Invesco Perpetual UK Smaller Companies Investment Trust plc

Annual Financial Report

Year Ended 31 January 2014

Investment Objective

Invesco Perpetual UK Smaller Companies Investment Trust plc is an investment trust whose investment objective is to achieve long-term total return for shareholders primarily by investment in a broad cross-section of small to medium sized UK quoted companies. The pursuit of income is of secondary importance.

Benchmark

The Company aims to achieve long-term total returns which are in excess of its benchmark, the Numis Smaller Companies Index (excluding Investment Companies).

Nature of the Company

The Company is a public listed Investment Company whose shares are traded on the London Stock Exchange. The business of the Company consists of investing its funds according to the investment objective with the aim of spreading investment risk and generating a return for shareholders. The Company may use bank borrowings, 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 Asset Management Limited (the 'Manager'), to manage its investments and for the Company's general administration. Other administrative functions are contracted to external service providers. 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 objective and policy is adhered to. The Company has no employees.

The Company's Investment Style

The Company's investment style is:

- to seek to identify well managed, financially strong companies which have unique propositions or clear competitive advantages, and whose share prices are reasonable in relation to their quality and growth;
- to moderate risk by investing in a wide range of stocks; and
- to take advantage of anticipated market strength or special situations by the careful use of borrowings.

The Company's shares qualify to be considered as a mainstream investment product suitable for promotion to retail investors and are eligible for investment in an ISA.

If you have any queries about Invesco Perpetual UK Smaller Companies Investment Trust plc, or any of the other Investment Companies managed by Invesco Perpetual please contact our Investor Services Team on

☎ 0800 085 8677

Website:- www.invescoperpetual.co.uk/investmenttrusts

Front cover: abstract granite, Cornwall

Contents

The Company is a member of

aic
The Association of Investment Companies

FINANCIAL HIGHLIGHTS

The Benchmark Index of the Company is the Numis Smaller Companies Index (excluding Investment Companies) with income reinvested

	AT 31 JANUARY 2014	AT 31 JANUARY 2013	% CHANGE
Net asset value per ordinary share[1]:			
– balance sheet	367.9p	285.7p	+28.8%
– after charging proposed dividends (capital NAV)	363.0p	281.3p	+29.0%
Shareholders' funds (£'000)[1]	195,749	152,034	+28.8%
Mid-market price per ordinary share	316.8p	246.5p	+28.5%
Discount[1] per ordinary share based on balance sheet NAV	13.9%	13.7%	
Total return (with income reinvested):			
Net asset value[1][2][3]			+31.4%
Benchmark Index[2][3]			+31.8%
FTSE All-Share Index[3]			+10.1%
Capital return:			
Net asset value[1][2]			+29.0%
Benchmark Index, excluding income reinvested[2][3]			+28.2%
FTSE All-Share Index[3]			+6.4%
Gearing:			
– gross gearing[2]	1.2%	nil	
– net gearing[2]	nil	nil	
– net cash[2]	1.2%	5.1%	
Maximum permissible gearing[2]	10.2%	13.2%	
Return and dividend per ordinary share:			
Revenue return	6.9p	6.3p	
Capital return	81.2p	46.7p	
Total return	88.1p	53.0p	
Interim dividend	1.6p	1.6p	
Final dividend	4.9p	4.4p	
Total dividends	6.5p	6.0p	+8.3%
Ongoing charges[2]			
– excluding performance fee	0.83%	0.87%	
– performance fee	nil	nil	

Note: (1) Includes enhancements from share repurchases.
(2) The term is defined in the Glossary on page 57.
(3) Source: Thomson Reuters Datastream.

