, as at 31 December 2020.

Performance and Future Development

The performance and future development of the Company depend on the success of the Company's investment strategy. A review of the Company's performance, market background, investment activity and strategy during the year, together with the investment outlook are provided in the Chairman's Statement and Portfolio Managers' Report on pages 3 to 7.

Annual Continuation Vote

The Articles of Association of the Company require that unless an ordinary resolution is passed at or before the Annual General Meeting (AGM) each year releasing the Directors from the obligation to do so, the Directors shall convene a general meeting within six months of the AGM at which a special resolution would be proposed to wind up the Company. Having reviewed the performance of the Company, the Directors have no reason to believe that a resolution to release them from that obligation, will not be passed at the AGM to be held later in the year.

Substantial Holdings in the Company

The Company has been notified of the following holdings of 3% and over of the Company's ordinary share capital carrying unrestricted voting rights:

	AT 28 FEBRUARY 2021		AT 31 DECEMBER 2020		AT 31 DECEMBER 2019	
FUND MANAGER/REGISTERED HOLDER	HOLDING	%	HOLDING	%	HOLDING	%
Hargreaves Lansdown, stockbrokers (EO)	11,903,014	11.7	11,573,001	11.4	10,582,817	10.6
Charles Stanley	10,243,035	10.1	10,504,578	10.3	10,076,470	10.1
Interactive Investor (EO)	9,506,075	9.3	8,099,750	8.0	7,302,539	7.3
Redmayne Bentley, stockbrokers	8,003,611	7.9	7,860,668	7.7	6,825,247	6.8
Invesco	6,881,470	6.8	6,881,470	6.8	6,881,470	6.9
EFG Harris Allday, stockbrokers	5,580,014	5.5	5,512,484	5.4	5,974,261	6.0
AJ Bell, stockbrokers (EO)	3,655,584	3.6	3,589,017	3.5	3,301,548	3.3
Brewin Dolphin, stockbrokers	3,340,597	3.3	3,211,638	3.2	3,557,849	3.6

EO: Execution only.

Board's Duty to Promote the Success of the Company

The Directors have a fiduciary duty to act, in good faith, for the benefit of shareholders taken as a whole. In the UK, section 172 of the Companies Act 2006 seeks to codify this duty and to widen the responsibility to incorporate the consideration of wider relationships that are necessary for the Company's sustainability. As a UK listed Company it is necessary for the Company to report against this UK statutory duty, being that the Directors have a duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and to have regard to their interests. This is reflected in the summary of the Board's responsibilities on page 30.

In fulfilling these duties, and in accordance with the Company's nature as an investment company with no employees and no customers in the traditional sense, the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager and Company Secretary at every Board meeting and the Management Engagement Committee also reviews the Company's relationships with these and other service providers, such as the registrar, depositary and custodian, at least annually. The assessment of the Manager consequent to these reviews is set out on page 16.

The Company communicates with its shareholders at least three times a year providing information about shareholder meetings, dividend payments and half-yearly and annual financial results. In addition, the annual general meeting of the Company is under normal circumstances held in a central London location, providing shareholders with the opportunity to attend and meet with the Directors and the Manager. The Company's AGM will be held on 22 June 2021 at 9.30am at the offices of JTC Fund Solutions (Jersey) Limited. The Board is mindful of the current travel and meeting restrictions in place in response to the Covid-19 pandemic and shareholders are therefore encouraged to submit their votes by proxy. Attendees will only be permitted to the meeting in line with current regulations at the date of the meeting.

The Board is cognisant of the fact that many shareholders like this opportunity to hear from the Portfolio Managers and the Board and therefore invite you to attend a webinar with us on 16 June 2021 at 11am. A presentation will be made by Rhys Davies followed by a question and answer session. Furthermore, the Manager provides a schedule of regional meetings with institutional investors and analysts to gather the views and thoughts of investors.

Board Diversity

The Company's policy on diversity is set out on page 31. The Board considers diversity, including the balance of skills, knowledge, experience and gender amongst other factors when reviewing its composition and appointing new directors. The Board has considered the recommendations of the Davies and Hampton-Alexander review as well as the Parker review, but does not consider it appropriate to establish targets or quotas in this regard. During the year, the Board undertook a recruitment process to replace John Boothman and Philip Austin, who retired from the Board on 15 December 2020 having served for nine years. The recruitment process resulted in the appointment of Tom Quigley and Caroline Dutot. Further details of the recruitment process can be found on page 31. As a result, the Board currently comprises of five Directors, two of whom are female, thereby constituting 40% female representation. Summary biographical details of the Directors are set out on page 27. The Company has no employees.

Environment, Social and Governance (ESG) Matters

In relation to the portfolio, the Company has delegated the management of the Company's investments to the current Manager, who has an ESG Guiding Framework which sets out a number of principles that are intended to be considered in the context of its responsibility to manage investments in the financial interests of shareholders. A greenhouse gas emissions statement is included in the Directors' Report on page 65.

The Manager is committed to being a responsible investor and applies, and is a signatory to, the United Nations Principles for Responsible Investment, which demonstrates its extensive efforts in terms of ESG integration, active ownership, investor collaboration and transparency. The Manager achieved an A+ rating for its overall approach to responsible investment (Strategy and Governance) for the fourth consecutive year since 2018 as well as achieving an A or A+ across all categories in the 2020 assessment period. In addition, the Manager is an active member of the UK Sustainable Investment and Finance Association as well as a supporter of the Task Force for Climate Related Financial Disclosure (TCFD) since 2019 and has published its inaugural Climate Change report in line with the TCFD in July 2020. Although TCFD does not apply directly to the Company at present, the Board confirms that it will comply with all reporting regulations as they are implemented.

The Manager has also voluntarily complied with the Sustainable Finance Disclosure Regulation (SFDR) which came into effect within the EU on 10 March 2021 and is disclosing in the AIFM document as well as the webpage how sustainability risks are integrated.

The Manager's investment team incorporates ESG considerations in its investment process as part of the evaluation of new opportunities, with identified ESG concerns feeding into the final investment decision and assessment of relative value. The Portfolio Managers make their own conclusions about the ESG characteristics of each investment held and about the overall ESG characteristics of the portfolio, although third party ESG ratings may inform their view. Additionally, the Manager's ESG team provides ESG monitoring.

Regarding stewardship, the Board considers that the Company has a responsibility as an investor towards ensuring that appropriate standards of corporate governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure those standards are met.

The Company's stewardship functions have been delegated to the Manager. The current Manager has adopted a clear and considered policy towards its responsibility as an investor on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. A copy of the current Invesco Stewardship Policy, which is updated annually, can be found at www.invesco.co.uk.

Modern Slavery Act 2015

The Company is an investment vehicle and does not provide goods or services in the normal course of business, or have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

This Strategic Report was approved by the Board of Directors on 30 March 2021.

JTC Fund Solutions (Jersey) Limited
Company Secretary

CLASSIFICATION OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2020				
	UNITED KINGDOM	NORTH AMERICA	EUROPE	OTHER AREAS	TOTAL
	%	%	%	%	%
Fixed interest securities(1)	34.1	11.4	50.6	0.6	96.7
Convertibles	0.5	—	0.6	—	1.1
Preference	1.7	—	—	—	1.7
Equities	—	—	0.5	—	0.5
Total	36.3	11.4	51.7	0.6	100.0

	2019				
	UNITED KINGDOM	NORTH AMERICA	EUROPE	OTHER AREAS	TOTAL
	%	%	%	%	%
Fixed interest securities(1)	43.2	8.0	42.5	0.7	94.4
Convertibles	0.6	—	0.8	—	1.4
Preference	1.9	—	—	—	1.9
Convertible preference	1.4	—	—	—	1.4
Equities	—	—	0.9	—	0.9
Total	47.1	8.0	44.2	0.7	100.0

(1) Fixed interest securities include both fixed and floating rate securities.

INDUSTRY ANALYSIS OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2020			2019		
	UNITED KINGDOM	NON-UK	TOTAL	UNITED KINGDOM	NON-UK	TOTAL
	%	%	%	%	%	%
Financials	21.0	20.5	41.5	22.1	13.4	35.5
Consumer Goods	3.1	10.7	13.8	4.2	6.0	10.2
Consumer Services	4.0	9.4	13.4	10.9	7.6	18.5
Telecommunications	4.7	7.5	12.2	4.1	10.9	15.0
Oil and Gas	1.5	2.7	4.2	2.0	3.1	5.1
Industrials	0.6	3.5	4.1	2.1	2.3	4.4
Basic Materials	0.7	2.8	3.5	0.6	2.9	3.5
Utilities	0.7	1.9	2.6	1.1	3.7	4.8
Health Care	—	2.5	2.5	—	1.8	1.8
Technology	—	2.1	2.1	—	1.0	1.0
Government Bonds	—	0.1	0.1	—	0.2	0.2
Portfolio Total	36.3	63.7	100.0	47.1	52.9	100.0

The percentages shown in the above tables are related to the value of investments of £202.2 million (2019: £179.7 million).

CURRENCY EXPOSURE OF INVESTMENTS AND NET CASH, INCLUDING AND EXCLUDING CURRENCY HEDGING

AT 31 DECEMBER

	2020				2019			
	INCLUDING CURRENCY HEDGING			EXCLUDING	INCLUDING CURRENCY HEDGING			EXCLUDING
	STERLING %	OTHER %	TOTAL %	HEDGING %	STERLING %	OTHER %	TOTAL %	HEDGING %
Fixed interest[1]	32.3	68.1	100.4	102.1	41.7	47.9	89.6	90.3
Convertibles	0.2	0.9	1.1	1.1	0.2	1.2	1.4	1.4
Preference	1.8	—	1.8	1.8	1.8	—	1.8	1.8
Convertible preference	—	—	—	—	1.3	—	1.3	1.3
Equities	—	0.5	0.5	0.5	—	0.9	0.9	0.9
Portfolio Total	34.3	69.5	103.8	105.5	45.0	50.0	95.0	95.7
Net cash/(borrowings)[2]	0.2	(5.6)	(5.4)	(5.5)	3.9	0.4	4.3	4.3
Portfolio and Cash Total	34.5	63.9	98.4	100.0	48.9	50.4	99.3	100.0
Currency Hedging								
Forward currency sales	61.0	(59.4)	1.6		44.1	(43.4)	0.7	
Net Currency Exposure	95.5	4.5	100.0		93.0	7.0	100.0	

(1) Fixed interest securities include both fixed and floating rate securities.

(2) Includes borrowings from securities sold under agreements to repurchase (repo financing).

BOND RATING ANALYSIS

Standard & Poors (S&P) ratings. Where a S&P rating is not available, an equivalent average rating has been used. Investment grade is BBB– and above.

For the definitions of these ratings see the Glossary of Terms and Alternative Performance Measures on page 71.

	2020		2019	
RATING	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
Investment Grade:				
A	1.2	1.2	—	—
A-	—	1.2	0.8	0.8
BBB+	3.7	4.9	4.0	4.8
BBB	6.3	11.2	3.2	8.0
BBB–	7.6	18.8	6.0	14.0
Non-investment Grade:				
BB+	9.6	28.4	15.6	29.6
BB	6.8	35.2	7.3	36.9
BB-	16.9	52.1	12.3	49.2
B+	7.7	59.8	5.4	54.6
B	13.8	73.6	17.4	72.0
B-	6.4	80.0	11.2	83.2
CCC+	6.6	86.6	1.5	84.7
CCC	4.7	91.3	2.9	87.6
CCC-	1.0	92.3	1.0	88.6
CC	0.4	92.7	0.2	88.8
D	0.7	93.4	—	88.8
NR (including equity)	6.6	100.0	11.2	100.0
	100.0		100.0	
Summary of Analysis				
Investment Grade	18.8		14.0	
Non-investment Grade	74.6		74.8	
NR (including equity)	6.6		11.2	
Total	100.0		100.0	

INVESTMENTS IN ORDER OF VALUATION

AT 31 DECEMBER 2020

ISSUER	ISSUE	RATING[1]	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Lloyds Banking Group	7.875% FRN Perpetual	Baa3/BB–/BBB	Financials	UK	4,469	2.2
	7.5% FRN Perpetual	Baa3/BB–/BBB			841	0.4
	3.5% FRN 01 Apr 2026 (SNR)	A3/BBB+/A			454	0.3
	7.625% FRN Perpetual	Baa3/BB–/BBB			220	0.1
					5,984	3.0
Aviva	6.125% Perpetual	A3/BBB+/BBB	Financials	UK	3,916	1.9
	8.875% Preference	NR/NR/NR			1,759	0.9
					5,675	2.8
Codere Finance	10.75% 30 Sep 2023 (SNR)	B3/CCC+/CCC	Consumer Services	Luxembourg	2,741	1.3
	6.75% 01 Nov 2021 (SNR)	Caa3/CCC/CCC			1,403	0.7
	7.625% 01 Nov 2021 (SNR)	Caa3/CCC/CCC			1,194	0.6
					5,338	2.6
Volkswagen Financial Services	4.25% 09 Oct 2025 (SNR)	A3/BBB+/BBB	Consumer Goods	Netherlands	1,611	0.8
	3.875% FRN Perpetual	Baa2/BBB–/BBB			1,449	0.7
	3.5% FRN Perpetual	Baa2/BBB–/BBB			1,226	0.6
					4,286	2.1
Teva Pharmaceutical Finance	6.75% 01 Mar 2028 (SNR)	Ba2/BB–/BB	Health Care	Netherlands	2,029	1.0
	7.125% 31 Jan 2025 (SNR)	Ba2/BB–/BB			1,473	0.7
	6% 31 Jan 2025 (SNR)	Ba2/BB–/BB			592	0.3
					4,094	2.0
Barclays	9.25% Perpetual	Ba1/BB+/BB	Financials	UK	1,069	0.5
	3.375% FRN 02 Apr 2025 (SNR)	Baa2/BBB/BBB			1,017	0.5
	8% FRN Perpetual	Ba2/B+/BB			571	0.3
	7.875% FRN Perpetual	Ba2/B+/BB			531	0.3
	6.375% FRN Perpetual	Ba2/B+/BB			424	0.2
	2.75% FRN Perpetual	Ba1/BB+/BB			137	0.1
					3,749	1.9
Altice	SFR 7.375% 01 May 2026	B2/B/B	Telecommunications	France	3,231	1.6
	7.5% 15 May 2026	B2/B/B		Luxembourg	487	0.2
					3,718	1.8
Telecom Italia	7.721% 04 Jun 2038	Ba2/BB+/BB	Telecommunications	Luxembourg	2,034	1.0
	5.303% 30 May 2024	Ba2/BB+/BB		Italy	1,592	0.8
					3,626	1.8
Vodafone Group	6.25% 03 Oct 2078	Ba1/BB+/BB	Telecommunications	UK	1,619	0.8
	7% FRN 04 Apr 2079	Ba1/BB+/BB			882	0.4
	4.875% 03 Oct 2078	Ba1/BB+/BB			654	0.3
	1.5% Cnv 12 Mar 2022	NR/NR/NR			303	0.2
					3,458	1.7
Ziggo Bond Finance	6% 15 Jan 2027 (SNR)	B3/B–/B	Telecommunications	Netherlands	2,320	1.1
	3.375% 28 Feb 2030 (SNR)	B3/B–/B			539	0.3
	4.875% 15 Jan 2030 (SNR)	B1/B+/B			503	0.3
					3,362	1.7
NatWest	2.62788% FRN Perpetual	Ba2/BB–/BB	Financials	UK	1,393	0.7
	8.625% FRN Perpetual	Ba2u/B+/BB			1,170	0.6
	8% Cnv FRN Perpetual	Ba2u/B+/BB			597	0.3
					3,160	1.6
DKT Finance	9.375% 17 Jun 2023 (SNR)	Caa1/CCC+/CCC	Financials	Denmark	1,969	1.0
	7% 17 Jun 2023 (SNR)	Caa1/CCC+/CCC			1,161	0.6
					3,130	1.6
VMED O2	4% 31 Jan 2029 (SNR)	Ba3/BB–/BB	Telecommunications	UK	2,331	1.2
	3.25% 31 Jan 2031 (SNR)	Ba3/BB–/BB			742	0.4
					3,073	1.6
Dell Technologies	6.1% 15 Jul 2027 (SNR)	Baa3/BBB–/BBB	Technology	USA	1,818	0.9
	6.2% 15 Jul 2030 (SNR)	Baa3/BBB–/BBB			825	0.4
	5.45% 15 Jun 2023 (SNR)	Baa3/BBB–/BBB			405	0.2
					3,048	1.5
Banco Santander	6.25% FRN Perpetual	Ba1/NR/BB	Financials	Spain	2,742	1.4
	4.375% FRN Perpetual	Ba1/NR/BB			179	0.1
					2,921	1.5

ISSUER	ISSUE	RATING[1]	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Arqiva Broadcast Finance	6.75% 30 Sep 2023	B1/NR/B	Telecommunications	UK	2,889	1.4
Banco BPM	5% FRN 14 Sep 2030	B1/NR/B	Financials	Italy	1,917	0.9
	8.75% FRN Perpetual	B3/NR/B			969	0.5
					2,886	1.4
Premier Foods Finance	6.25% 15 Oct 2023	B1/B+/B	Consumer Goods	UK	2,203	1.1
	FRN 15 Jul 2022 (SNR)	B1/B+/B			334	0.2
					2,537	1.3
Tereos Finance	4.125% 16 Jun 2023 (SNR)	NR/B+/B	Consumer Goods	France	1,313	0.6
	7.5% 30 Oct 2025 (SNR)	NR/B+/B			1,210	0.6
					2,523	1.2
Panther BF Aggregator	8.5% 15 May 2027 (SNR)	Caa1/CCC+/CCC	Basic Materials	USA	2,514	1.2
Commerzbank	6.125% FRN Perpetual	Ba2/BB–/BB	Financials	Germany	1,526	0.8
	8.125% 19 Sep 2023	Baa3/BB+/BB			513	0.2
	4% FRN 05 Dec 2030	Baa3/BB+/BB			391	0.2
					2,430	1.2
Ford	2.748% 14 Jun 2024 (SNR)	NR/BB+/BB	Consumer Goods	USA	1,019	0.5
	9% 22 Apr 2025 (SNR)	Ba2/BB+/BB			775	0.4
	8.5% 21 Apr 2023 (SNR)	Ba2/BB+/BB			519	0.3
					2,313	1.2
Algeco Scotsman	8% 15 Feb 2023 (SNR)	B2/B–/B	Consumer Services	UK	1,476	0.7
	10% 15 Aug 2023 (SNR)	Caa1/CCC/CCC			760	0.4
					2,236	1.1
Eléctricité De France	6% Perpetual	Baa3/BB–/BBB	Utilities	France	1,481	0.7
	5.875% Perpetual	Baa3/BB–/BBB			695	0.4
					2,176	1.1
Deutsche Bank	5.625% FRN 19 May 2031	Ba2/BB+/BB	Financials	Germany	1,240	0.6
	7.125% Perpetual	B1/B+/B			936	0.5
					2,176	1.1
Co-Operative Bank	9.5% FRN 25 Apr 2029	Caa1/NR/CCC	Financials	UK	1,642	0.8
	5.125% 17 May 2024 (SNR)	NR/BB/BB			489	0.3
					2,131	1.1
Pension Insurance	7.375% FRN Perpetual	NR/NR/BBB	Financials	UK	2,099	1.0
Virgin Money	8.75% FRN Perpetual	Ba2/B/BB	Financials	UK	2,057	1.0
Burger King France	8% 15 Dec 2022 (SNR)	NR/CCC/CCC	Consumer Services	France	1,516	0.8
	FRN 01 May 2023	B3/B–/B			467	0.2
					1,983	1.0
Banco BVA	6% FRN Perpetual	Ba2/NR/BB	Financials	Spain	1,975	1.0
Aker BP	5.875% 31 Mar 2025 (SNR)	Ba1/BBB–/BB	Oil and Gas	Norway	1,895	0.9
Matalan Finance	9.5% 31 Jan 2024 (SNR)	Caa3/CC/CC	Consumer Goods	UK	753	0.4
	6.75% 31 Jan 2023 (SNR)	B3/CCC–/CCC			692	0.3
	16.5% 25 Jul 2022 (SNR)	NR/CCC+/CCC			353	0.2
					1,798	0.9
Adient	7% 15 May 2026 (SNR)	Ba3/B+/B	Consumer Goods	USA	1,727	0.9
	9% 15 Apr 2025 (SNR)	Ba3/B+/B			67	0.0
					1,794	0.9
IHO Verwaltungs	6% 15 May 2027 (SNR)	Ba2/BB–/BB	Consumer Goods	Germany	1,241	0.6
	3.625% 15 May 2025 (SNR)	Ba2/BB–/BB			547	0.3
					1,788	0.9
Marb Bondco	6.875% 19 Jan 2025 (SNR)	NR/BB–/BB	Financials	UK	1,763	0.9
IM Group	6.625% 01 Mar 2025	B3/B–/B	Consumer Services	France	1,753	0.9
Ocado	4% 15 Jun 2024 (SNR)	Ba2/NR/BB	Consumer Services	UK	1,741	0.9
Neptune Energy	6.625% 15 May 2025 (SNR)	B1/BB–/BB	Oil and Gas	UK	1,737	0.9
Frigoglass Finance	6.875% 12 Feb 2025	B3/B–/B	Industrials	Netherlands	1,648	0.8
Heathrow	4.125% 01 Sep 2029 (SNR)	B1/NR/B	Financials	UK	596	0.3
	7.125% 14 Feb 2024 (SNR)	NR/BBB–/BBB		Jersey	573	0.3
	2.75% 09 Aug 2051 (SNR)	NR/BBB+/BBB		Jersey	270	0.1
	2.75% 13 Oct 2031 (SNR)	NR/BBB+/BBB		Jersey	190	0.1
					1,629	0.8
Nationwide	5.75% FRN Perpetual	Ba1/BB+/BB	Financials	UK	980	0.5
	5.875% FRN Perpetual	Ba1/BB+/BB			633	0.3
					1,613	0.8

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	RATING[1]	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
XPO Logistics	6.25% 01 May 2025 (SNR)	Ba3/BB–/BB	Industrials	USA	1,079	0.5
	6.5% 15 Jun 2022 (SNR)	Ba3/BB–/BB			532	0.3
					1,611	0.8
Ecclesiastical Insurance Office	8.625% Preference	NR/NR/NR	Financials	UK	1,580	0.8
Permanent TSB	8.625% FRN Perpetual	NR/NR/NR	Financials	Ireland	1,578	0.8
Loxam SAS	3.75% 15 Jul 2026 (SNR)	NR/B/B	Consumer Services	France	761	0.4
	5.75% 15 Jul 2027	NR/CCC+/CCC			721	0.4
					1,482	0.8
Petroleos Mexicanos	8.25% 02 Jun 2022 (SNR)	Ba2/BBB/BB	Oil and Gas	Mexico	851	0.4
	6.95% 28 Jan 2060 (SNR)	Ba2/BBB/BB			372	0.2
	6.75% 21 Sep 2047 (SNR)	Ba2/BBB/BB			237	0.1
					1,460	0.7
Picard	FRN 30 Nov 2023	B3/B/B	Consumer Services	France	1,444	0.7
Petra Diamonds	7.25% 01 May 2022 (SNR)	Ca/D/D	Basic Materials	UK	1,435	0.7
Time Warner Cable	5.25% 15 Jul 2042	Ba1/BBB–/BBB	Consumer Services	USA	1,408	0.7
Telefonica	5.875% FRN Perpetual (SUB)	Ba2/BB/BB	Telecommunications	Netherlands	1,405	0.7
La Financière ATALIAN	4% 15 May 2024 (SNR)	Caa2/B/CCC	Consumer Services	France	823	0.4
	6.625% 15 May 2025 (SNR)	Caa2/B/CCC			462	0.2
					1,285	0.6
DNO ASA	8.375% 29 May 2024	NR/NR/NR	Oil and Gas	Norway	765	0.4
	8.75% 31 May 2023	NR/NR/NR			489	0.2
					1,254	0.6
Banca Monte Dei Paschi - Siena	8% FRN 22 Jan 2030	Caa1/NR/CCC	Financials	Italy	750	0.4
	10.5% 23 Jul 2029 (SUB)	Caa1/NR/CCC			501	0.2
					1,251	0.6
Goodyear Tire & Rubber	9.5% 31 May 2025 (SNR)	B2/B+/B	Consumer Goods	USA	1,241	0.6
BMW US Capital	3.9% 09 Apr 2025 (SNR)	A2/A/A	Consumer Goods	USA	1,235	0.6
Direct Line Insurance	9.25% FRN 27 Apr 2042	A3/NR/A	Financials	UK	1,000	0.5
	4% 05 Jun 2032	Baa1/NR/BBB			234	0.1
					1,234	0.6
Motion Bondco	6.625% 15 Nov 2027 (SNR)	Caa2/CCC-/CCC	Financials	Ireland	750	0.4
	4.5% 15 Nov 2027 (SNR)	Caa2/CCC-/CCC			475	0.2
					1,225	0.6
Legal & General	5.625% FRN Perpetual	Baa3/BBB/BBB	Financials	UK	504	0.3
	4.5% FRN Perpetual	A3/BBB+/BBB			437	0.2
	5.5% 27 Jun 2064 FRN (SUB)	A3/BBB+/BBB			284	0.1
					1,225	0.6
Orange	5.875% Perpetual	Baa3/BBB–/BBB	Telecommunications	France	1,177	0.6
Bank Of Ireland	7.5% FRN Perpetual	Ba2/B/B	Financials	Ireland	1,162	0.6
William Hill	4.75% 01 May 2026	Ba3/BB–/BB	Consumer Services	UK	1,161	0.6
OneSavings Bank	9.125% FRN Perpetual	NR/NR/NR	Financials	UK	1,146	0.6
HSBC	5.25% 14 Mar 2044	A3/BBB/A	Financials	UK	620	0.3
	4.25% 14 Mar 2024	A3/BBB/A			517	0.3
					1,137	0.6
Beazley	5.875% 04 Nov 2026	NR/NR/BBB	Financials	Ireland	1,135	0.6
Vistajet	10.5% 01 Jun 2024 (SNR)	Caa1/CCC+/CCC	Technology	Malta	1,135	0.6
BNP Paribas	Cnv FRN Perpetual	Baa3/BB+/BBB	Financials	Belgium	1,116	0.6
Banco Comercial Portugues	9.25% 30 Apr 2067	B2/CCC+/B	Financials	Portugal	1,101	0.6
HEMA	6.25% FRN 15 Jul 2022 (SNR)	NR/NR/NR	Financials	Netherlands	820	0.4
	7% 18 Apr 2025 (SNR)	B2/B/B			129	0.1
	10% 19 Apr 2026	Ca/CCC-/CC			125	0.1
					1,074	0.6
BP Capital	4.25% FRN Perpetual	A3/BBB/BBB	Financials	UK	1,050	0.5
CPUK Finance	6.5% 28 Aug 2050 (SNR)	NR/B–/B	Financials	Jersey	525	0.3
	4.25% 28 Feb 2047 (SNR)	NR/B–/B			521	0.2
					1,046	0.5
Yew Grove	Common Stock	NR/NR/NR	Financials	Ireland	1,039	0.5
AXA	6.379% FRN Perpetual	Baa1/BBB/BBB	Financials	France	1,018	0.5
Iron Mountain	3.875% 15 Nov 2025	Ba3/BB–/BB	Financials	UK	1,012	0.5
Walnut Bidco	9.125% 01 Aug 2024 (SNR)	B1/B/B	Consumer Goods	Jersey	1,002	0.5
Intesa Sanpaolo	7% Perpetual	Ba3/BB–/BB	Financials	Italy	985	0.5
Brink's	4.625% 15 Oct 2027	Ba3/BB–/BB	Industrials	USA	658	0.3
	5.5% 15 Jul 2025 (SNR)	Ba3/BB–/BB			323	0.2
					981	0.5

ISSUER	ISSUE	RATING[1]	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
General Motors	6.8% 01 Oct 2027 (SNR)	Baa3/BBB/BBB	Consumer Goods	USA	454	0.2
	5.2% 20 Mar 2023 (SNR)	Baa3/BBB/BBB			279	0.2
	5.4% 02 Oct 2023 (SNR)	Baa3/BBB/BBB			220	0.1
					953	0.5
UniCredit International Bank	8% FRN Perpetual	NR/NR/B	Financials	Italy	950	0.5
SSE	3.74% FRN Perpetual (SUB)	Baa3/BBB-/BBB	Utilities	UK	910	0.4
FAGE International	5.625% 15 Aug 2026 (SNR)	B2/B+/B	Consumer Goods	Luxembourg	900	0.4
Sigma Holdco	7.875% 15 May 2026 (SNR)	Caa1/B–/CCC	Consumer Goods	Netherlands	900	0.4
Trafigura	7.5% FRN Perpetual (SUB)	NR/NR/NR	Basic Materials	Singapore	899	0.4
EDP - Energias de Portugal	4.496% 30 Apr 2079	Ba2/BB/BB	Utilities	Portugal	883	0.4
Trinseo	5.375% 01 Sep 2025 (SNR)	B2/B/B	Basic Materials	Luxembourg	882	0.4
Ithaca Energy	9.375% 15 Jul 2024 (SNR)	B3/CCC/B	Oil and Gas	UK	868	0.4
Rolls Royce	5.75% 15 Oct 2027 (SNR)	Ba3/BB–/BB	Industrials	UK	500	0.2
	4.625% 16 Feb 2026 (SNR)	Ba3/BB–/BB			363	0.2
					863	0.4
Aegon	5.625% FRN Perpetual	Baa3/BBB–/BBB	Financials	Netherlands	859	0.4
Platin	5.375% 15 Jun 2023 (SNR)	B3/B–/B	Industrials	Germany	844	0.4
Miller Homes	5.5% 15 Oct 2023 (SNR)	NR/BB–/BB	Consumer Goods	UK	669	0.3
	FRN 15 Oct 2023 (SNR)	NR/BB–/BB			171	0.1
					840	0.4
Lamb Weston	4.625% 01 Nov 2024	Ba2/BB+/BB	Consumer Goods	USA	839	0.4
Gamma	6.25 % 15 Jul 2025	B1/B/B	Consumer Services	Italy	831	0.4
UBS	7% FRN Perpetual	NR/BB+/BB	Financials	Switzerland	457	0.2
	5% Perpetual	Ba1u/BB/BB			366	0.2
					823	0.4
Sainsbury's	6% FRN 23 Nov 2027	NR/NR/NR	Consumer Services	UK	823	0.4
Crystal Almond	4.25% 15 Oct 2024 (SNR)	NR/B/B	Telecommunications	Luxembourg	819	0.4
InterContinental Hotels	3.375% 08 Oct 2028 (SNR)	NR/BBB-/BBB	Consumer Services	UK	816	0.4
MHP	6.95% 03 Apr 2026 (SNR)	NR/B/B	Industrials	Luxembourg	803	0.4
Société Genérale	7.375% 31 Dec 2065	Ba2/BB/BB	Financials	France	789	0.4
Enel	6.625% FRN 15 Sep 2076	Ba1/BBB–/BBB	Utilities	Italy	788	0.4
Phoenix Life	7.25% Perpetual	NR/NR/NR	Financials	UK	788	0.4
Avis Budget Car Rental	10.5% 15 May 2025 (SNR)	Ba2/BB–/BB	Consumer Services	USA	784	0.4
National Bank Of Greece	8.25% FRN 18 Jul 2029	Caa2/CCC/CCC	Financials	Greece	764	0.4
Athora	6.25% Perpetual	NR/NR/BB	Financials	Netherlands	757	0.4
Stena	7% 01 Feb 2024 (SNR)	Caa1/B+/CCC	Consumer Services	Sweden	724	0.4
El Corte Inglés	3.625% 15 Mar 2024 (SNR)	Ba1/BBB-/BB	Consumer Services	Spain	696	0.3
Motion Finco	7% 15 May 2025 (SNR)	B2/CCC+/CCC	Financials	Luxembourg	687	0.3
Pinewood	3.25% 30 Sep 2025 (SNR)	NR/BB/BB	Consumer Goods	UK	670	0.3
Hurricane Finance	8% 15 Oct 2025 (SNR)	B3/NR/B	Financials	UK	650	0.3
Metinvest	7.65% 01 Oct 2027 (SNR)	NR/B/B	Basic Materials	Netherlands	636	0.3
Jupiter Fund Management	8.875% 27 Jul 2030	NR/NR/BBB	Financials	UK	635	0.3
INEOS Group	5.375% 01 Aug 2024 (SNR)	B2/B+/B	Financials	Luxembourg	633	0.3
Boparan Finance	7.625% 30 Nov 2025 (SNR)	B3/B–/B	Financials	UK	612	0.3
Puma International	5% 24 Jan 2026	B1/NR/B	Oil and Gas	Luxembourg	612	0.3
Parts Europe	6.5% 16 Jul 2025	Caa1/B–/CCC	Consumer Goods	France	604	0.3
CYBG	9.25% Perpetual	Ba2u/B/BB	Financials	UK	600	0.3
Crown European Holdings	2.875% 01 Feb 2026 (SNR)	Ba2/BB+/BB	Financials	France	593	0.3
Rothschilds Continuation Finance	FRN Perpetual	NR/NR/NR	Financials	Netherlands	567	0.3
CIRSA Finance	7.875% 20 Dec 2023	B3/B–/B	Financials	Luxembourg	567	0.3
Thames Water (Kemble) Finance	4.625% 19 May 2026 (SNR)	B1/NR/B	Utilities	UK	543	0.3
B&M	3.625% 15 Jul 2025 (SNR)	Ba2/BB–/BB	Consumer Services	Luxembourg	534	0.3
Credit Suisse	4.5% FRN Perpetual	Ba1u/BB–/BB	Financials	Switzerland	379	0.2
	7.125% FRN Perpetual	Ba1u/BB–/BB			155	0.1
					534	0.3