Net Asset Value and Benchmark Total Return Performance

For the Ten Years to 31 January 2014

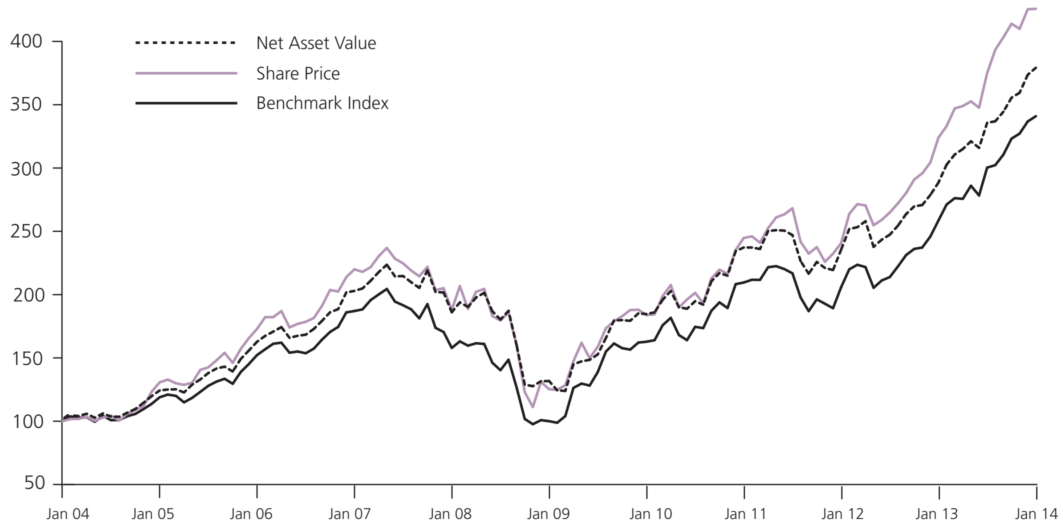
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	3yr	5yr	10yr
Net Asset Value %	+24.3	+31.0	+24.7	-8.3	-29.2	+40.1	+28.6	-0.8	+22.4	+31.4	+59.8	+187.8	+279.2
Benchmark %	+18.9	+28.0	+22.9	-15.6	-36.7	+62.8	+28.7	-1.8	+25.6	+31.8	+62.7	+240.9	+240.9
Variance %	+5.4	+3.0	+1.8	+7.3	+7.5	-22.7	-0.1	+1.0	-3.2	-0.4	-2.9	-53.1	+38.3

Source: Thomson Reuters Datastream.

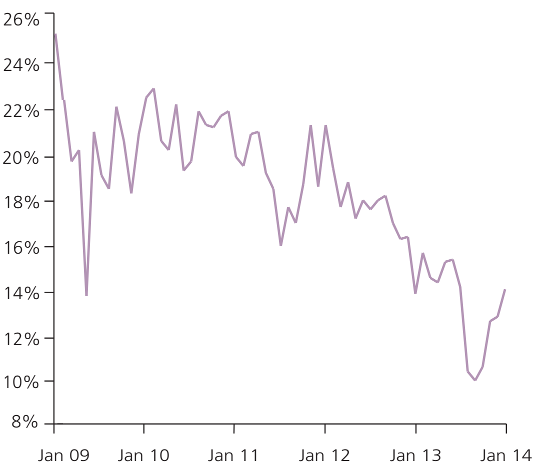
Cumulative Ten Year Share Price and NAV Performance vs Benchmark (Total Return)

From 31 January 2004 to 31 January 2014

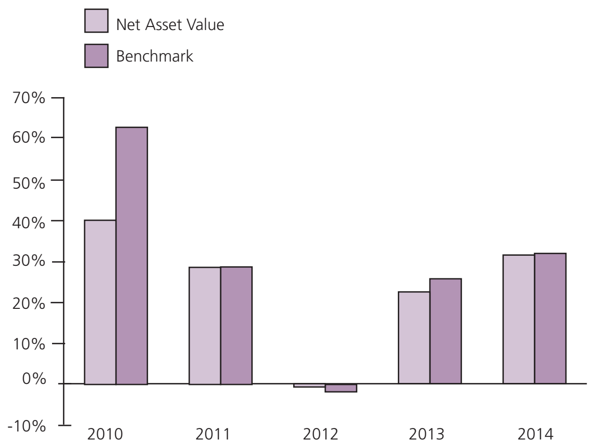
(Figures have been rebased to 100 at 31 January 2004)



Five Year Discount



Five Year Annual NAV Performance vs Benchmark (Total Return)