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	RATING(1)	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Virgin Media	4.25% 15 Jan 2030 (SNR)	Ba3/BB–/BB	Consumer Services	UK	513	0.3
Solvay Finance	5.869% Var Perpetual	Ba1/BB+/BB	Basic Materials	France	511	0.3
Plantronics	4.625% 05 Jan 2026 (SNR)	B2/B/B	Telecommunications	Luxembourg	506	0.3
CGG	FRN 21 Feb 2024	Caa1/CCC+/CCC	Oil and Gas	France	504	0.2
Jaguar Land Rover	2.75% 24 Jan 2021 (SNR)	B1/B/B	Consumer Goods	UK	499	0.2
Nyrstar	0% 31 Jul 2026 (SNR)	NR/NR/NR	Basic Materials	Malta	479	0.2
Intesa	5.148% 10 Jun 30	Ba1/BB+/BB	Financials	Italy	475	0.2
Bayer AG	3.125% FRN 12 Nov 2079 (SUB)	Baa3/BB+/BBB	Health Care	Germany	469	0.2
Peel Land & Property Investments	8.375% Var 30 Apr 2040	NR/BBB/BBB	Financials	UK	464	0.2
PGH Capital	5.375% 06 Jul 2027	NR/NR/BBB	Financials	UK	454	0.2
Faurecia	3.75% 15 Jun 2028 (SNR)	Ba2/BB/BB	Consumer Goods	France	448	0.2
Ford Motor Credit	FRN 14 May 2021	Ba2/BB+/BB	Consumer Goods	USA	444	0.2
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+/BBB	Financials	UK	443	0.2
Owens-Brockway	6.625% 13 May 2027 (SNR)	B3/B/B	Industrials	USA	438	0.2
EG Global Finance	8.5% 30 Oct 2025 (SNR)	B3/B–/B	Oil and Gas	UK	284	0.1
	6.75% 07 Feb 2025 (SNR)	B3/B–/B			151	0.1
					435	0.2
Primo Water	3.875% 31 Oct 2028 (SNR)	B1/B/B	Consumer Goods	USA	417	0.2
Getlink	3.5% 30 Oct 2025 (SNR)	NR/BB–/BB	Consumer Services	France	397	0.2
Avantor Funding	4.625% 15 Jul 2028 (SNR)	B3/B/B	Health Care	USA	395	0.2
Expedia	6.25% 01 May 2025 (SNR)	Baa3/BBB–/BBB	Consumer Services	USA	220	0.1
	7% 01 May 2025 (SNR)	Baa3/BBB–/BBB			135	0.1
					355	0.2
CEMEX	7.375% 05 Jun 2027 (SNR)	NR/BB/BB	Industrials	Mexico	352	0.2
VTR Finance	5.125% 15 Jan 2028 (SNR)	Ba3/B+/BB	Telecommunications	Chile	174	0.1
	6.375% 15 Jul 2028 (SNR)	B1/B/B		Netherlands	160	0.1
					334	0.2
Rothesay Life	8% 30 Oct 2025	NR/NR/BBB	Financials	UK	317	0.2
Millicom International Cellular	5.125% 15 Jan 2028	Ba2/NR/BB	Telecommunications	Luxembourg	296	0.1
National Express	FRN Perpetual	Ba1/BB+/BB	Consumer Services	UK	287	0.1
Volvo	2.5% 07 Oct 2027 (SNR)	Ba1/BB+/BB	Industrials	Sweden	286	0.1
Argentina (Republic Of)	0.125% 09 Jul 2035 (SNR)	NR/CCC+/CCC	Government Bonds	Argentina	260	0.1
	1% 09 Jul 2029 (SNR)	NR/CCC+/CCC			14	0.0
					274	0.1
Sofima	3.75% 15 Jan 2028 (SNR)	B2/NR/B	Industrials	Italy	267	0.1
Whitbread	3.375% 16 Oct 2025 (SNR)	NR/NR/BBB	Consumer Services	UK	264	0.1
Turk Telekomunikas	6.875% 28 Feb 2025 (SNR)	NR/BB–/BB	Telecommunications	Turkey	242	0.1
Odyssey Europe	8% 15 May 2023 (SNR)	Caa1/CCC+/CCC	Consumer Services	Luxembourg	239	0.1
Synthomer	3.875% 01 Jul 2025 (SNR)	Ba2/BB/BB	Industrials	UK	238	0.1
Aroundtown	4.75% FRN Perpetual (SUB)	NR/BBB-/BBB	Consumer Goods	Luxembourg	237	0.1
Hanesbrands	5.375% 15 May 2025 (SNR)	Ba3/BB/BB	Consumer Services	USA	231	0.1
Cheplapharm Arzneimittel	5.5% 15 Jan 2028 (SNR)	B2/B/B	Health Care	Germany	223	0.1
Travis Perkins	4.5% 07 Sep 2023 (SNR)	NR/BB+/BB	Industrials	UK	217	0.1
John Lewis	4.25% 18 Dec 2034 (SNR)	NR/NR/NR	Consumer Services	UK	203	0.1
Marriott International	5.75% 01 May 2025 (SNR)	Baa3/BBB-/BBB	Consumer Services	USA	187	0.1
British Airways	4.25% 15 May 2034 (SNR)	NR/A/A	Financials	Netherlands	110	0.1
Chemours	7% 15 May 2025	B1/B/B	Basic Materials	USA	91	0.0
Clarios	6.75% 15 May 2025 (SNR)	B1/B/B	Utilities	Canada	61	0.0
M&G Finance	7.5% FRN Perpetual (SUB)	NR/NR/NR	Financials	Luxembourg	19	0.0
					202,229	100.0

(1) Moody's/Standard & Poor's (S&P)/Equivalent average rating.

Abbreviations used in the above valuation:

Cnv: Convertible
FRN: Floating Rate Note
SNR: Senior
Var: Variable
SUB: Subordinated Note

GOVERNANCE
The Directors

Tim Scholefield (Chairman)
Mr Tim Scholefield a Director of the Company, joined the Board on 15 June 2017, and became Chairman on the same date. He was Head of Equities at Baring Asset Management until 2014. He now holds a portfolio of non-executive directorships including BMO Capital and Income Investment Trust PLC, Fidelity Asian Values Plc and Standard Life UK Smaller Companies Plc and is an external member of the General Medical Council's Investment Committee.

Mr Scholefield contributes to the Company's long-term sustainable success by drawing on his considerable experience of the investment management industry and asset markets. He has extensive experience of the management and operation of investment trusts, and his independence from the manager means that he is able to act as Chairman to lead the Board effectively.

Tom Quigley
Mr Quigley a Director of the Company, joined the Board on 15 December 2020. He was formerly Chief Financial Officer of ETF Securities, the largest fund management Group in the Channel Islands. He was a Managing Director at ING Barings Investment Banking and, prior to that, at Close Brothers Corporate Finance in the City of London. He has principal investing experience in prior roles as a Director of Terra Firma Capital Partners, and as Managing Director and head of the London office of W.P. Carey Inc. He is Managing Director of an independent corporate advisory business, Cloudberry Corporate Advisers based in Jersey. Tom is a member of the UBS Jersey advisory Board and is a non-executive Director of Barchester Healthcare. He also serves as a non-executive Director of Skipton International Limited, a Guernsey based bank wholly owned by the Skipton Building Society and is a non-executive director and Chairman of the Audit Committee of the States of Jersey Development Company and a non-executive director of EQTEC plc.

He is a Chartered Accountant and a member of the ICAEW. Mr Quigley brings to the Board his extensive experience in investment banking and finance. He is also able to draw on his Chartered Accountancy qualification.

Heather MacCallum
Ms Heather MacCallum a Director of the Company, joined the Board on 25 June 2019 and became Chair of the Audit Committee in September 2019, following the retirement of Philip Taylor. She is a Chartered Accountant and was a partner with KPMG Channel Islands for 15 years before retiring from the partnership in 2016. She now holds a portfolio of non-executive directorships including Aberdeen Latin American Income Fund Limited and Blackstone Loan Financing Limited and is the Chair of Jersey Water.

Ms MacCallum contributes to the Company's long term sustainable success by drawing on her qualification as a Chartered Accountant and significant relevant experience as partner at KPMG Channel Islands. This allows her to effectively contribute and chair the Company's Audit Committee.

Stuart McMaster
Mr Stuart McMaster a Director of the Company, joined the Board on 25 June 2019. He was Investment Director of Fixed Income at Alliance Trust Investments until 2016, prior to this he was Head of Multi Asset Bond Fund Management at Scottish Widows Investment Partnership. He provides consultancy investment advisory services to Anderson Strathern Asset Management and coaches the CEOs of charities via the charity Pilotlight. He is a member of The Chartered Institute of Securities and Investment.

Mr McMaster brings to the Company a wealth of fixed income experience from his time as investment director of fixed income at Alliance Trust Investments and during his time as head of multi-asset bond fund management at Scottish Widows Investment Partnership.

Caroline Dutot
Ms Dutot a Director of the Company, joined the Board on 15 December 2020. She is a founder of and Advocate at Ardent Chambers, a legal chambers based in Jersey. She has a specialist knowledge of compliance, governance and risk matters and provides advice and litigation services to individuals, boards, businesses, governments and regulators. She has long-standing experience of working with and for regulatory and public authorities, including the Attorney General in Jersey and the Jersey Financial Services Commission. She is a non-executive director of Hawk Lending Ltd. Ms Dutot brings to the Company her legal knowledge and specialism in compliance, governance and risk. She also brings her experience of working with regulatory and public authorities.

All directors are non-executive and, in the opinion of the Board, are independent of the Manager.

Philip Austin and John Boothman, not listed above, were also Directors during the year to 31 December 2020. Both retired from the Board on 15 December 2020.

The Company's Governance Framework

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that as an investment company it has no employees and outsources investment management to the Manager, administration to JTC Fund Solutions (Jersey) Limited and other external service providers.

The Board

Five non-executive directors (NEDs)

Chairman: Tim Scholefield

Key objectives:

– to set strategy, values and standards;
– to provide leadership within a framework of prudent and effective controls which enable risk to be assessed and managed; and
– to constructively challenge and scrutinise performance of all outsourced activities.

Audit Committee

All NEDs

Chair: Heather MacCallum

Key objectives:

– to oversee financial reporting and the control environment; and
– to review the effectiveness of the audit process and the independence and objectiveness of the auditor.

Nomination and Remuneration Committee

All NEDs

Chair: Tim Scholefield (interim Chair)

Key objectives:

– to review regularly the Board's structure and composition; and
– to make recommendations for any new appointments and plan for the Board's succession.
– to set the remuneration policy of the Company.

Management Engagement Committee

All NEDs

Chair: Heather MacCallum (interim Chair)

Key objectives:

– to review the performance of the Manager; and
– to review other service providers.

Following the retirement of Philip Austin and John Boothman on 15 December 2020, Tim Scholefield was appointed as Chairman of the Nomination and Remuneration Committee and Heather MacCallum was appointed as Chair of the Management Engagement Committee, both on an interim basis. If the proposed merger with Invesco Enhanced Income Limited is approved by shareholders, new chairs will be appointed to these Committees.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

The Board is committed to maintaining high standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

The Directors have considered the principles and recommendations of the 2019 AIC Code of Corporate Governance ('AIC Code'). The AIC Code sets out a framework of best practice in respect of the governance of investment companies and has been endorsed by the Financial Reporting Council (FRC) and is supported by the Jersey Financial Services Commission. The AIC Code closely reflects the principles and provisions of the FRC UK Corporate Governance Code (UK Code).

The AIC Code is available from the Association of Investment Companies (www.theaic.co.uk).

The Company has complied with the recommendations of the AIC Code and provisions of the UK Code, except the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration;
- the need for an internal audit function; and
- nomination of a senior independent director.

For the reasons explained in the AIC Code, the Board considers these provisions are not relevant to the position of City Merchants High Yield Trust Limited, being an externally managed investment company with no executive employees and, in relation to the third, in view of the Manager having an internal audit function. In relation to the fourth, the Board takes the view that the nature of the Company and the relationship between the Board and the Manager are such that it is unnecessary to identify a senior independent director other than the Chairman. All Directors are available to shareholders if they have concerns that cannot be resolved through contact with the Chairman or the Manager or for which such contact is inappropriate. The Board considers all Directors to be independent and thus all Directors are members of the respective Committees of the Board.

Information on how the Company has applied the principles of the AIC Code and the UK Code follows:

The composition and operation of the Board and its committee functions are summarised below and on page 28, and on pages 34 and 35 in respect of the Audit Committee.

The Company's policy on diversity is set out on page 31.

The Company's approach to internal control and risk management is summarised on pages 11 and 12.

The contractual arrangements with, and assessment of, the Manager are summarised on page 16.

The Company's capital structure and voting rights are summarised on page 65.

The most substantial shareholders in the Company are listed on page 17.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 31. There are no agreements between the Company and its directors concerning compensation for loss of office.

Powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require a special resolution to be passed by shareholders.

The Board

The Board comprised between five and seven Directors during the financial year, all of whom were non-executive. The Board considers all of the Directors to be independent of the Company's Manager. The Directors have a range of financial, business and asset management skills as well as recent and relevant experience pertinent to the direction and control of the Company. Brief biographical details of the members of the Board are shown on page 27.

Chairman of the Board

The Chair of the Board is Tim Scholefield, an independent non-executive Director, who has no conflicting relationships.

Board Responsibilities

The Directors have a duty to promote the success of the Company, taking into consideration the likely long-term consequences of any decisions; the need to foster the Company's business relationships with its Manager, other service providers and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to treat shareholders fairly. This is reported on in the Strategic Report on pages 17 and 18.

The Directors are equally responsible for the proper conduct of the Company's affairs and for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that the Company's policies and operations are in the best interests of all its shareholders and that the interests of other stakeholders such as creditors and suppliers to the Company are also properly considered.

Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the portfolio managers on the current investment position and outlook, performance against appropriate indices and the Company's peer group, asset allocation, gearing, cash management, revenue forecasts for the financial year, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

The Board is committed to the prevention of corruption in the conduct of the Company's affairs and, taking account of the nature of the Company's business and operations, has put in place procedures that the Board considers adequate to prevent persons associated with it from engaging in bribery for and on behalf of the Company. The Board has a zero tolerance approach towards the facilitation of tax evasion.

A formal schedule of matters reserved for decision by the Board has been established and is available at the Registered Office of the Company and on the Company's section of the Manager's website at *www.invesco.co.uk/citymerchants*. The main responsibilities of the Board include: setting the Company's objectives, strategy and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; approving accounting policies and dividend policy; managing the capital structure; assessing risk and overseeing its mitigation; reviewing investment performance; approving loans and borrowing; approving recommendations by the Audit Committee, the Nomination and Remuneration Committee and the Management Engagement Committee.

There is an agreed procedure for Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £10,000, having first consulted the Chairman.

Management Engagement Committee

The Management Engagement Committee was chaired by Philip Austin until 15 December 2020 when he retired as a Director of the Company. Heather MacCallum has been appointed as Chair of the Committee on an interim basis pending shareholders' approval of the proposed merger as detailed in the Chairman's Statement. Following this a review of composition will be undertaken.
The Committee comprises the full Board. The main responsibilities are to review the Company's Investment Management and Company Secretarial and Administration Agreements. The performance of the Manager in respect of investment performance and administration is reviewed formally against agreed standards and reported on page 16 under 'Assessment of the Manager'. The Committee is also responsible for the review of arrangements with other TPPs. The Committee has adopted appropriate terms of reference in respect of its responsibilities which are available at the registered office of the Company and on the Company's section of the Manager's website at *www.invesco.co.uk/citymerchants*.

Nomination and Remuneration Committee

The fact that the Board is small in size and comprised entirely of independent non-executive Directors means that all Directors are members of the Nomination and Remuneration Committee. John Boothman was chairman of the Committee until 15 December 2020 when he retired as a Director of the Company. Tim Scholefield has been appointed as Chairman of the Committee on an interim basis pending shareholders' approval of the proposed merger, as detailed in the Chairman's Statement.

Following this a review of composition will be undertaken. The main responsibilities of the Committee are to review the size, structure and skills of the Board, to make recommendations with regard to any changes considered necessary or new appointments, and to plan for the Board's succession. The Committee is also responsible for determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation. The Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. The terms of reference will be available for inspection at the AGM and can be inspected at the registered office of the Company as well as on the Company's section of the Manager's website.

The Board's policy on diversity is to seek to ensure that the Board's structure, size and composition, including the skills, knowledge, gender and experience of the Directors, are sufficient for the effective direction and control of the Company. The Board has not set any measurable objectives in respect of this policy. This policy, together with the tenure principles set out in the next section, guides the Committee.

During the year the Committee met once in pursuit of its plan to ensure refreshment of the Board in a phased and orderly manner. The Committee carried out a robust assessment of the skills and experience required on the Board and a candidate specification was prepared and presented to independent search consultant, Thomas & Dessain. Tom Quigley and Caroline Dutot were appointed to the Board on 15 December 2020.

Philip Austin and John Boothman retired from the Board on 15 December 2020.

Appointment, Re-election and Tenure of Directors

New Directors are appointed by the Board, following recommendation by the Nomination and Remuneration Committee. An independent external search consultancy may be used to assist in the selection of Directors. Care is taken to ensure that when a new Director is appointed there is a balance of skills and experience appropriate for the requirements of the Company and that new Directors have enough time available to devote to the affairs of the Company. The Board has formulated a programme of induction training for newly-appointed Directors. There are ongoing arrangements in place to ensure that Directors can keep up-to-date with new legislation, industry and regulatory matters and changing risks, including briefings from the Manager and the Company Secretary.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and on the Company's section of the Manager's website at *www.invesco.co.uk/citymerchants*.

The Articles of Association require that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. Thus, no Director serves a term of more than three years before re-election. A Director's tenure will normally be a maximum of three terms of three years, except that the Board may determine otherwise if it is considered that the continued service on the Board of an individual Director is in the best interests of the Company and its shareholders. The Board has resolved that in compliance with the 2019 AIC Code all Directors shall stand for annual re-election. An outline of the reasons why their contributions and skills continue to be important to the Company's long term sustainable success are included on page 27. The Chairman's tenure of office will also normally be for up to nine years, except that the Board may determine otherwise if it is considered that the continued service on the Board of a Chairman, who has in addition served a period of time as a Director, is in the best interest of the Company and its shareholders.