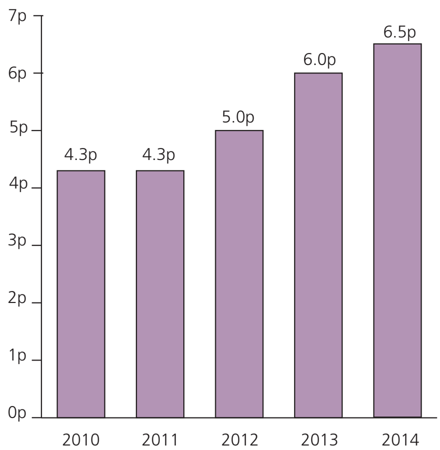
Five Year Historical Record

TO 31 JANUARY	GROSS INCOME £'000	NET REVENUE RETURN AVAILABLE FOR SHAREHOLDERS £'000	DIVIDENDS ON SHARES(1) COST £'000	RATE p	TOTAL SHARE-HOLDERS FUNDS £'000	NET ASSET VALUE PER SHARE p	MID-MARKET PRICE PER SHARE p	ONGOING CHARGES %	PERFORM-ANCE FEE %
2010	2,909	2,477	2,472	4.30	111,281	193.7	150.5	0.86	–
2011	2,985	2,312	2,399	4.30	133,999	242.9	195.0	0.86	–
2012	3,590	2,852	2,676	5.00	126,771	237.6	187.5	0.89	0.31
2013	4,123	3,370	3,193	6.00	152,034	285.7	246.5	0.87	–
2014	4,555	3,673	3,459	6.50	195,749	367.9	316.8	0.83	–

(1) The dividends shown above are those proposed in respect of each year.

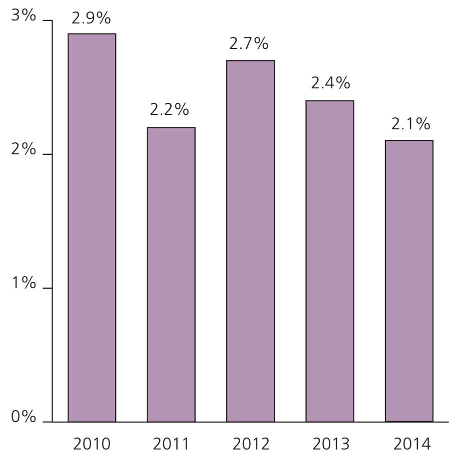
Five Year Dividend History:

Pence per Share



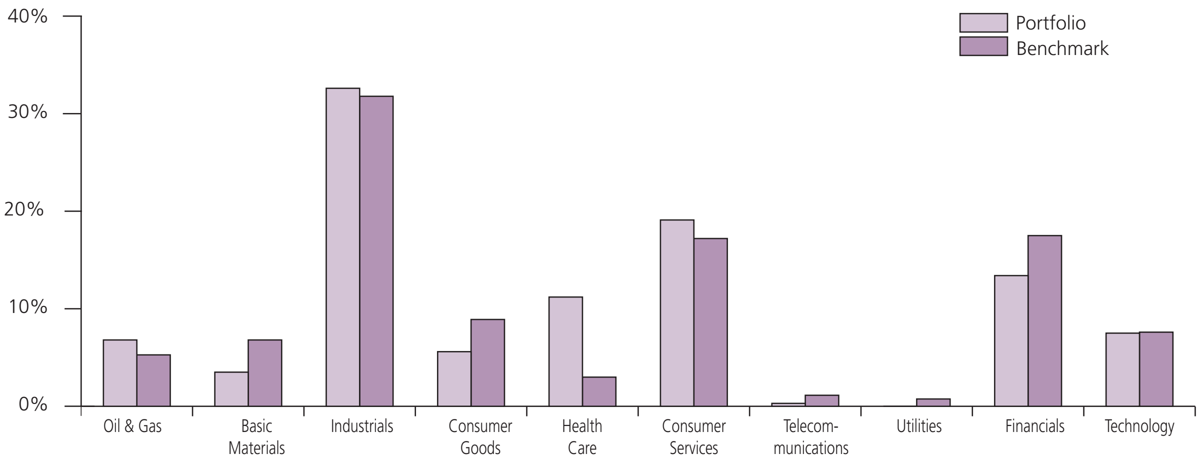
The dividends shown above are those proposed in respect of each year.