The Articles of Association provide that the Directors may, by notice in writing, remove any Director from the Board.

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 34 and 35.

CORPORATE GOVERNANCE STATEMENT
continued

Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendations in respect of evaluating the performance of the Board as a whole, its Committees and individual Directors. During the year the performance of the Board, Committees of the Board and individual Directors was assessed in terms of:

- attendance at Board and Committee meetings;
- independence of Directors;
- the ability of Directors to make an effective contribution to the Board and Committees of the Board through the diversity of skills and experience each Director brings to their role; and
- the Board's ability to challenge the Manager's recommendations, suggest areas of debate and set the future strategy of the Company.

The composition of the Board is reviewed annually as part of the appraisal of the Board, Committees of the Board and the individual Directors. The Board, Committees of the Board and individual Directors scored well in all areas of the performance evaluation. The Board and the Committees of the Board continue to be effective and the individual Directors continued to demonstrate commitment to their respective roles and responsibilities. The current Directors provide a good range of experience and backgrounds and are independent of the Manager and Company Secretary. The Board has determined that approximately every three years this review will be facilitated by an external agency.

Attendance at Board and Committee Meetings

The Board meets on a regular basis at least four times a year. The following table sets out the number of scheduled meetings of the Board and committees held during the year and the number attended by each Director:

	SCHEDULED BOARD MEETINGS	AUDIT COMMITTEE MEETINGS	NOMINATION AND REMUNERATION COMMITTEE MEETINGS	MANAGEMENT ENGAGEMENT COMMITTEE MEETINGS
NUMBER OF MEETINGS	4	2	1	1
Tim Scholefield (Chairman of the Board)	4	2	1	1
Philip Austin* (Chairman of the Management Engagement Committee)	4	2	1	1
John Boothman* (Chairman of the Nomination and Remuneration Committee)	4	2	1	1
Heather MacCallum (Chair of the Audit Committee)	4	2	1	1
Stuart McMaster	4	2	1	1
Caroline Dutot (appointed 15 December 2020)	1	—	1	1
Tom Quigley (appointed 15 December 2020)	1	—	1	1

* Retired 15 December 2020.

Board members also attended a number of additional non-scheduled meetings to deal with ad hoc items. Regular contact is maintained between the Manager, including the portfolio managers, the Company Secretary and the Board between formal meetings.

Conflicts of Interest

A Director must avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests.

The Articles of Association of the Company give the Directors authority to approve conflicts and potential conflicts. The Directors are able to impose limits or conditions when giving authorisation if they think it is appropriate. Only Directors who have no interest in the matter being considered are able to take the relevant decision. Also, in taking the decision the Directors must act in a way they consider, in good faith, is most likely to promote the Company's success.

The Directors have declared any potential conflicts of interest to the Company. Any potential conflicts of interest are entered onto the Company's Register of Potential Conflicts, which is kept at the

Company's registered office and is reviewed regularly by the Board. The Directors must advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

The Company Secretary

JTC Fund Solutions (Jersey) Limited was appointed with effect from 10 December 2019 to replace R&H Fund Services (Jersey) Limited as corporate Company Secretary and Administrator.

The Board has direct access to the advice and services of the Company Secretary, JTC Fund Solutions (Jersey) Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. In addition, the Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

Stewardship

The Company's portfolio predominantly comprises bonds, which rarely carry voting rights except in specific limited circumstances. The Company's stewardship functions have been delegated to the Manager which exercises the Company's voting rights on an informed and independent basis. To the extent that voting rights are exercisable, the Board considers that the Company has responsibility as an investor towards ensuring that votes are cast with a view to supporting high standards of corporate governance. A copy of the Manager's Stewardship Code can be found at *www.invesco.co.uk*.

By order of the Board

JTC Fund Solutions (Jersey) Limited
Company Secretary

30 March 2021

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The Audit Committee, chaired by Heather MacCallum, comprises all of the Directors on the Board including the Chairman of the Board. The Board consider the Chair of the Board to be independent and thus Tim Scholefield is appointed as a member of the Audit Committee. Philip Taylor retired as Chair of the Audit Committee on 4 September 2019. The Committee has written terms of reference that clearly define its responsibilities and duties. These can be inspected at the registered office of the Company and on the Company's section of the Manager's website at www.invesco.co.uk/citymerchants. The Committee members consider that collectively they have substantial recent and relevant financial experience and competence relevant to the sector.

Audit Committee Responsibilities

The responsibilities of the Audit Committee include:

- evaluation of the effectiveness of the internal controls and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's and the Company Secretary's whistleblowing arrangements;
- reviewing the Company's annual and half-yearly financial reports and announcements and ensuring compliance with relevant statutory and listing requirements and the appropriateness of accounting policies applied;
- management of the relationship with the external auditor, including their appointment, remuneration, and the scope, effectiveness, independence and objectivity of their audit; and
- ensuring, at the request of the Board, that the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Audit Committee Activities

The Committee met twice during the year. The Committee undertook a review of the Company's internal controls and risk management including the risk control summary used to identify the Company's top risks. The review process included consideration of emerging risks and procedures for their identification. The result of this work is reflected in the Internal Controls and Risk Management and Principal Risks and Uncertainties sections on pages 11 to 15. Particular attention was also given to reviewing controls and policies with respect to cyber security and the impact of Covid-19 on the Company both in terms of the investment portfolio and business continuity of the Company's TPPs.

Other activities undertaken by the Committee follow:

The audit programme and timetable were drawn up and agreed with the auditor in advance of the financial year end. At this stage, matters for audit focus were discussed and agreed. These matters were given particular attention during the audit process and, among other matters, were reported on by the auditor in the audit report to the Committee. The report was considered by the Committee and discussed with the auditor and the Manager prior to approval and signature of the annual financial report. The Committee considered the content of the annual financial report, including the accounting policies applied, and recommended it to the Board.

The Committee reviewed the auditor's independence, objectivity and effectiveness, the quality of the services provided to the Company and, together with the Manager, reviewed the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. Representatives of the Manager's Compliance and Internal Audit Departments attended both meetings and would have met privately with the Committee if it was considered necessary. The depositary also provided a satisfactory report to the Committee on their monitoring of the activities of the Company throughout the year. Representatives of the auditor, PricewaterhouseCoopers CI LLP, attended the Committee meeting at which the draft annual financial report was reviewed and were given the opportunity to speak to Committee members without the presence of representatives of the Manager. The Committee is satisfied that PricewaterhouseCoopers CI LLP has fulfilled its obligations to shareholders as independent auditor to the Company.

The allocation of management fees and finance costs between revenue and capital is considered annually by the Committee which takes account of the long-term split of returns from the portfolio, yields, the objective of the Company and current market practice.

The Audit Committee has also reviewed its own competence and effectiveness in the year and has assessed both to be satisfactory.

Accounting Matters and Significant Areas

The Committee's review of the audit plan included identifying accounting matters that were expected to require focus in relation to the Company's annual financial report.

The accounting matters that were subject to specific consideration by the Committee follow:

SIGNIFICANT AREA	HOW ADDRESSED
Accuracy of the portfolio valuation	Actively traded listed investments are valued using exchange prices provided by third party pricing vendors. The Board reviews detailed portfolio valuations on a regular basis throughout the year and receives confirmation from the Manager that the pricing basis is appropriate and in line with relevant accounting standards as adopted by the Company.
Income recognition	Accrued income is calculated by the Manager and each stock line is reviewed to ensure that capital appreciation is not inappropriately attributed to revenue. The Board reviews revenue estimates and receives explanations from the Manager for any significant movements from previous estimates and, if applicable, prior year figures. The audit includes checks on completeness and accuracy of income.

The Committee was satisfied that these matters have been satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor. Following a thorough review process, the Audit Committee advised the Board that the 2020 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance and position, business model and strategy.

Auditor

PricewaterhouseCoopers CI LLP (PwC) was selected to be the Company's external auditor following a competitive tender exercise in 2016 and this is the fifth audit undertaken by PwC, led by the current engagement partner Karl Hairon. This is his final year working with the Company and I would like to thank him for his work during his tenure. The appointment of a new engagement partner for 2021 is currently in progress. The Committee assessed the effectiveness of the external audit process through discussions with the Manager and the auditor. A resolution to re-appoint PwC and for the Audit Committee to determine their remuneration will be put to shareholders at the forthcoming AGM to be held at a future date.

It is the Company's policy normally not to seek substantial non-audit services from its auditor. No non-audit services were provided during the year. Prior to any engagement for non-audit services, the Audit Committee would consider whether the skills and experience of the auditor make them a suitable supplier of such services and ensure that there is no threat to objectivity and independence in the conduct of the audit as a result.

Internal Audit

Due to the nature of the Company, being an externally managed investment company with no executive employees, and in view of the Manager having an internal audit function, which the Committee regularly meets with and receives reports from, the Company does not have its own internal audit function.

Heather MacCallum
Audit Committee Chair

30 March 2021

Remuneration Responsibilities

All Directors are members of the Nomination and Remuneration Committee and until 15 December 2020 was chaired by John Boothman. Since then Tim Scholefield was appointed as Chairman on an interim basis. Details of the Committees responsibilities can be found on pages 31 and 32.

Directors' Remuneration Policy

The Board's policy is that Directors' remuneration should be fair and reasonable by comparison with fees paid by other investment companies of similar size and complexity. The remuneration of the Chairman and the Audit Committee Chair is set to reflect the extra responsibilities and time spent on their respective roles.

Fees for Directors are determined by the Board within the aggregate limit stated in the Company's Articles of Association of £150,000 per annum.

Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company and on the Manager's website. The same fees will apply to both current and new Directors. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at board and general meetings and committees. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

The Company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director.

The Company has no employees and consequently has no policy on the remuneration of employees.

The Board will consider, where raised, shareholders' views on Directors' remuneration.

Directors' Fee Rates

Directors' fee rates were last increased with effect from 1 January 2020. These rates applied during the year ended 31 December 2020 and, together with the previous fee rates, are shown in the table below.

The Board considered that the level of fees remained appropriate for the year ended 31 December 2020.

Chairman's Annual Statement on Directors' Remuneration

For the year to 31 December 2020, the Directors were paid the fee rates in the table below. No additional discretionary payments were made in the current year (2019: nil).

Annual Report on Directors' Remuneration

Directors' Remuneration for the Year

The Directors who served during the year received the following emoluments, all of which were in the form of fees:

	2020 £	2019 £
Tim Scholefield - Chairman[(1)]	34,250	33,000
Heather MacCallum – Chair of the Audit Committee[(2)]	28,000	13,210
Philip Austin (retired 15 December 2020)[(3)]	25,729	23,000
John Boothman (retired 15 December 2020)[(3)]	25,729	23,000
Stuart McMaster	23,750	11,925
Caroline Dutot (appointed 15 December 2020)[(4)]	1,979	—
Tom Quigley (appointed 15 December 2020)[(4)]	1,979	—
Winifred Robbins (retired 31 March 2019)	—	5,750
Philip Taylor (retired 4 September 2019)	—	27,000
Total	141,416	136,885

(1) Appointed Interim Chairman of the Nomination and Remuneration Committee following the retirement of John Boothman.

(2) Appointed Interim Chair of the Management Engagement Committee following the retirement of Philip Austin.

(3) Amounts shown for Philip Austin and John Boothman include remuneration paid to them in the year ended 31 December 2020 and includes amounts due in respect of their notice period to 31 January 2021.

(4) Remuneration paid with effect from 1 December 2020 in respect of Board related matters prior to their appointment as a Director on 15 December 2020.

Directors' Interests

The beneficial interests of the Directors in the ordinary share capital of the Company are shown below:

	31 DECEMBER 2020	31 DECEMBER 2019
Tim Scholefield (Chairman)	25,700	19,700
Heather MacCallum	—	—
Stuart McMaster	75,000	25,000
Caroline Dutot	—	—
Tom Quigley	—	—

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year. No further changes to these holdings have been notified up to the date of this report.

No connected person interests have been notified.

Directors hold shares in the Company at their discretion. Share ownership is encouraged, but no guidelines have been set.

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the period or at the year end other than in respect of indemnification and insurance as set out below.

Directors' Indemnification and Insurance

The Company maintains a Directors' and Officers' liability insurance policy.

The Company has entered into a Deed of Indemnity with each of the Directors by which, to the extent permitted by law and the Company's Articles of Association, the Company will indemnify them against liabilities incurred in connection with their office as Directors of the Company and fund reasonable expenditure incurred by them in defending proceedings brought against them in connection with their position as Directors of the Company. The indemnity does not apply to the extent that the costs are recoverable under the Directors' and Officers' liability insurance policy maintained by the Company or from any other insurance maintained by the Director.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The financial statements have been prepared on a going concern basis. When considering this, the Directors took into account the annual shareholders' continuation vote (as explained in detail on page 17) and the following: the Company's investment objective and risk management policies, the nature of the portfolio and expenditure and cash flow projections. As a result, they determined that the Company has adequate resources, an appropriate financial structure, readily realisable fixed assets to repay current liabilities and suitable management arrangements in place to continue in operational existence for the foreseeable future.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors of the Company, who are listed on page 27, each confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- this annual financial 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; and
- they consider that this annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Signed on behalf of the Board of Directors

Heather MacCallum
Audit Committee Chair

30 March 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY MERCHANTS HIGH YIELD TRUST LIMITED

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of City Merchants High Yield Trust Limited (the "Company") as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements of the Company, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements. We are also independent in accordance with SEC independence Rules.

Our audit approach

Overview

Audit scope

- The Company is an investment Company, incorporated and based in Jersey, with ordinary shares listed on the London Stock Exchange.
- We conducted our audit of the financial statements using information provided by JTC Fund Solutions (Jersey) Limited (the "administrator") and Invesco Fund Managers Limited (the "Manager").
- Our audit work was performed in Jersey. We tailored the scope of our risk-based audit considering the types of investments held by the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

- Valuation and ownership of investments.
- Income recognition.
- Management's consideration of the impact of Covid-19.

Materiality

- Overall materiality: £2.0 million (2019: £1.9 million) based on 1% of net assets.
- Performance materiality: £1.5 million.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Directors made

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY MERCHANTS HIGH YIELD TRUST LIMITED

continued

subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation and ownership of investments. *Refer to Audit Committee Report, Principal Accounting policies and Note 11 of the financial statements* We focused on the valuation and ownership of investments because investments represent the principal element of the net asset value as disclosed on the balance sheet in the financial statements. The valuation of investments drives several key performance indicators, such as net asset value, which is of significant interest to investors. Bonds and equities are valued using broker prices which are based on active stock market prices. The nature of the investment valuations is not complex as these are based primarily on quoted prices from independent pricing sources. However, the magnitude of the amounts involved means that there is potential for material misstatement. There is a risk that the investments recorded may not represent the property of the Company, this could have a significant impact on the financial statements.	We tested 100% of the valuation of the bond and equity portfolio by agreeing the prices used by management to independent third-party sources. We also tested a sample of the purchase and sale transactions during the year. A recalculation of a sample of unrealised and realised gain or loss was performed. We independently obtained a confirmation of 100% of investments held by the Company's custodian at 31 December 2020 and compared this to the investments recorded by the Company in the Company's ledger. We tested the existence of the investments held under repo financing by agreeing the holdings as recorded by the Company to the confirmation from the counterparties. No misstatements were identified by our testing which required reporting to those charged with governance.
Income recognition *Refer to Principal Accounting policies and Note 4 to the financial statements* Income is earned primarily through bond interest income, with an immaterial amount of dividend income recognised in the year. This represents a material balance in the statement of comprehensive income. Accordingly, we identified the accuracy, occurrence and completeness of investment income from the investment portfolio as an area of focus, because the incomplete or inaccurate recognition of income could have a material impact on the Company's net asset value. Income is received from various bonds by way of interest receipts, and the calculation and recognition of accrued income is not considered to be complex.	We assessed the accounting policy for income recognition for compliance with applicable accounting standards and ensured that income had been accounted for in accordance with the stated accounting policy. For a sample of bonds, we traced the rates of interest to independent sources and recalculated the income recognised by the Company. We also traced the sample to bank statements for interest received and the accrued income listing for items accrued at the year-end. To ensure appropriate coverage, our sample included interest received and accrued from bonds held at the financial year-end, as well as bonds that had been purchased and sold during the year. For a sample of investments which were purchased and sold during the year, we recalculated the split of interest income and realised gain/loss, based on the date it was purchased and sold during the year, and the corresponding independent rate of interest. No misstatements were identified by our testing which required reporting to those charged with governance.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Management's consideration of the impact of Covid-19 *Refer to Strategic Report* The Board, in conjunction with the Manager, have considered the potential impact of events that have been caused by the Covid-19 pandemic, on the current and future operations of the Company. In doing so, the Board together with the Manager have made estimates and judgements relating to the outcomes of these considerations, including on the Company's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements. As a result of the impact of Covid-19 on the wider financial markets and the Company's share price, we have determined the Board's consideration of the potential impact of Covid-19 (including their associated estimates and judgements) to be a key audit matter.	In assessing the Board's and Manager's consideration of the potential impact of Covid-19, we have undertaken the following audit procedures: We obtained the latest financial reports from management regarding market (price) risk, liquidity risk, and the impact on the income of the Company. We inspected the latest financial reports to assess their consistency with our understanding of the operations of the Company, the investment portfolio and with market commentary already made by the Company. We considered the appropriateness of the disclosures made in the financial statements in respect of the impact of the pandemic. We reviewed relevant items in the information presented in the Annual Financial Report but outside of the financial statements for any inconsistencies with the information included in the financial statements. In discussing and evaluating the estimates and judgements made by management, we noted the following factors that were considered to be fundamental by management in their consideration of the impact of the pandemic on the current and future operations of the Company and which support the statements of going concern and viability: ● As at the balance sheet date, the Company had Securities sold under agreements to repurchase of £13.54 million and the investment portfolio (including cash) was sufficiently liquid to offset this and all other liabilities. ● The Company has only received notices of default in relation to one Company in the portfolio. The value of affected bonds was not material as at the year-end. No other notices of default have been noted. Based on our procedures, we have not identified any matters to report relating to the considerations of management of the impact of the pandemic on the current and future operations of the Company.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£2.0 million (2019: £1.9 million)
How we determined it	1% of net assets
Rationale for benchmark applied	We believe that net assets is the most appropriate benchmark because this is the key metric of interest to investors. It is also a generally accepted measure used for companies in this industry.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY MERCHANTS HIGH YIELD TRUST LIMITED

continued

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1.5 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £98,800 (2019: £96,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The Directors are responsible for the other information. The other information comprises all the information included in the Annual Financial Report (the "Annual Report") but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of Jersey law and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinions, has been prepared for and only for the members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Company Law exception reporting