Yield



Sector Allocation of Portfolio vs Benchmark

As at 31 January 2014



STRATEGIC REPORT
CHAIRMAN'S STATEMENT

I am pleased to report substantial growth in the net asset value (NAV) of your Company, which rose by 31.4% on a total return basis during the financial year to 31 January 2014. This return was broadly in line with the Numis Smaller Companies Index (excluding Investment Companies), the Company's benchmark index, which returned 31.8%. In absolute terms, this was an excellent result. By comparison, your Company and the UK Smaller Companies sector as a whole significantly out-performed the wider UK stock market, as measured by the FTSE All-Share Index, which rose by 10.1%. This demonstrates the ability of Smaller Companies to outperform their larger counterparts under certain economic conditions and this was particularly evident during the 12 months to 31 January 2014.

Over the same period, the mid-market price of the Company's shares increased by 28.5%, from 246.5p to 316.8p per share. Having narrowed during the year, the discount to NAV at which the Company's shares trade ended the year marginally wider at 13.9% compared with 13.7% at the end of the previous financial year.

Dividend

For the year ended 31 January 2014, an interim dividend of 1.6 pence per share was paid on 24 October 2013 to those shareholders who were on the register on 27 September 2013. The Board is proposing a final dividend of 4.9 pence per share payable on 6 June 2014 to shareholders who are on the register on 25 April 2014. Total dividends for the year to 31 January 2014 will therefore amount to 6.5 pence per share, a 8.3% increase on the previous year. The income of the Company includes £0.6m or 1.1 pence per share (2013: £0.3m or 0.6 pence) of special dividends. By their nature, special dividends are non-recurring and future dividends, will, as always, depend on market conditions and investment performance.

The Future of the Company

As previously announced, on or around the date of its AGM in 2017, the Board will make available a number of options for shareholders to consider. These may include one or more of a continuation of the existing Company, a rollover into a similar or other investment vehicle and/or the provision of a cash exit at a price close to NAV. One of the benefits the Board hopes to achieve by this initiative is a narrowing of the discount to NAV at which the shares trade. The Board expects this benefit to become more apparent over time.

The Board

On 17 December 2013, the Board appointed Jane Lewis as a new director of the Company and in accordance with the Company's articles of association she will stand for election by shareholders at the forthcoming Annual General Meeting. Jane is an investment trust specialist who, until August of 2013, held the position of Director of Corporate Finance & Broking at Winterflood Investment Trusts. The Board believes that Jane's broad investment trust experience will prove be to be a great asset to the Company. In addition, John Spooner has decided that he will not seek re-election at the Company's Annual General Meeting and will therefore retire from the Board at its conclusion. The Board would like to take this opportunity to thank John for his long and substantial contribution to the success of the Company during his tenure and to wish him well in the future.

Annual General Meeting

The Directors have carefully considered all of the resolutions proposed in the Notice of the AGM and believe them to be in the best interests of shareholders and the Company as a whole. The Directors, accordingly, recommend that shareholders vote in favour of each resolution.

Retirement of Richard Smith

Richard has managed your Company's portfolio since 2002 and the Board is aware of, and is grateful for, the great contribution he has made, both to the delivery of investment performance and through his wise counsel to the Board over that period. Richard is retiring at the end of June 2014 and my fellow Directors and I wish him a long, happy and very well-deserved retirement.

Jonathan Brown, Richard's co-manager, has been appointed Head of Smaller Companies at Invesco Perpetual and was formally appointed lead manager of your Company's portfolio on 30 December 2013, in anticipation of Richard's retirement. He has considerable experience working with Richard and the Board is confident that he will continue to manage shareholders' investments with great skill.

Outlook

As ever, your portfolio managers have given a very full account of the year's performance in their report that follows. In terms of the year under review, the most surprising aspect may be the lacklustre performance of the emerging economies, just as it was thought that they were somehow immune from the effects of the banking crisis that started in 2008. Clearly, reduced demand from western economies as belts were tightened due to austerity measures has had more of an effect than first thought and any suggestion of a "de-coupling" from the west has now been dismissed.

Whilst this region may seem disconnected from the fortunes of smaller companies in the UK, the effect of a "hard landing" for the Chinese economy and the ramifications worldwide should not be underestimated. However, as you will read, the portfolio managers continue to find plenty of good investment opportunities within the smaller companies sector. Given the likelihood of some level of domestic stimulus ahead of the 2015 General Election, they remain positive for future returns.

Ian Barby
Chairman

8 April 2014

Invesco Perpetual UK Smaller Companies Investment Trust plc is an investment company and its investment objective is set out below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are also set out below and have been approved by shareholders.