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY MERCHANTS HIGH YIELD TRUST LIMITED
continued

The Company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the Company's obligations, as an investment Company, under the Listing Rules of the FCA.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Company was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Karl Hairon
for and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Jersey, Channel Islands

30 March 2021

a. The maintenance and integrity of the City Merchants High Yield Trust Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2020 REVENUE £'000	2020 CAPITAL £'000	2020 TOTAL £'000	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000
Profit on investments held at fair value	11	—	1,602	1,602	—	10,086	10,086
Profit on derivative instruments – currency hedges		—	628	628	—	4,861	4,861
Exchange differences		—	188	188	—	(1,380)	(1,380)
Income	4	11,922	—	11,922	11,200	—	11,200
Investment management fee	5	(897)	(483)	(1,380)	(907)	(489)	(1,396)
Other expenses	6	(592)	(3)	(595)	(471)	(3)	(474)
Profit before finance costs and taxation		10,433	1,932	12,365	9,822	13,075	22,897
Finance costs	7	7	3	10	(13)	(7)	(20)
Profit before taxation		10,440	1,935	12,375	9,809	13,068	22,877
Taxation	8	(15)	—	(15)	(13)	—	(13)
Profit after taxation		10,425	1,935	12,360	9,796	13,068	22,864
Return per ordinary share	9	10.27p	1.90p	12.17p	9.99p	13.33p	23.32p

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The profit after taxation is the total comprehensive income. The supplementary revenue and capital columns are both prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations of the Company. No operations were acquired or discontinued in the year.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 December 2018		158,428	11,222	3,839	173,489
Total comprehensive income for the year		—	13,068	9,796	22,864
Dividends paid	10	(32)	—	(9,752)	(9,784)
Net proceeds from issue of new shares	16	5,617	—	—	5,617
At 31 December 2019		164,013	24,290	3,883	192,186
Total comprehensive income for the year		—	1,935	10,425	12,360
Dividends paid	10	(50)	—	(10,092)	(10,142)
Net proceeds from issue of new shares	16	3,271	—	—	3,271
At 31 December 2020		167,234	26,225	4,216	197,675

The accompanying accounting policies and notes are an integral part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER

	NOTES	2020 £'000	2019 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	202,229	179,728
Current assets			
Other receivables	12	3,334	3,285
Derivative financial instruments – unrealised net profit	13	3,175	1,309
Cash and cash equivalents		2,940	8,321
		9,449	12,915
Current liabilities			
Other payables	14	(463)	(457)
Securities sold under agreements to repurchase	15	(13,540)	—
		(14,003)	(457)
Net current (liabilities)/assets		(4,554)	12,458
Net assets		197,675	192,186
Capital and reserves			
Stated capital	16	167,234	164,013
Capital reserve	17	26,225	24,290
Revenue reserve	17	4,216	3,883
Shareholders' funds		197,675	192,186
Net asset value per ordinary share	18	194.29p	192.11p

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2021.

Heather MacCallum
Audit Committee Chair

Signed on behalf of the Board of Directors

The accompanying accounting policies and notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	2020 £'000	2019 £'000
Cash flow from operating activities		
Profit before finance costs and taxation	12,365	22,897
Tax on overseas income	(15)	(13)
Adjustments for:		
Purchase of investments	(93,096)	(58,645)
Sale of investments	72,197	57,191
	(20,899)	(1,454)
Increase from securities sold under agreements to repurchase	13,540	—
Profit on investments held at fair value	(1,602)	(10,086)
Net movement from derivative instruments – currency hedges	(1,866)	(2,890)
(Increase)/decrease in receivables	(236)	38
Increase in payables	6	35
Net cash inflow from operating activities	1,293	8,527
Cash flow from financing activities		
Finance cost received/(paid)	2	(25)
Net proceeds from issue of new shares	3,466	5,422
Dividends paid - note 10	(10,142)	(9,784)
Net cash outflow from financing activities	(6,674)	(4,387)
Net (decrease)/increase in cash and cash equivalents	(5,381)	4,140
Cash and cash equivalents at start of the year	8,321	4,181
Cash and cash equivalents at end of the year	2,940	8,321
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:		
Cash held at custodian	1,320	1,464
Invesco Liquidity Funds plc – Sterling, money market fund (formerly Short-Term Investment Company (Global Series) plc)	1,620	6,857
Cash and cash equivalents	2,940	8,321
Cash flow from operating activities includes:		
Dividends received	519	535
Interest received	11,150	10,655

	AT 1 JANUARY 2020 £'000	CASH FLOWS £'000	AT 31 DECEMBER 2020 £'000
Analysis of changes in net debt			
Cash and cash equivalents	8,321	(5,381)	2,940
Securities sold under agreements to repurchase	—	(13,540)	(13,540)
Total	8,321	(18,921)	(10,600)

The accompanying accounting policies and notes are an integral part of these financial statements.

1. Principal Activity

The Company is a closed-end investment company incorporated in Jersey and operates under the Companies (Jersey) Law 1991. The principal activity of the Company is investment in a diversified portfolio of high-yielding fixed-interest securities as set out in the Company's Investment Objective and Policy.

2. Principal Accounting Policies

The principal accounting policies describe the Company's approach to recognising and measuring transactions during the year and the position of the Company at the year end.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the current year and preceding year, unless otherwise stated. The financial statements have been prepared on a going concern basis as noted below.

(a) Basis of Preparation

(i) *Accounting Standards Applied*

The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of investments and derivatives, and in accordance with the applicable International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee as adopted by the European Union. The standards are those endorsed by the European Union and effective at the date the financial statements were approved by the Board.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', updated by the Association of Investment Companies in October 2019, is consistent with the requirements of IFRS, the Directors have prepared the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with the SORP.

(ii) *Going Concern*

As explained on page 17, the Company has an Annual Continuation Vote and the Directors believe shareholders will vote for the Company to continue. Accordingly, the Directors have determined that the financial statements should and have been prepared on a going concern basis, which does not include any adjustments that might arise from cessation of the Company.

(iii) *Adoption of New and Revised Standards*

New and revised standards and interpretations that became effective during the year had no significant impact on the amounts reported in these financial statements but may impact accounting for future transactions and arrangements.

At the date of authorising these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU).

The following standards and amendments to existing standards became effective during the year:

- IAS 1 and IAS 8 Amendments (effective 1 January 2020) – definition of Material. The amendments to IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', and consequential amendments to other IFRSs require companies to:
  (i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  (ii) clarify the explanation of the definition of material; and
  (iii) incorporate some of the guidance of IAS 1 about immaterial information.
- IFRS 3 Amendment (effective 1 January 2020) – definition of a Business. This amendment revises the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.
- IFRS 9 and IFRS 7 Amendments (effective 1 January 2020) – Interest Rate Benchmark Reform. These amendments provide certain reliefs in connection with the interest rate benchmark reform.

- IAS 1, 8, 34, 37, 38 and IFRS 2, 3, 6, 14, IFRIC 12, 19, 20, 22 and SIC 32 (effective 1 January 2020) – amendment to References to the Conceptual Framework.

The Directors do not expect the adoption of above standards and interpretations (or any other standards and interpretations which are in issue but not effective) will have a material impact on the financial statements of the Company in future periods and there was no material impact during the current year.

(iv) *Critical Accounting Estimates and Judgements*
The preparation of the financial statements may require the Directors to make estimations where uncertainty exists. It also requires the Directors to exercise judgement in the process of applying the accounting policies. There have been no significant judgements, estimates or assumptions for the current or preceding year, except for the allocation of management fee and finance costs (see note 2(h)).

(b) Foreign Currency

(i) *Functional and Presentation Currency*
The financial statements are presented in sterling, which is the Company's functional and presentation currency and the currency in which the Company's stated capital and expenses are denominated, as well as certain of its income, assets and liabilities.

(ii) *Transactions and Balances*
Transactions in foreign currency, whether of a revenue or capital nature, are translated to sterling at the rate of exchange ruling on the date of such transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. All profits and losses, whether realised or unrealised, are recognised in the statement of comprehensive income and are taken to capital reserve or revenue reserve, depending on whether the gain or loss is capital or revenue in nature.

(c) Financial Instruments

(i) *Recognition of Financial Assets and Financial Liabilities*
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. These are offset if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

(ii) *Derecognition of Financial Assets*
Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

(iii) *Derecognition of Financial Liabilities*
Financial liabilities are derecognised when the Company's obligations are discharged, cancelled or expired.

(iv) *Trade Date Accounting*
Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) *Classification of Financial Assets and Financial Liabilities*

Financial Assets
Investments are classified as held at fair value through profit or loss as the investments are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy and this is also the basis on which information about investments is provided internally to the Board.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is taken to be their cost, with transaction costs expensed in the statement of comprehensive income, and are subsequently valued at fair value.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling.

2. Principal Accounting Policies (continued)

(c) Financial Instruments (continued)

(v) *Classification of Financial Assets and Financial Liabilities (continued)*

Financial Liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

(d) Derivatives and Hedging

Derivative instruments are valued at fair value in the balance sheet. Hedge accounting has not been adopted.

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date and any profits and losses are recognised in the statement of comprehensive income and taken to capital.

(e) Cash and Cash Equivalents

Cash and cash equivalents may comprise cash (including short term deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value) as well as cash equivalents, including money market funds.

(f) Securities Sold Under Agreements to Repurchase ('repo financing')

The Company participates in repo financing arrangements in connection with its investment portfolio. Under these arrangements, the Company sells fixed interest securities but is contractually obliged to repurchase them at a fixed price on a fixed date. Securities which are the subject of repo financing arrangements are included in investments in the balance sheet at their fair value and the associated liability is recognised at amortised cost, being the capital amounts owing under the repo financing arrangements. The difference between sale and repurchase prices for such transactions is reflected in the statement of comprehensive income over the lives of the transactions, within finance costs which is allocated 35% to capital and 65% to revenue. This accounting has been adopted because the repurchase price results in a lender's return for the transferee as the Company has retained substantially all the risks and rewards of ownership of the asset.

(g) Income Recognition

All income is recognised in the statement of comprehensive income. Interest income arising from fixed income securities is recognised using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Deposit interest is taken into account on an accruals basis.

Special dividends are considered individually to ascertain the reason behind the payment. This will determine whether they are treated as income or capital in the income statement.

(h) Expenses and Finance Costs

All expenses are accounted for on an accruals basis and are recognised in the statement of comprehensive income. Investment management fees and finance costs are allocated 35% to capital and 65% to revenue in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio. Except for custodian dealing costs, all other expenses are charged through revenue. Since the year end and with effect from 1 January 2021, the investment management fees and finance costs will be allocated 50% to capital and 50% to revenue, based on the Board's expected long-term split of returns from the investment portfolio.

(i) Taxation

Overseas interest and dividends are shown gross of withholding tax and the corresponding irrecoverable tax is shown as a charge in the statement of comprehensive income.

3. Segmental Reporting

No segmental reporting is provided as the Directors are of the opinion that the Company is engaged in a single segment of business of investing in debt and, to a significantly lesser extent, equity securities.

4. Income

This note shows the income generated from the portfolio (investment assets) of the Company and income received from any other source.

	2020 £'000	2019 £'000
Income from investments		
UK investment income – interest	4,356	5,002
UK dividends	318	448
Overseas investment income – interest	7,160	5,631
Overseas dividends	87	82
Overseas special dividends	—	19
	11,921	11,182
Other income		
Deposit interest	1	18
Total income	11,922	11,200

5. Investment Management Fee

This note shows the fees paid to the Manager, which are calculated quarterly on the basis of the value of the assets being managed.

	2020 REVENUE £'000	2020 CAPITAL £'000	2020 TOTAL £'000	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000
Investment management fee	897	483	1,380	907	489	1,396

Details of the investment management agreement are given on page 16 in the Strategic Report.

At 31 December 2020, £371,000 (2019: £360,000) was accrued in respect of the investment management fee.

6. Other Expenses

The other expenses of the Company are presented below; those paid to the Directors and the auditor are separately identified.

	2020 REVENUE £'000	2020 CAPITAL £'000	2020 TOTAL £'000	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000
Directors' fees (i)	141	—	141	137	—	137
Auditor's fees (ii):						
– for audit of the Company's annual financial statements	36	—	36	30	—	30
– additional fees in respect of Covid-19 audit procedures in prior year	3	—	3	—	—	—
Other expenses (iii)	412	3	415	304	3	307
	592	3	595	471	3	474

(i) The maximum Directors' fees authorised by the Articles of Association are £150,000 per annum. The Report on Directors' Remuneration and Interests on page 37, provides further information on Directors' fees.

(ii) Auditor's fees include out of pocket expenses.

(iii) Other expenses include:

- custodian transaction charges of £3,400 (2019: £3,000). These are charged to capital.
- amounts due to JTC Fund Solutions (Jersey) Limited (previously: R&H Fund Services (Jersey) Limited) who acted as Administrator and Company Secretary to the Company under an agreement starting from 10 December 2019. The fee is calculated at the rate of £70,000 per annum for company secretarial and administration services.
- an administration fee due to the Manager of £28,000 (2019: £27,000). It is based on an initial fee of £22,500 plus RPI increases in May of each year.
- £109,000 (2019: £nil) premium payable on Credit Default Swaps held during the year.

7. Finance Costs

Finance costs arise on any borrowing facilities the Company has and comprise commitment fees on any unused facility as well as interest when the facility is used.

	2020 REVENUE £'000	2020 CAPITAL £'000	2020 TOTAL £'000	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000
Interest (receivable)/due under repo financing	(13)	(6)	(19)	—	—	—
Commitment fees due on loan facility	—	—	—	9	5	14
Overdraft interest	6	3	9	4	2	6
	(7)	(3)	(10)	13	7	20

The Company has repo financing arrangements in place which were used during the year in place of the revolving credit facility that lapsed in May 2019. For repos that are denominated in currencies where the interest rate is negative, the interest is receivable and has been netted against repo interest payable within finance costs, as they relate to borrowing costs.

Previously the Company had a 364 day committed £20 million multi-currency revolving credit facility with Bank of New York Mellon which lapsed on 4 May 2019 and was not renewed. No amounts had been drawn down under the facility during the previous year.

8. Taxation

As a Jersey investment company no tax is payable on capital gains and, as the Company principally invests in assets which do not result in a revenue tax, the only overseas tax arises on assets domiciled in countries with which Jersey has no double-taxation treaty.

	2020 £'000	2019 £'000
Overseas taxation	15	13

The Company is subject to Jersey income tax at the rate of 0% (2019: 0%). The overseas tax charge consists of irrecoverable withholding tax suffered.

9. Return per Ordinary Share

Return per ordinary share is the amount of gain generated for the financial year divided by the weighted average number of ordinary shares in issue.

The basic revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation and on 101,553,976 (2019: 98,065,591) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

10. Dividends on Ordinary Shares

Dividends are usually paid from the income less expenses. Dividends are paid as an amount per ordinary share held.

	2020 PENCE	2020 £'000	2019 PENCE	2019 £'000
Dividends paid and recognised in the year:				
Fourth interim	2.50	2,513	2.50	2,427
First interim	2.50	2,541	2.50	2,441
Second interim	2.50	2,544	2.50	2,447
Third interim	2.50	2,544	2.50	2,469
	10.00	10,142	10.00	9,784

Dividends paid in the year have been charged to revenue except for £50,000 (2019: £32,000) which was charged to stated capital. This amount is equivalent to the income accrued on the new shares issued in the year (see note 16).

Set out below are the dividends that have been declared in respect of the financial years ended 31 December:

	2020 PENCE	2020 £'000	2019 PENCE	2019 £'000
Dividends payable in respect of the year:				
First interim	2.50	2,541	2.50	2,441
Second interim	2.50	2,544	2.50	2,447
Third interim	2.50	2,544	2.50	2,469
Fourth interim	2.50	2,544	2.50	2,513
	10.00	10,173	10.00	9,870

The fourth interim dividend for 2020 was paid on 25 February 2021 to shareholders on the register on 22 January 2021.