The Company has contracted the services of Invesco Asset Management Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. The portfolio managers responsible for the day to day management of the portfolio are Jonathan Brown and, until his planned retirement in June 2014, Richard Smith, at which date Jonathan becomes the sole named portfolio manager.

Investment Objective

The Company is an investment trust whose investment objective is to achieve long-term total return for shareholders primarily by investment in a broad cross-section of small to medium sized UK quoted companies. The pursuit of income is of secondary importance.

Investment Policy

The portfolio primarily comprises shares traded on the London Stock Exchange, though it will also usually include a smaller proportion traded on AIM. The portfolio managers can also invest in unquoted securities, though these are limited to a maximum of 5% of gross assets at the time of acquisition.

The Manager seeks to outperform the benchmark index. As a result, the Manager's approach can, and often does, result in significant overweight or underweight positions in individual stocks or sectors compared with the benchmark. Sector weightings are ultimately determined by stock selection decisions.

Risk diversification is sought through a broad exposure to the market, where no single investment may exceed 5% of the Company's gross assets at the time of acquisition. The Company may utilise index futures to hedge risk of no more than 10% and other derivatives (including warrants) of no more than 5%. In addition, the Company will not invest more than 10% in collective investment schemes or investment companies, nor more than 10% in non-UK domiciled companies. All these limits are referenced to gross assets at the time of acquisition.

Borrowings may be used to raise market exposure up to the lower of 30% of net asset value and £25 million.

Performance

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

- the movement in net asset values (NAV) per share on a total return basis;
- the performance relative to the peer group;
- the discount;
- dividend per share;
- the ongoing charges; and
- the risk and volatility.

The ten year record for the NAV and share price performance compared with the Company's benchmark index can be found on page 3, together with the five year discount record. The five year record for dividends and ongoing charges is found on page 4. Returns versus volatility can be found on the graph on page 12.

Results and Dividends

In the year ended 31 January 2014 the net asset value total return was 31.4% compared with a total return on the benchmark index of 31.8%. The discount at the year end was 13.9%. The Portfolio Managers' Report analyses the relative performance in a table on page 12.

For the year ended 31 January 2014, an interim dividend of 1.6p per ordinary share was paid to shareholders on 24 October 2013. A final dividend of 4.9p per ordinary share will be proposed to shareholders at the AGM on 5 June 2014 and will be paid on 6 June 2014 to shareholders on the register on 25 April 2014. The revenue return per ordinary share was 6.9p.

Financial Position and Borrowings

At 31 January 2014 the Company's net assets were valued at £196 million (2013: £152.0 million) comprising a portfolio of equity investments and net current assets, including £2.4 million of borrowings (2013: nil). Borrowings, which are authorised by shareholders up to a maximum of £25 million, are currently funded by the Company's uncommitted bank overdraft facility. This facility has a maximum of the lower of 30% of net asset value and £20 million.

Outlook, including the Future of the Company

The main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Portfolio Managers' Report of this Strategic Report. Further details of the principal risks affecting the Company are set out under 'Principal Risks and Uncertainties'.

As previously announced, on or around the Company's AGM in 2017, the Board will make available options for shareholders as set out in the Chairman's Statement. The Board has assured shareholders that the Manager will continue to use its best endeavours to attempt to achieve above-average performance and thereby earn the authority from shareholders for the Company's continuation.

In time, one of the benefits the Board hopes to achieve by this initiative is a narrowing in the discount to NAV at which the shares trade. The Board expects this benefit to become more apparent over time. The Board will retain the right to buy back shares on an ad hoc basis.

Principal Risks and Uncertainties

The most significant risks of the Company, and the steps taken to mitigate them follow. Most of these risks are market related and are similar to those of other investment trusts investing primarily in listed markets.

Market (Economic) Risk

Factors such as general fluctuations in stock markets, interest rates and exchange rates are not under the control of the Board and the portfolio managers, but may give rise to high levels of volatility in the share prices of investee companies, as well as affecting the Company's own share price and discount to NAV. To a limited extent futures can be used to mitigate this risk.