11. Investments Held at Fair Value Through Profit and Loss

The portfolio is principally made up of investments which are listed and traded on regulated stock exchanges. Profits and losses are either:

- **realised, usually arising when investments are sold; or**
- **unrealised, being the difference from cost of those investments still held at the year end.**

(a) Analysis of investment profits in the year

	2020 £'000	2019 £'000
Opening book cost	171,675	166,354
Opening investment holding profits	8,053	1,834
Opening valuation	179,728	168,188
Movements in year:		
Purchases at cost	93,096	58,645
Sales – proceeds	(72,197)	(57,191)
Profit on investments in the year	1,602	10,086
Closing valuation	202,229	179,728
Closing book cost	190,180	171,675
Closing investment holding profit in the year	12,049	8,053
Closing valuation	202,229	179,728

The Company received £72,197,000 (2019: £57,191,000) from investments sold in the year. The book cost of these investments when they were purchased was £74,591,000 (2019: £53,324,000) realising a loss of £2,394,000 (2019: profit £3,867,000). These investments have been revalued over time and until they were sold any unrealised profits/losses were included in the fair value of the investments.

(b) Transaction costs

The transaction costs included in gains on investments amount to £nil (2019: £nil) on purchases and £nil (2019: £nil) for sales.

(c) Registration of investments

The investments of the Company are registered in the name of the Company or in the name of nominees and held to the order of the Company.

(d) Securities sold under agreements to repurchase

Included in the valuation above, are securities under agreements to repurchase which had a market value of £17,817,000 (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS
continued

12. Other Receivables

Other receivables are amounts which are due to the Company, such as income which has been earned (accrued) but not yet received and monies due from brokers for investments sold.

	2020 £'000	2019 £'000
Proceeds due from issue of new shares	—	195
Prepayments and accrued income	3,334	3,090
	3,334	3,285

13. Derivative Financial Instruments

Derivative financial instruments are financial instruments that derive their value from the performance of another item, such as an asset or exchange rates. They are used to manage the risk associated with fluctuations in the value of certain assets and liabilities. The Company can use derivatives to manage its exposure to fluctuations in foreign exchange rates.

Derivative financial instruments comprise forward currency contracts.

	2020 £'000	2019 £'000
Forward currency contracts – net unrealised profit	3,175	1,309
	3,175	1,309

14. Other Payables

Other payables are amounts which must be paid by the Company, and include amounts owed to suppliers, such as the Manager and auditor, and any amounts due to brokers for the purchase of investments.

	2020 £'000	2019 £'000
Accruals	463	457
	463	457

15. Securities sold under agreements to repurchase

	2020 £'000	2019 £'000
Securities sold under agreements to repurchase	13,540	—

During the year, the Company entered into repo financing arrangements whereby securities are sold under agreements to repurchase. Further details are shown in note 2(f) and note 19.3.

16. Stated Capital

The stated capital represents the total number of shares in issue. Stated capital can be used for distributions under Jersey law.

	2020 NUMBER	2019 NUMBER	2020 £'000	2019 £'000
Allotted ordinary shares of no par value				
Brought forward	100,041,204	97,091,204	164,013	158,428
Net issued number of shares/proceeds	1,700,000	2,950,000	3,271	5,617
Dividends paid from stated capital	—	—	(50)	(32)
	101,741,204	100,041,204	167,234	164,013

Details of the stated capital and rights attaching to the Company's ordinary shares are shown in the Directors' Report on page 65.

For the year to 31 December 2020 1,700,000 (2019: 2,950,000) new ordinary shares were issued to the Company's corporate broker, Winterflood Securities Limited, for onward transmission to their clients. These shares were issued in tranches of various quantities throughout the year to satisfy secondary market demand. The gross issue proceeds were £3,313,000 (2019: £5,661,000), at an average price of 194.91p (2019: 191.90p), and the net proceeds after issue costs were £3,271,000 (2019: £5,617,000). The net proceeds included an aggregate amount of £50,000 (2019: £32,000) which arose from the income accrued component of the net asset value at the date of issue of the new shares.

Subsequent to the year end no ordinary shares were issued.

Because the criteria in paragraphs 16C and 16D of *IAS 32 Financial Instruments: Presentation*, have been met, the stated capital of the Company is classified as equity even though there is an annual continuation vote.

17. Reserves

This note explains the different reserves attributable to shareholders. The aggregate of the reserves and stated capital (see previous note) make up total shareholders' funds.

The capital reserve includes unrealised investment holding profits and losses, being the difference between cost and market value at the balance sheet date, as well as realised profits and losses of disposals of investments. In addition, costs allocated to capital are recognised in the capital reserve. The revenue reserve shows the net revenue after payment of any dividend from the reserve. Both the capital and revenue reserves are distributable.

18. Net Asset Value per Ordinary Share

The Company's total net assets (total assets less total liabilities) are often termed shareholders' funds and are converted into net asset value per ordinary share by dividing by the number of shares in issue.

The net asset value per share and the net asset values attributable at the year end were as follows:

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2020 PENCE	2019 PENCE	2020 £'000	2019 £'000
Ordinary shares	194.29	192.11	197,675	192,186

Net asset value per ordinary share is based on net assets at the year end and on 101,741,204 (2019: 100,041,204) ordinary shares, being the number of ordinary shares in issue (excluding treasury) at the year end.

19. Financial Instruments

Financial instruments comprise the Company's investment portfolio and derivative financial instruments (for the latter see note 13) as well as any cash, borrowings (i.e. securities sold under agreements to repurchase otherwise known as 'repo financing'), other receivables and other payables. The following note explains the risks that affect the Company's financial instruments and looks at the Company's exposure to these various risks.

Risk Management Policies and Procedures

The Strategic Report details the Company's approach to investment management risks on pages 13 and 14 and the accounting policies in note 2 explain the Company's valuation basis for investments and currency.

As an investment company, the Company invests in loan stocks, corporate bonds, government stocks, preference shares and equities which are held for the long-term in order to achieve the Company's Investment Objective in accordance with its Investment Policy. In pursuing these, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for payment as dividends.

The Company's principal financial instruments at risk comprise its investment portfolio. Other financial instruments at risk include cash and cash equivalents, borrowings (including repo financing), other receivables and other payables that arise directly from the Company's operations.

19. Financial Instruments (continued)

The Company may enter into derivative transactions, including credit default swaps, for efficient portfolio management. Derivative instruments can be highly volatile and expose investors to a high risk of loss. Where used to hedge risk there is a risk that the return on a derivative does not exactly correlate to the returns on the underlying investment, obligation or market sector being hedged against. If there is an imperfect correlation, the Company may be exposed to greater loss than if the derivative had not been entered into. During the year the only derivatives entered into were forward currency contracts and credit default swaps. As at the year end, no credit default swaps were held.

These risks and the Directors' approach to managing them are set out below, and have not changed from those applying in the comparative year.

Risk management is an integral part of the investment management process. The Manager controls risk by ensuring that the Company's portfolio is appropriately diversified and the portfolio managers actively monitor both the ratings and liquidity of the fixed-interest securities taking into account the Company's financing requirements. In-depth and continual analysis of market and security fundamentals give the portfolio managers the best possible understanding of the risks associated with a particular security. The portfolio managers assess the exposure to market risk when making each investment decision, and monitor the overall level of market risk on the whole of the portfolio on an ongoing basis.

High-yield fixed-interest securities are subject to a variety of risks, including credit risk (note 19.3).

The day to day management of the investment activities, borrowings and hedging of the Company has been delegated to the Manager, and is the responsibility of the portfolio managers to whom the Board has given discretion to operate within set guidelines. Any proposed variation outside those guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting.

19.1 Market Risk

Market risk arises from changes in the fair value or future cash flows of a financial instrument. Market risk comprises three types of risk: currency risk (note 19.1.1), interest rate risk (note 19.1.2) and other price risk (note 19.1.3).

19.1.1 Currency Risk

The Company has assets, liabilities and income which are denominated in currencies other than sterling and movements in exchange rates will affect the sterling value of those items.

Management of the Currency Risk

The Board meets at least quarterly to assess risk and review investment performance. The portfolio managers monitor the Company's exposure to foreign currencies on a daily basis and is reviewed by Directors at each Board meeting. The Company may use forward currency contracts to mitigate currency risk. Repo financing is matched to the currency of the underlying assets, which minimises currency risk on the movement of exchange rates affecting the underlying investments. Non-sterling investments that are not pledged under repo financing can be hedged using forward currency contracts. All borrowings and derivative contracts are limited to currencies and amounts commensurate with asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Currency Exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 December follow. Where the Company's investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis to show the overall level of exposure.

31 DECEMBER 2020	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	58,329	75,970
Forward currency contracts	(39,672)	(75,940)
Other receivables (due from brokers and dividends)	1,209	1,110
Cash and cash equivalents	689	449
Securities sold under agreement to repurchase	(12,121)	—
Foreign currency exposure on net monetary items	8,434	1,589
Investments at fair value through profit or loss that are equities	1,039	—
Total net foreign currency	9,473	1,589

31 DECEMBER 2019	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	27,385	66,193
Forward currency contracts	(24,643)	(57,497)
Other receivables (due from brokers and dividends)	442	1,008
Cash and cash equivalents	575	422
Foreign currency exposure on net monetary items	3,759	10,126
Investments at fair value through profit or loss that are equities	1,471	—
Total net foreign currency	5,230	10,126

The above may not be representative of the exposure to risk during the year reported because the levels of monetary foreign currency exposure may change significantly throughout the year.

Currency Sensitivity

The effect on the Statement of Comprehensive Income and the net asset value that changes in exchange rates have on the Company's financial assets and liabilities is based on the following currencies. These changes have been calculated by reference to the volatility of exchange rates during the period using the standard deviation of currency fluctuations against the mean.

	2020	2019
£/Euro	±2.7%	±2.3%
£/US Dollar	±3.1%	±2.6%

The following sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at the balance sheet date, taking account of any forward foreign exchange contracts that offset the effects of changes in currency exchange rates, and the income receivable in foreign currency in the year.

If sterling had strengthened by the changes in exchange rates shown above, this would have had the following effect:

19. Financial Instruments (continued)

19.1 Market Risk (continued)

19.1.1 Currency Risk (continued)

2020	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit after taxation		
Revenue loss	(77)	(144)
Capital loss	(223)	(15)
Total return after taxation for the year	(300)	(159)
Effect on net asset value	–0.2%	–0.1%

2019	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue loss	(35)	(108)
Capital loss	(110)	(237)
Total return after taxation for the year	(145)	(345)
Effect on net asset value	–0.1%	–0.2%

If sterling had weakened by the same amounts, the effect would have been the converse.

In the opinion of the Directors, the above sensitivity analysis is not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process of the Company.

19.1.2 Interest Rate Risk

The Company is exposed to interest rate risk in a number of ways. Movements in interest rates may affect the fair value of fixed-interest rate securities, income receivable on cash deposits and floating rate securities, and interest payable on variable rate borrowings, including repo financing. Interest rate risk is related above all to long-term financial instruments.

Management of Interest Rate Risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account as part of the portfolio management and borrowings processes of the Manager. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed-interest and floating rate securities.

When the Company has cash balances, they are held in variable rate bank accounts yielding rates of interest dependant on the base rate of the Custodian, the Bank of New York Mellon (International) Limited. Holdings in Invesco Liquidity Funds plc – Sterling are subject to interest rate changes.

The Company has available repo financing arrangements it can use to finance investment activity, details of which are shown in note 7. The Company uses these at levels approved and monitored by the Board.

Interest Rate Exposure

The following table shows the Company's exposure to interest rate risk at the balance sheet date arising from its monetary financial assets and liabilities.

2020	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments held at fair value through profit or loss	444	57,484	57,928
Cash and cash equivalents*	2,940	—	2,940
	3,384	57,484	60,868
Exposure to fixed interest rates:			
Investments held at fair value through profit or loss	499	139,424	139,923
Securities sold under agreements to repurchase	(13,540)	—	(13,540)
	(13,041)	139,424	126,383
Net exposure to interest rates	(9,657)	196,908	187,251

2019	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments held at fair value through profit or loss	7,715	32,016	39,731
Cash and cash equivalents*	8,321	—	8,321
	16,036	32,016	48,052
Exposure to fixed interest rates:			
Investments held at fair value through profit or loss	5,103	127,701	132,804
Net exposure to interest rates	21,139	159,717	180,856

* Includes £1,620,000 (2019: £6,857,000) held in Invesco Liquidity Funds plc - Sterling (formerly Short-Term Investment Company (Global Series) plc).

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio list on pages 22 to 26. The weighted average effective interest rate on these investments is 6.3% (2019: 6.5%). The weighted average effective interest rate on cash and cash equivalents is 0.22% (2019: 0.75%).

Interest Rate Sensitivity

The following table illustrates the sensitivity of the profit or loss after taxation for the year to a 1% increase in interest rates in regard to the Company's financial assets and financial liabilities. As future changes cannot be estimated with any degree of certainty, the sensitivity analysis is based on the Company's financial instruments held at the balance sheet date, with all other variables held constant.

	2020 £'000	2019 £'000
Effect on Statement of Comprehensive Income – profit after taxation		
Revenue profit	29	83
Capital loss	(7,696)	(6,056)
Total loss after taxation for the year	(7,667)	(5,973)
Effect on NAV per ordinary share	(4.6)p	(6.0)p

If interest rates had decreased by 1%, this would have had an equal and opposite effect.

The above exposure and sensitivity analysis are not representative of the year as a whole, since the level of exposure changes frequently as borrowings, which are predominantly from repo financing arrangements, can vary throughout the year.

19. Financial Instruments (continued)

19.1 Market Risk (continued)

19.1.3 Other Price Risk

Other price risk includes changes in market prices, other than those arising from currency risk or interest rate risk, which may affect the value of the investment portfolio, whether by factors specific to an individual investment or its issuer, or by factors affecting the wider market.

Management of Other Price Risk

It is the portfolio managers' responsibility to manage the portfolio and borrowings in accordance with the investment objective and policy, and in accordance with the investment policy guidelines set by the Board. The Board manages the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis compliance with these. The Board also reviews investment performance. Because the Company's portfolio is the result of the portfolio managers' investment process, performance may not closely correlate with the markets in which the Company invests.

The Company's exposure to other changes in market prices at 31 December on its investments is shown in the fair value hierarchy table on page 63.

Concentration of Exposure to Other Price Risks

The Company's investment portfolio is not concentrated in any single country of domicile, however, it is recognised that an investment's country of domicile or listing does not necessarily equate to its exposure to the economic conditions in that country.

Other Price Risk Sensitivity

Excluding fixed interest securities and convertibles, at the year end the Company held other investments of £4,378,000 (2019: £7,193,000). The effect of a 10% increase or decrease in the fair values of these investments (including any exposure through derivatives) on the profit after taxation for the year is £438,000 (2019: 30% increase or decrease: £2,158,000). This level of change is considered to be reasonably possible based on the observation of market conditions during the financial year, taking account of the subsequent recovery of markets in the aftermath of Covid-19, since March 2020. As for 2019, this sensitivity level was higher to reflect the extreme market volatility that was experienced subsequent to the year end in March 2020. The sensitivity analysis is based on the Company's equities and equity exposure through derivatives at the balance sheet date with all other variables held constant.

19.2 Liquidity Risk

This is the risk that the Company may encounter difficulty in meeting its obligations associated with financial liabilities i.e. when realising assets or raising/replacing repo financing to meet financial commitments. A lack of liquidity in the portfolio may make it difficult for the Company to realise assets at or near their purported value in the event of a forced sale.

Management of Liquidity Risk

Liquidity risk is not viewed by the Directors as a significant risk because a majority of the Company's assets comprise readily realisable securities, although a lack of liquidity in non-investment grade securities may make it difficult to rebalance the Company's investment portfolio as and when the portfolio managers believe it would be advantageous to do so. On a daily basis the portfolio managers ascertain the Company's cash and borrowing requirements by reviewing future cash flows arising from purchases and sales of investments, interest and dividend receipts, expenses and dividend payments, and available financing (including repo financing).

Liquidity Risk Exposure

The contractual maturities of the financial liabilities at 31 December, based on the earliest date on which payment can be required, was as follows:

	2020			2019		
	LESS THAN THREE MONTHS £'000	MORE THAN ONE YEAR £'000	TOTAL £'000	LESS THAN THREE MONTHS £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Other payables (note 14)	463	—	463	457	—	457
Securities sold under agreements to repurchase (note 15)	13,540	—	13,540	—	—	—
	14,003	—	14,003	457	—	457

19.3 Credit Risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligation under that transaction could result in a loss to the Company. The Company's principal credit risk is the risk of default on the non-investment grade debt. The Company's other main credit risk arises from the repo financing arrangements whereby, if a counterparty failed to sell the required assets to the Company on the repurchase date, the Company would be left with the claim against the defaulting counterparty for the stock and, if applicable, any margin held by the counterparty and not returned.

At the year end 74.6% (2019: 74.8%) of the Company's portfolio consisted of non-investment grade securities. To the extent that the Company invests in non-investment grade securities, the Company may realise a higher current yield than the yield offered by investment grade securities. On the other hand, investments in such securities involve a greater volatility of price and a greater risk of default by the issuers of such securities, with consequent loss of interest payments and principal. Non-investment grade securities are likely to be subject to greater uncertainties from exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations.