Investment Risk

The Company invests in small and medium-sized companies traded on the London Stock Exchange or on AIM. By their nature these are generally considered riskier than their larger counterparts and their share prices can be more volatile, with lower liquidity. In addition, as smaller companies do not generally have the financial strength, diversity and resources of larger companies, they may find it more difficult to overcome periods of economic slowdown or recession.

The portfolio managers' approach to investment is one of individual stock selection. Investment risk is mitigated via the stock selection process, together with the slow build-up of holdings rather than the purchase of large positions outright. This allows the portfolio managers to observe more data points from a company before adding to a position. The overall portfolio is well diversified by company and sector. The weighting of an investment in the portfolio tends to be loosely aligned with the market capitalisation of that company. This means that the largest holdings will often be amongst the larger of the smaller companies available.

The portfolio managers are relatively risk averse, look for lower volatility in the portfolio and seek to outperform in more challenging markets. In comparison to peer group investment trusts, the Company's portfolio often has a higher than average market capitalisation and a lower than average exposure to the AIM market. The portfolio managers remain cognisant at all times of the potential liquidity of the portfolio.

There can be no guarantee that the Company's strategy and business model will be successful in achieving its investment objective. The Board monitors the performance of the Company and has guidelines in place to ensure that the portfolio managers adhere to the approved investment policy. The continuation of the portfolio managers' mandate is reviewed annually.

Shareholders' Risk

The value of an investment in the Company may go down as well as up and an investor may not get back the amount invested.

Whilst the Directors intend to pay a dividend to ordinary shareholders each year, this depends on the level and timing of income received from investee securities, expenses of the Company and the amount of any distributable reserves. As a result, the amount of the Company's dividend payments cannot be certain.

The Board and the portfolio managers maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying net asset value; and there are in place both share buy back and issuance facilities to help the management of this process.

Borrowings

The Company may borrow money for investment purposes. If the investments fall in value, any borrowings (or gearing) will magnify the extent of any loss. If the borrowing facility could not be renewed, the Company might have to sell investments to repay any borrowings made under it. All borrowing and gearing levels are reviewed at every Board meeting and preset limits agreed.

Reliance on the Manager and other Third Party Providers

The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company is therefore reliant upon the performance of third party providers both for its executive function and other service provision. In particular, the Manager performs services which are integral to the operation of the Company. 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 operation of the Company and could affect the ability of the Company to successfully pursue its investment policy.

The Manager may be exposed to reputational risks. In particular, the Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in potential counterparties and third parties being unwilling to deal with the Manager and by extension the Company, which carries the Manager's name. This could have an adverse impact on the ability of the Company to pursue its investment policy successfully. The Company's main service providers are listed on page 56.

The Audit Committee regularly reviews the performance and internal controls of the Manager. The results of which are reported to the Board. The Manager reviews the performance of all third party providers regularly through formal and informal meetings.

Regulatory Risk

The Company is subject to various laws and regulations by virtue of its status as an investment trust, and its listing on the London Stock Exchange. A loss of investment trust status could lead to the Company being subject to capital gains tax on the sale of its investments. Other control failures, either by the Manager or any other of the Company's service providers, may result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews the level of compliance with tax and other financial regulatory requirements on a daily basis. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Manager's Compliance and Internal Audit Officers produce regular reports for review at the Company's Audit Committee.

Further details of risks and risk management policies as they relate to the financial assets and liabilities of the Company are detailed in note 19 to the financial statements.

Alternative Investment Fund Managers Directive (AIFMD)

The Board is taking independent legal advice in relation to the Directive and has decided, in principle, to appoint Invesco Fund Managers Limited (IFML) as the Company's Alternative Investment Fund Manager, pending IFML's approval as such by the Financial Conduct Authority. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the custody and cash arrangements and other AIFMD required depository responsibilities. To this end, the Board has agreed in principle to appoint BNY Mellon Trust & Depository (UK) Limited to act as the Company's depositary.

Board Diversity

The Company's policy on diversity is set out on page 23. The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. Following a review of the Board, Jane Lewis was appointed on 17 December 2013. As reported in the Chairman's Statement, John Spooner will retire at the AGM, this will return the Board back to its normal membership of five Directors at which point there will be 20% female representation. The Company has no employees.

Social and Environmental Matters

As an investment company with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. While a company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not necessarily decide to, or not to, make an investment on environmental and social grounds alone. The Manager applies the United Nations Principles for Responsible Investment.

Jonathan Brown

Richard Smith

Investment Review

In the year under review, there was a strong performance again by developed country stock markets, however, emerging markets fell out of favour. Many stock markets have now significantly surpassed their highs of 2007, recovering all the ground lost during the global financial crisis. Although global debt levels remain high by historical standards, the fear of an impending economic catastrophe has abated, which combined with a continued flow of cheap money has led to a return of "animal spirits" to the world's equity markets. The much heralded tapering of QE by the Federal Reserve has so far been shrugged off although, in truth, it is merely a reduction in the pace of stimulus, rather than any kind of reversal. The one weak spot globally has been the emerging countries, which is disappointing, as they had come through the banking crisis relatively unscathed. Much of the uncertainty is focused on China, which appears to be suffering a hangover from an extended period of rapid, capital intensive growth. This could eventually have implications far beyond its own borders, but for now is being counter-balanced by the improving economic outlook in developed countries.

The UK stock market, as measured by the FTSE All-Share Index, rose 10.1% on a total return basis. With a general election on the way in 2015, politicians have stepped up efforts to create economic growth, primarily through stimulating the housing market. This has gone some way to offset the continued erosion in household spending power resulting from wage settlements lagging increases in the cost of living. The result is that economic growth has shown a strong improvement over the course of the year, leading to an increase in private sector job creation and a modest improvement in the UK current account deficit. This environment has been particularly favourable for the UK smaller companies sector, which can provide investors with exposure to the higher growth niches within the economy. In the year to 31 January 2014, the benchmark index, the Numis Smaller Companies Index (ex investment Companies), rose 31.8% on a total return basis. This is a continuation of the colossal outperformance by smaller companies over the wider UK equities market seen over the last few years. Since 2009, the Numis Smaller Companies Index (ex investment Companies), has increased 240.9% on a total return basis, whereas the FTSE All Share has returned a "mere" 100.9% on the same basis.

Portfolio Strategy and Review

Against this background, your Company produced an increase in net asset value on a total return basis of 31.4% for the fiscal year. Positive contributions came from the Industrial and Support Service sectors, while the portfolio's exposure to the Oil & Gas and Mining sectors negatively affected performance.

At the individual stock level, the stand-out performer was Xaar, a world leading manufacturer of digital print-heads (+292%). It had an extraordinary year, helped by demand from the ceramic tile industry in China. Howden Joinery (+82%), which is a leading manufacturer of pre-fabricated kitchens, benefitted from improving trends in the housing market and its ability to continue to take market share. The portfolio also benefited from strong performance by a number of its largest holdings; Senior, an aerospace and automotive component manufacturer (+49%) and RWS, a global leader in the specialist area of patent translation (+60%), while Euromoney (+50%), a media and information vendor serving the financial markets, performed strongly, aided by acquisitions and an improvement in its end market. While contributors to the portfolio substantially outweighed detractors, there were disappointments from Premier Oil (-28%) which suffered from production downgrades and a perception that management had overstretched themselves with an acquisition in the Falkland Islands. Subsequently, there has been a change in management, which should result in the Company's and Shareholders' interests becoming better aligned, with an increased focus on cash returns, rather than acquisitions. Perform Group (-52%), a media business specialising in the exploitation of on-line sports content, issued a number of profit warnings. The position has been sold following a partial recovery in the share price after the year end. IQE, a manufacturer of compound semiconductors primarily for use in the consumer electronics industry (-34%), was hurt by a shift to a cheaper technology which might limit the future growth of the business.

The following table analyses the performance of the Company's NAV relative to the Benchmark.

Invesco Perpetual UK Smaller Companies Investment Trust plc
Performance attribution for the year ended 31 January 2014

	Total Absolute %
Net asset value total return	31.4
Benchmark total return	31.8
Relative under performance	(0.4)
Analysis of Relative Performance	
Portfolio total return	32.3
Benchmark total return	(31.8)
Portfolio over performance	0.5
Net gearing effect	0.1
Management fees	(0.8)
Performance fees	–
Interest payable	–
Other expenses	(0.2)
Total	(0.4)

Performance attribution analyses the Company's performance relative to its benchmark.