Investment grade and non-investment grade securities totalled 93.4% (2019: 88.8%) of the portfolio at the year end. Adverse changes in the financial position of an issuer of such high-yield fixed-interest securities or in general economic conditions may impair the ability of the issuer to make payments of principal and/or interest or may cause the liquidation or insolvency of an issuer.

The portfolio may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The appointment of a depositary has substantially lessened this risk. The Board reviews the custodian's annual control report and the Manager's management of the relationship with the custodian.

Management of and Exposure to Credit Risk

Almost all of the Company's assets are subject to credit risk. Where the portfolio managers make an investment in a bond, corporate or otherwise, the credit rating of the issuer is also considered when assessing the risk of defaults. Investments in bonds are across a variety of industrial sectors and geographical markets to avoid concentration of credit risk. Counterparties for derivative transactions are also a source of credit risk. Transactions involving derivatives are entered into only with banks whose credit ratings are taken into account to minimise default risk. The credit ratings of the derivatives counterparties range from Aa3 through to Baa1. In addition, the Company may, and did to a minor extent, use credit default swaps (CDSs) to offset the credit risk of the portfolio (2019: none). At the year end, no credit default swaps were held by the Company.

Details of the Company's investments, including their credit ratings, are shown on pages 22 to 26. Credit risk for transactions involving derivatives and equity investments is minimised as the Company only uses approved counterparties.

19. Financial Instruments (continued)

19.3 Credit Risk (continued)

The Company manages the credit risk inherent in repo financing by only dealing with good quality counterparties whose credit-standing is reviewed periodically by the Manager. There is a maximum limit allowed with any one counterparty, and the repo entered into must have a maturity tenor of three months or less. The Company has exposure to credit risk on securities pledged under repo financing held, with three counterparties, as follows (2019: no exposure):

				2020	
COUNTERPARTY	RATING	LOCATION	AMOUNTS BORROWED UNDER REPO FINANCING £'000	MARKET VALUE OF SECURITIES PLEDGES UNDER REPO FINANCING £'000	NET CREDIT EXPOSURE TO COUNTER-PARTY £'000
Barclays	Baa2/BBB+	UK	476	586	110
CitiBank	A3/BBB+	UK	4,120	5,250	1,130
Credit Suisse	Baa1/BBB+	UK	8,944	11,981	3,037
			13,540	17,817	4,277
Net credit exposure as % of net assets					2.2%

There were no amounts borrowed under Repo financing as at 31 December 2019.

Cash balances are held with approved deposit takers only and are limited to a maximum of 4% of the Company's net asset value with any one deposit taker. Balances held with Invesco Liquidity Funds plc, a triple-A rated money market fund, are limited to a maximum of 10% of the Company's net asset value. At the balance sheet date the Company had £1.32 million (2019: £1.46 million) held at the custodian and £1.62 million held in Invesco Liquidity Funds plc – Sterling (2019: £6.86 million held in Short-Term Investment Company (Global Series) plc).

There are no financial assets that are past due or impaired during the year (2019: none).

Fair Values of Financial Assets and Financial Liabilities

Financial assets are either carried in the balance sheet at their fair value (investments and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals and cash).

Financial liabilities are carried at amortised cost except for derivatives, which as stated above are carried at fair value.

20. Classification Under Fair Value Hierarchy

The valuation techniques used by the Company are explained in the accounting policies note 2(c). The table that follows sets out the fair value of the financial instruments. The three levels set out in IFRS 7 hierarchy follow:

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

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

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

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

There were no transfers in the year between any of the levels.

Normally investments would be valued using stock market active prices, with investments disclosed as Level 1 and this is the case for the quoted equity investments that the Company holds. However, the majority of the Company's investments are non-equity investment. Evaluated prices from a third party pricing vendor are used to price these securities, together with a price comparison made to secondary and tertiary evaluated third party sources. Evaluated prices are in turn based on a variety of sources including broker quotes and benchmarks. As a result, the Company's non-equity investments have been shown as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale. No Level 3 investments were held during the year or the previous year.

2020	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted Investments:			
– Fixed interest securities[1]	—	195,835	195,835
– Convertibles	—	2,016	2,016
– Preference	3,339	—	3,339
– Equities	1,039	—	1,039
Derivative financial instruments:			
– Forward currency contracts	—	3,175	3,175
Total for financial assets	4,378	201,026	205,404

2019	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted securities:			
– Fixed interest securities[1]	—	170,088	170,088
– Convertibles	—	2,447	2,447
– Preference	3,264	—	3,264
– Convertible preference	2,458	—	2,458
– Equities	1,471	—	1,471
Derivative financial instruments:			
Forward currency contracts	—	1,309	1,309
Total for financial assets	7,193	173,844	181,037

(1) Fixed interest securities include both fixed and floating rate securities.

21. Capital Management

The Company's capital, or equity, is represented by its net assets which are managed to achieve the Company's investment objective set out on page 8.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 13 to 15. These also explain that the Company is able to gear its portfolio by borrowing in the form of repo financing and that gearing will amplify the effect on equity of changes in the value of the portfolio.

The Board can also manage the capital structure directly since it has taken the powers, which it is seeking to renew, to issue and buy-back shares and it also determines dividend payments.

The Board regularly monitors the level of borrowing used by the Company and has imposed limits within which borrowings should be managed.

Total equity at the balance sheet date, the composition of which is shown on the balance sheet on page 46, was £197,675,000 (2019: £192,186,000).

22. Contingencies, Guarantees and Financial Commitments

Liabilities the Company is committed to honour but which are dependent on a future circumstance or event occurring would be disclosed in this note if any existed.

There were no contingencies, guarantees or other financial commitments of the Company as at 31 December 2020 (2019: nil).

23. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or who has significant influence over the Company.

Under International Financial Reporting Standards as adopted by the EU, the Company has identified the Directors as related parties and Directors fees paid have been disclosed in the Report on Directors' Remuneration and Interests on pages 36 and 37 with additional disclosure in note 6. Full details of Directors' interests are set out in the Report on Directors' Remuneration and Interests on page 37. No other related parties have been identified.

Invesco Fund Managers Limited and Invesco Asset Management Limited, both of which are wholly owned subsidiaries of Invesco Limited, provided investment management and administration services to the Company. Details of the services and fees are disclosed in the Strategic Report and management fees payable are shown in note 5.

24. Post Balance Sheet Events

Any significant events that occurred after the end of the reporting period but before the signing of the balance sheet will be shown here.

The Board of the Company announced on 1 March 2021 that it has signed Heads of Terms with the Board of Invesco Enhanced Income Limited ("IPE") in respect of a proposed merger with IPE to be effected by way of a shareholder approved contractual scheme of reconstruction by IPE and a transfer of assets to the Company. There are no other significant events after the end of the reporting period requiring disclosure.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

Business and Status

The Company is a closed-end public investment company limited by shares incorporated in Jersey, Channel Islands on 19 December 2011, registered under the Companies (Jersey) Law 1991 (registered number 109714) and established as a listed fund. It commenced trading on 2 April 2012 following the scheme of reconstruction and voluntary winding up of City Merchants High Yield Trust plc on 30 March 2012, as detailed in the prospectus dated 23 February 2012. The Company is a collective investment fund under the Collective Investment Funds (Jersey) Law 1988 and is registered as an International Services Entity under the Goods and Services Tax (Jersey) Law 2007.

Corporate Governance

The Corporate Governance Statement set out on pages 29 to 33 is included in this Directors' Report by reference.

Directors' Remuneration and Interests

Details of the Directors' remuneration and interests in the Company are set out on pages 36 and 37 and are included in this Directors' Report by reference.

Greenhouse Gas Emissions

The Company has no employees or property, it does not combust any fuel or operate any facility. The Company does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes. All services are outsourced on a fee basis that is independent of any energy expended on its behalf and it is not practical for the Company to attempt to quantify emissions in respect of such proxy energy use.

Stated Capital and Rights Attaching to the Company's Ordinary Shares

At 31 December 2020, the Company's stated capital consisted of 101,741,204 ordinary shares of no par value, allotted and fully paid.

At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The notice of general meeting will specify deadlines for exercising voting rights either by proxy or in person in relation to resolutions to be passed at the meeting.

The Directors may restrict voting powers where shareholders fail to provide information with respect to interests in voting rights when so requested, may refuse to register any transfer of a share in favour of more than four persons jointly and can require certain US holders of shares to transfer their shares compulsorily.

Save for the foregoing, 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; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Disclosures Required by Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain applicable information in a single identifiable section of the annual financial report. For this year, only one item of this information applies – disclosure around the issue of shares – and this is covered by note 16 on pages 54 and 55 (stated capital).

Relations with Shareholders

The Board endeavours to provide shareholders with a full understanding of the Company's activities and reports formally to shareholders each year by way of the half-yearly and annual financial reports. This is supplemented by the daily publication of the net asset value of the Company's ordinary shares and monthly fact sheets. Shareholders can also visit the Company's section of the Manager's investment trust website, *www.invesco.co.uk/citymerchants* to access copies of half-yearly and annual financial reports, shareholder circulars, factsheets and Stock Exchange Announcements.

There is a regular dialogue between the Board, the Manager and institutional shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help to develop an understanding of their issues and concerns. Meetings between the Manager and institutional shareholders are reported to the Board, which monitors and reviews shareholder communications on a regular basis. During the year the Directors also met with a number of institutional investors.

ISA

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

Business of the Annual General Meeting (AGM)

The following summarises the business of the forthcoming AGM of the Company, which is to be held at the offices of JTC Fund Solutions (Jersey) Limited, 28 The Esplanade, St Helier, Jersey JE4 2QP on 22 June 2021 at 9.30am. The Notice of the AGM and related notes can be found on pages 72 to 74. The Board is mindful of the current travel and meeting restrictions in place in response to the Covid-19 pandemic and shareholders are therefore encouraged to submit their votes by proxy. Attendees will only be permitted to the meeting in line with current regulations at the date of the meeting. You are strongly encouraged to lodge your vote either electronically via the registrar's online portal or using the Form(s) of Proxy to appoint the Chairman of the General Meeting as your proxy to vote on your behalf.

The Board is cognisant of the fact that many shareholders like this opportunity to hear from the Portfolio Managers and the Board and therefore invite you to attend a webinar with us on 16 June 2021 at 11am. A presentation will be made by Rhys Davies followed by a question and answer session. Shareholders can submit questions during the webinar or in advance by writing to the Company Secretary at the address given on page 76. Details on how to register for the event are available via the Company's website www.invesco.co.uk/citymerchants.

Resolution 1 is for members to receive this annual financial report, including the financial statements and Auditor's Report.

Resolution 2 is for members to approve the Report on Directors' Remuneration and Interests. This is an advisory vote.

Resolution 3 is for members to approve the Company's dividend payment policy which is set out on page 10. This is also an advisory vote.

Resolution 4 is to re-appoint PricewaterhouseCoopers CI LLP as the Company's auditor

Resolution 5 is to authorise the Audit Committee to determine the auditor's remuneration.

Resolution 6 is to re-elect Tim Scholefield a Director of the Company.

Resolution 7 is to re-elect Heather MacCallum a Director of the Company.

Resolution 8 is to re-elect Stuart McMaster a Director of the Company.

Resolution 9 is to elect Caroline Dutot a Director of the Company.

Resolution 10 is to elect Tom Quigley a Director of the Company.

Resolution 11 is to approve the continuation of the Company. The Company does not have a fixed life, but the Company's Articles of Association require that, unless an ordinary resolution to approve continuation of the Company is passed at or before the AGM each year, the Directors must convene a general meeting, to be held within six months of the AGM, at which a special resolution to wind up the Company would be proposed.

Resolution 12 is to renew the Directors' authority to issue shares, up to 10% of the existing shares in issue at the time of the AGM, without pre-emption. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus broadening the shareholder base of the Company. This authority will not be exercised at a price below NAV so the interests of existing shareholders are not diluted and will expire at the AGM in 2022. There are no provisions of Jersey law which confer rights of pre-emption in respect of the allotment of shares, or require shareholder approval for issues of shares. The Articles, however, contain pre-emption rights in relation to allotments of shares for cash and the Directors expressed an intention in the Company's 2012 prospectus to request that the authority to allot shares for cash on a non-pre-emptive basis is renewed at each AGM.

Resolution 13 is to renew the authority for the Company to purchase up to 14.99% of its own ordinary shares subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2022. These powers, if approved, will allow the Company to buy back shares at a discount to NAV. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

Resolution 14 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days' notice. The EU Shareholder Rights Directive increased the minimum notice period to 21 days unless certain conditions are met. The first condition is that the Company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that the flexibility will be used only where the Board believe it is in the interests of shareholders as a whole.

JTC Fund Solutions (Jersey) Limited
Company Secretary

30 March 2021

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURES

Alternative Investment Fund Manager (‘AIFM’) and the Alternative Investment Fund Managers Directive (the ‘AIFMD’, the Directive)

Invesco Fund Managers Limited (IFML) was authorised as an AIFM, and appointed by the Company as such, with effect from 22 July 2014. IFML is an associated company of Invesco Asset Management Limited (IAML), the previous Manager, and IAML continues to manage the Company’s investments under delegated authority from IFML. In accordance with the Directive, the Company qualifies as an Alternative Investment Fund (AIF).

Amongst other things, the AIFMD requires certain information to be provided to prospective investors. This information can be found in the Company’s section of the Manager’s website (www.invesco.co.uk/citymerchants) in a downloadable document entitled ‘AIFMD Investor Information’. There have been no material changes to this information in the year to 31 December 2020 or up to the date of this report. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the Company’s leverage (both ‘gross’ and ‘commitment’ – see Glossary on page 69) and the remuneration of the Company’s AIFM (IFML) to be made available to investors.

Accordingly:

– the leverage calculated for the Company at the year end was 175% for gross and 114% for commitment (2019: 142% and 98% respectively). The limits the AIFM has set for the Company remain unchanged at 300% and 250%, respectively;
– the AIFM summary remuneration policy is available from the corporate policies section of the Manager’s website (www.invesco.co.uk) and from the Company’s Company Secretary, on request (see contact details on page 76); and
– the AIFM remuneration paid for the year to 31 December 2020 is set out below.

AIFM Remuneration

Remuneration policy

On 18 March 2016, Invesco Fund Managers Limited (the “Manager”) adopted a remuneration policy consistent with the principles outlined in the European Securities and Markets Authority (ESMA) Guidelines, on sound remuneration policies under the AIFM Directive.

The policy was revised in 2020, to include specificities for some Invesco EU regulated Management Companies. The Manager was not impacted by the changes.

The purpose of the remuneration policy is to ensure the remuneration of the staff of the Manager is consistent with and promotes sound and effective risk management, does not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the Manager and of the AIF it manages and does not impair the Manager’s compliance with its duty to act in the best interests of the AIF it manages. The Manager’s summary remuneration policy is available from the corporate policies section of its website (www.invesco.co.uk). Paper copies of the full remuneration policy can be obtained for free from the registered office of the Manager, Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, UK upon request.

The remuneration policy is reviewed annually by the Compliance, Human Resources and Risk Management functions, who recommend any adjustments to ensure continued alignment of the policy with sound risk management. The board of directors of the Manager are responsible for the oversight of remuneration and for ensuring adherence to this policy through the Human Resources function.

The Internal Audit function conducts regular testing of administration of the remuneration policy to assess its ongoing compliance with the Invesco Group’s remuneration policies and procedures.

The Manager does not employ any direct staff. All staff involved in the AIF related activities of the Manager are employed and paid by various entities of the Invesco Ltd. Group.

The aggregate total remuneration of Invesco staff involved in AIF related activities of the Manager in respect of performance year (1 January 2020 to 31 December 2020) is £3.71 million of which £2.29 million is fixed remuneration and £1.42 million is variable remuneration. The number of beneficiaries apportioned to AIFMD activities is 18.

The Manager has identified individuals considered to have a material impact on the risk profile of the Manager or the AIF it manages (“Identified Staff”), who include board members of the Manager, senior management, heads of control functions, other risk takers and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

The aggregate total remuneration paid to the Identified Staff of the Manager for AIF related activities for the performance year (1 January 2020 to 31 December 2020) is £0.74 million of which £0.17 million is paid to Senior Management and £0.57 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates.

Alternative Performance Measure (APM)

An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. The calculations shown in the corresponding tables are for the years ended 31 December 2020 and 2019. The APMs listed here are widely used in reporting within the investment company sector and consequently aid comparability.

(Discount)/Premium (APM)

Discount is a measure of the amount by which the mid-market price of an investment company share is lower than the underlying net asset value (NAV) of that share. Conversely, Premium is a measure of the amount by which the mid-market price of an investment company share is higher than the underlying net asset value of that share. In this annual financial report the (discount)/premium is expressed as a percentage of the net asset value per share and is calculated according to the formula set out below. If the shares are trading at a premium the result of the below calculation will be positive and if they are trading at a discount it will be negative.

	PAGE		2020	2019
Share price	2	a	189.75p	197.00p
Net asset value per share	2	b	194.29p	192.11p
(Discount)/Premium		c = (a - b) / b	(2.3)%	2.5%

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which net assets, or shareholders' funds, would move if the value of a company's investments were to rise or fall. A positive percentage indicates the extent to which net assets are geared; a nil gearing percentage, or 'nil', shows a company is ungeared. A negative percentage indicates that a company is not fully invested and is holding net cash as described below.

There are several methods of calculating gearing and the following has been used in this report:

Gross Gearing (APM)

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of net assets.

	PAGE		2020 £'000	2019 £'000
Securities sold under agreements to repurchase (Repo financing)	46		13,540	—
Gross borrowings		a	13,540	—
Net asset value	46	b	197,675	192,186
Gross gearing		c = a / b	6.8%	nil

Net Gearing or Net Cash (APM)

Net gearing reflects the amount of net borrowings invested, i.e. borrowings less cash and cash equivalents (incl. investments in money market funds). It is based on net borrowings as a percentage of net assets. Net cash reflects the net exposure to cash and cash equivalents, as a percentage of net assets, after any offset against total borrowings.

	PAGE		2020 £'000	2019 £'000
Securities sold under agreements to repurchase (Repo financing)	46		13,540	—
Less: cash and cash equivalents	46		(2,940)	(8,321)
Net borrowings/(net cash)		a	10,600	(8,321)
Net asset value	46	b	197,675	192,186
Net gearing/(net cash)		c = a / b	5.4%	(4.3)%

Leverage

Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing as defined above. In addition to borrowings, it encompasses anything that increases the Company's exposure, including foreign currency and exposure gained through derivatives. Leverage expresses the Company's exposure as a ratio of the Company's net asset value. Accordingly, if a Company's exposure was equal to its net assets it would have leverage of 100%. Two methods of calculating such exposure are set out in the AIFMD, gross and commitment. Under the gross method, exposure represents the aggregate of all the Company's exposures other than cash balances held in base currency and without any offsetting. The commitment method takes into account hedging and other netting arrangements designed to limit risk, offsetting them against the underlying exposure.

Net Asset Value (NAV)

Also described as shareholder's funds the NAV is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The NAV per ordinary share is calculated by dividing the net assets by the number of ordinary shares in issue (see note 18 on page 55). For accounting purposes assets are valued at fair (usually market) value and liabilities are valued at par (their repayment – often nominal – value).

Ongoing Charges Ratio (APM)

The ongoing administrative costs of operating the Company are encapsulated in the ongoing charges ratio, which is calculated in accordance with guidance issued by the AIC. The calculation incorporates charges allocated to capital in the financial statements as well as those allocated to revenue, but excludes non-recurring costs, transaction costs of investments, finance costs, taxation, and the costs of buying back or issuing shares. The ongoing charges ratio is the aggregate of these costs expressed as a percentage of the daily average net asset value reported in the year.

	PAGE		2020 £'000	2019 £'000
Investment management fees	45		1,380	1,396
Other expenses	45		595	474
Less: costs in relation to custody dealing charges, premium on CDS and one off legal costs			(126)	(11)
Total recurring expenses		a	1,849	1,859
Average daily net asset value		b	186,304	183,108
Ongoing charges ratio %		c = a / b	0.99%	1.02%

Return

The return generated in a period from the investments including the increase and decrease in the value of investments over time and the income received.

Total Return

Total return is the theoretical return to shareholders that measures the combined effect of any dividends paid, together with the rise or fall in the share price or NAV. In this annual financial report these return figures have been sourced from Refinitiv who calculate returns on an industry comparative basis.

Net Asset Value Total Return (APM)

Total return on net asset value per share, with debt at market value, assuming dividends paid by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend. Refer to table below for the reconciliation to the NAV on page 2.

Share Price Total Return (APM)

Total return to shareholders, on a mid-market price basis, assuming all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend. Refer to table below for the reconciliation to the share price on page 2.

2020	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 December 2020	2		194.29p	189.75p
As at 31 December 2019	2		192.11p	197.00p
Change in year		a	1.1%	–3.7%
Impact of dividend reinvestments	see (1) below	b	5.8%	5.5%
Total return for the year		c = a + b	6.9%	1.8%

2019	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 December 2019	2		192.11p	197.00p
As at 31 December 2018	2		178.69p	175.00p
Change in year		a	7.5%	12.6%
Impact of dividend reinvestments	see (1) below	b	5.9%	6.1%
Total return for the year		c = a + b	13.4%	18.7%

(1) Total dividends paid during the year of 10.00p (2019: 10.00p) reinvested at the NAV or share price on the ex-dividend date. NAV or share price falls subsequent to the reinvestment date consequently further reduce the returns, vice versa if the NAV or share price rises.

Credit ratings

The definitions for the credit ratings shown in the financial statements are as follows:

Moody's Ratings
Investment Grade

Aaa: judged to be of the highest quality, with minimal credit risk.

Aa1, Aa2, Aa3: judged to be of high quality and are subject to very low credit risk.

A1, A2, A3: considered upper-medium grade and are subject to low credit risk.

Baa1, Baa2, Baa3: subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Speculative Grade (non-investment grade)

Ba1, Ba2, Ba3: judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3: considered speculative and are subject to high credit risk.

Caa1, Caa2, Caa3: judged to be of poor standing and are subject to very high credit risk.

Ca: highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C: lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

WR: withdrawn rating.

P: provisional.

Standard & Poor's Ratings
Investment Grade

AAA: the best quality borrowers, reliable and stable (many of them governments).

AA: quality borrowers, a bit higher risk than AAA.

A: economic situation can affect finance.

BBB: medium class borrowers, which are satisfactory at the moment.

Non-investment Grade

BB: more prone to changes in the economy.

B: financial situation varies noticeably.

CCC: currently vulnerable and dependent on favourable economic conditions to meet commitments.

CC: highly vulnerable, very speculative.

C: highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations.

CI: past due on interest.

R: under regulatory supervision due to the company's financial situation.

SD: has selectively defaulted on some obligations.

D: has defaulted on obligations and S&P believes that the company will generally default on most or all obligations.

NR: not rated.

Equivalent average rating is based on the following methodology of rating (using Moody's, Fitch and Standard & Poor's Ratings where applicable for each holding):

- if one rating available, use that rating;
- if two ratings, use the lower rating;
- if three ratings, use the middle rating;

THIS NOTICE OF ANNUAL GENERAL MEETING IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in City Merchants High Yield Trust Limited, please forward this document and accompanying form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE OF ANNUAL GENERAL MEETING

The Board is mindful of the current travel and meeting restrictions in place in response to the Covid-19 pandemic and shareholders are therefore encouraged to submit their votes by proxy. Attendees will only be permitted to the meeting in line with current regulations at the date of the meeting. You are strongly encouraged to lodge your vote either electronically via the registrar's online portal or using the Form(s) of Proxy to appoint the Chairman of the General Meeting as your proxy to vote on your behalf.

The Board is cognisant of the fact that many shareholders like this opportunity to hear from the Portfolio Managers and the Board and therefore invite you to attend a webinar with us on 16 June 2021 at 11am. A presentation will be made by Rhys Davies followed by a question and answer session. Shareholders can submit questions during the webinar or in advance by writing to the Company Secretary at the address given on page 76. Details on how to register for the event are available via the Company's website www.invesco.co.uk/citymerchants.

NOTICE IS GIVEN that the Annual General Meeting (AGM) of City Merchants High Yield Trust Limited (the Company) will be held at 9.30am on 22 June 2021 at the offices of JTC Fund Solutions (Jersey) Limited, 28 The Esplanade, St Helier, Jersey JE4 2QP for the following purposes:

Ordinary Business

1. To receive the annual financial report for the year ended 31 December 2020.
2. To approve the Report on Directors' Remuneration and Interests.
3. To approve the Company's Dividend Payment Policy to pay four quarterly dividends to shareholders in May, August, November and February in respect of each accounting year.
4. To re-appoint PricewaterhouseCoopers CI LLP as the Company's auditor
5. To authorise the Audit Committee to determine the remuneration of the auditor.
6. To re-elect Mr Tim Scholefield a Director of the Company.
7. To re-elect Ms Heather MacCallum a Director of the Company.
8. To re-elect Mr Stuart McMaster a Director of the Company.
9. To elect Ms Caroline Dutot a Director of the Company.
10. To elect Mr Tom Quigley a Director of the Company.

Special Business

To consider and if thought fit, to pass the following resolutions, of which resolution 11 will be proposed as an ordinary resolution and resolutions 12 to 14 will be proposed as special resolutions:

11. THAT, in accordance with Article 158 of the Company's Articles of Association, the Directors of the Company be and they are hereby released from their obligation pursuant to such Article to convene a general meeting of the Company within six months of the AGM at which a special resolution would be proposed to wind up the Company.
12. THAT, pursuant to Article 14.1 of the Company's Articles of Association, the Directors be and are hereby empowered to issue shares, up to 10% of the existing shares in issue at the time of the AGM, without pre-emption.
13. THAT, pursuant to Article 8.2 of the Company's Articles of Association and Article 57 of the Companies (Jersey) Law 1991 as amended (the Law), the Company be generally and unconditionally authorised:

(a) to make purchases of its issued ordinary shares of no par value (Shares) to be cancelled or held as treasury shares provided that:

(i) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares, this being 15,251,006 on the date of this notice;

(ii) the minimum price which may be paid for a Share is 1p;

(iii) the maximum price which may be paid for a share must not be more than the higher of:

(i) 5 per cent. above the average of the mid-market values of the Shares for the five business days before the purchase is made; and

(ii) the higher of the price of the last independent trade in the shares and the highest then current independent bid for the Shares on the London Stock Exchange;

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

(v) the authority hereby conferred shall expire on the earlier of the conclusion of the next AGM of the Company held after passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier.

14. THAT, the period of notice required for general meetings of the Company (other than AGMs) shall not be less than 14 days.

Dated this 30 March 2021

By order of the Board
JTC Fund Solutions (Jersey) Limited
Company Secretary

Notes:

1. A form of appointment of proxy accompanies this annual financial report.

   A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company.

   In order to be valid an appointment of proxy must be returned, duly executed and completed, by one of the following methods:

   - via Link Group website www.signalshares.com; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Link Group, Unit 10, Central Square, 29 Wellington Street, Leeds, LS1 4DL; or
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below and in each case to be received by the Company not less than 48 hours before the time of the meeting.

   The appointment of a proxy (whether by completion of a form of appointment of proxy or other instrument appointing a proxy or any CREST Proxy Instruction) does not prevent a member from attending and voting at the AGM.

2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for

receipt of proxy appointments specified in this document. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies through CREST should be communicated to the appointee through other means. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages.

Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take or, if the CREST member is a CREST Personal Member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s), such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning the practical limitations of the CREST system and timings.

3. A person entered on the Register of Members at close of business 48 hours before the time of the AGM (a member) is entitled to attend and vote at the AGM pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the AGM. If the AGM is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's Register of Members 48 hours before the time fixed for the adjourned meeting.
4. The schedule of matters for the Board and the terms of reference of the Audit Committee will be available at the AGM for at least 15 minutes prior to and during the AGM.
5. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) and will also be available at the AGM for at least 15 minutes prior to and during the AGM.
6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
7. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if: (a) to do so would interfere unduly with the preparation of the AGM or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.
8. You may not use any electronic address (any address or number used for the purposes of sending or receiving documents or information by electronic means) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
9. As at 30 March 2021 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 101,741,204 ordinary shares of no par value each carrying one vote.
10. A copy of the Notice as well as various other documents relating to the Company can be found at www.invesco.co.uk/citymerchants

SHAREHOLDER INFORMATION

The shares of City Merchants High Yield Trust Limited are quoted on the London Stock Exchange.

Manager's Website

Information relating to the Company can be found on the Manager's website, which can be located at www.invesco.co.uk/citymerchants

The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated in, nor do they form part of this annual financial report.

Net Asset Value (NAV) Publication

The Company's NAV is calculated on a daily basis and notified to the London Stock Exchange on the next business day. Estimated NAVs are published daily in the national newspapers as detailed under Share Price Listings.

Share Price Listings

The price of the Company's shares can be found in the Financial Times, The Daily Telegraph and The Times.

In addition, share price information can be found using the CMHY.L ticker code.

Internet addresses

Invesco	www.invesco.co.uk/citymerchants
The Association of Investment Companies	www.theaic.co.uk

Financial Calendar

The Company publishes information according to the following calendar:

Announcements

Annual financial report	March/April
Half-yearly unaudited financial report	August

Ordinary Share Dividends

Interim dividends payable	May, August November, February

Year End	31 December

Annual General Meeting

The Annual General Meeting will be held at 9.30am on 22 June 2021 at the offices of JTC Fund Solutions (Jersey) Limited, 28 The Esplanade, St Helier, Jersey JE4 2QP. The Board is mindful of the current travel and meeting restrictions in place in response to the Covid-19 pandemic and shareholders are therefore encouraged to submit their votes by proxy. Attendees will only be permitted to the meeting in line with current regulations at the date of the meeting. You are strongly encouraged to lodge your vote either electronically via the registrar's online portal or using the Form(s) of Proxy to appoint the Chairman of the General Meeting as your proxy to vote on your behalf.

The Board is cognisant of the fact that many shareholders like this opportunity to hear from the Portfolio Managers and the Board and therefore invite you to attend a webinar with us on 16 June 2021 at 11am. A presentation will be made by Rhys Davies followed by a questions and answer session. Shareholders can submit questions during the webinar or in advance by writing to the Company Secretary at the address given on page 76. Details on how to register for the event are available via the Company's website www.invesco.co.uk/citymerchants.

General Data Protection Regulation (GDPR)

The Company has a privacy notice which sets out what personal data is collected and how and why it is used. The privacy notice can be found at www.invesco.co.uk/citymerchants.co.uk under the 'Literature' section, or a copy can be obtained from the Company Secretary whose correspondence address is found on the next page.

ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Alternative Investment Fund Manager

Invesco Fund Managers Limited
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH
☎ 01491 417000

Company Secretary, Administrator and Registered Office

JTC Fund Solutions (Jersey) Limited
PO Box 1075
28 Esplanade
St Helier
Jersey JE4 2QP

Company Secretarial Contact: Hilary Jones
☎ 01534 700000

Company Number

Registered in Jersey
Company Number: 109714

The Company is regulated by the Jersey Financial Services Commission.

Registrar

Link Market Services (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT
☎ 0371 664 0300

Shareholders who hold shares directly and not through a Savings Scheme or ISA and have queries relating to their shareholding should contact the Registrar's call centre on the above number.

Calls are charged at the standard geographic rate and will vary by provider. From outside the UK: +44(0) 371 664 0300

Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00 am to 5.30 pm Monday to Friday (excluding UK public holidays).

Shareholders holding shares directly can also access their holding details via Link's website: www.signalshares.com

The Registrar provides an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling on:
☎ 0371 664 0445
www.linksharedeal.com

Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00 am to 4.30 pm Monday to Friday (excluding UK bank holidays).

☎ +44 371 664 0445 (from outside the UK).

Dividend Re-Investment Plan

Link also manage a Dividend Re-Investment Plan for the Company. Shareholders wishing to re-invest their dividends should contact the Registrar at the above address.

Independent Auditor

PricewaterhouseCoopers CI LLP
37 Esplanade
St Helier
Jersey JE1 4XA

Depositary, Custodian & Banker

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

Corporate Brokers

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Invesco Client Services

Invesco has a Client Services team available from 8.30 am to 6.00 pm every working day. Please feel free to take advantage of their expertise by ringing:
☎ 0800 085 8677
Website: www.invesco.co.uk/investmenttrusts

The Association of Investment Companies

The Company is a member of the Association of Investment Companies.

☎ 020 7282 5555

www.theaic.co.uk
enquiries@theaic.co.uk

The Manager of City Merchants High Yield Trust Limited is Invesco Fund Managers Limited.

Invesco Fund Managers Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Conduct Authority.

Invesco is a business name of Invesco Fund Managers Limited.

Invesco is one of the largest independent global investment management firms, with assets under management in excess of $1,367 billion.*

Invesco aims to provide the highest returns available from markets, through active management, but in a controlled manner, conscious of the risks involved and within its clients' objectives.

** Funds under management as at 28 February 2021.*

SPECIALIST FUNDS MANAGED BY INVESCO

Investing for Income, Income Growth and Capital Growth (from equities and fixed interest securities)

City Merchants High Yield Trust Limited

A Jersey incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments. The Company may use repo financing to enhance returns.

Invesco Income Growth Trust plc

Aims to produce income and capital growth superior to that of the UK stock market and dividends paid quarterly that, over time, grow above the rate of inflation. The Company may use bank borrowings.

Invesco Enhanced Income Limited

A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Company uses repo financing to enhance returns.

Invesco Select Trust plc – Managed Liquidity Portfolio

Aims to produce an appropriate level of income return combined with a high degree of security. The portfolio invests in a range of sterling based or related high quality debt securities and similar assets either directly or indirectly through authorised funds.

Invesco Select Trust plc – UK Equity Portfolio

Aims to provide shareholders with an attractive real long-term total return by investing primarily in UK quoted equities. The portfolio may use bank borrowings.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders primarily by investment in a broad cross-section of small to medium sized UK-quoted companies, including AIM stocks. The Company may use bank borrowings.

Investing Internationally

Invesco Asia Trust plc

Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the MSCI AC Asia Ex Japan Index, total return, in sterling terms. The Company may use bank borrowings.

Invesco Select Trust plc – Global Equity Income Portfolio

Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

Investing for Total Returns

Invesco Select Trust plc – Balanced Risk Allocation Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

Investing in Multiple Asset Classes

Invesco Select Trust plc

- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Allocation Portfolio

A choice of four investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios, with the ability to switch between them, four times a year, free from capital gains tax liability. Dividends are paid quarterly, apart from Balanced Risk Allocation which will not normally pay dividends.

Please contact Invesco Client Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website: www.invesco.co.uk/investmenttrusts.

Linkway Financial Printers
Typeset & Printed in London (UK) 17263