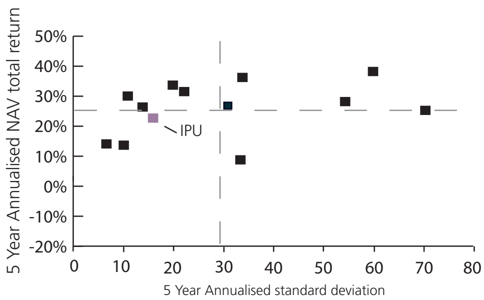
Portfolio over performance measures the relative effect of the Company's investment portfolio against that of its benchmark.

Net gearing effect measures the impact of borrowings and cash on the Company's relative performance. This is nil where there is no gearing in a year.

Management fees, performance fees, other expenses and interest payable reduce the level of assets and therefore result in a negative effect for relative performance. There are no fees or expenses imputed to the benchmark index.

For many years we have shown the scatter diagram that follows, which displays your Company's position compared with its peer group in terms of performance and its lower risk (volatility) profile.

Returns vs. Volatility† Over Five Years – UK Smaller Companies Investment Trust Peer Group (13 trusts)



IPU = Invesco Perpetual UK Smaller Companies Investment Trust
— represents the average performance (vertical) and the average volatility (horizontal) of the peer group.
† Defined in the Glossary of Terms on page 57

Investment Strategy

The current economic theme in developed economies is one of recovery. Several years have elapsed since the onset of the financial crisis and although many of the issues resulting from this remain unresolved, a great deal of progress has also been made. This is most apparent in the US, which saw improving economic growth in 2013, despite dealing with mandatory spending cuts and a government shut down during the year. There is no doubt that the US has a more dynamic capitalist economy than those of Europe, which has enabled the country to cleanse its banking system, have a proper correction in real estate prices and see its labour market begin to recover. The country still has hurdles to overcome, principally its high level of indebtedness, which remains manageable due to low interest rates, aided by US dollar's status as the global reserve currency. The country also enjoys a favourable energy cost structure due to its shale gas boom, which places it at a significant advantage to Europe where energy prices can be 50% higher. The US seems well placed to outperform most of the other developed nations' economies.

There are signs of a potential credit crisis in China, and the political initiatives undertaken to moderate the degree of lending have reduced economic growth. Whilst still growing at a rate well in excess of most the world's economies, this moderation has had significant impact on many emerging countries. Until recently, China had been experiencing the most commodity intensive period of growth ever seen, and the fall in demand for commodities has created a difficult environment for many resource rich countries. The resulting slowing of economic growth has led to an outflow of capital, causing marked currency weakness, which has in turn led to a drop in living standards. In response, governments have raised interest rates to defend their currencies;

however, this is likely to exert further downward pressure on their economies. All of that said, many of the emerging economies have a lot going for them; young and vibrant populations; strong public sector balance sheets, and a wealth of natural resources, all of which augurs well for the future.

The European economy has also seen some modest improvement, albeit off a low base. Exports have increased, despite a strong Euro compared with a number of world currencies, primarily due to a correction in the cost of labour within some of the peripheral countries. Whilst helping competitiveness, it does pose problems for consumer demand within those economies, raising the spectre of deflation. This would pose a significant problem for the region, which is still suffering from over indebtedness in the wake of the financial crisis. The continent needs nominal economic growth (ie. real growth plus inflation), to reduce the debt burden relative to the size of national incomes. The current low inflation, low growth environment is hampering this process and outright deflation could have serious consequences. There is cause for optimism however, with the unemployment slowly moderating, albeit from very high levels, and with the political situation stabilising a more favourable business environment may be about to emerge.

With a UK general election approaching in 2015, it was inevitable that the government would be keen to stimulate growth ahead of the event. The housing market has been central to this and the Help To Buy scheme has driven a significant increase in both prices and transaction volumes. This has to some extent buoyed consumer sentiment, along with the receipt of billions of pounds in PPI compensation and a more stable jobs outlook. This, combined with a lessening of government austerity, has driven an acceleration in UK GDP growth over the period. There is a fear that this improvement is largely built on yet more debt, both public and household, and might therefore be unsustainable; however, it has not yet led to an overall increase in money supply, or inflation, giving policy makers plenty of scope to continue on the current path. The improvement in these areas has yet to feed through to the corporate sector in any meaningful way. Despite the strong increase in company valuations we have seen over the last 2 years, analyst estimates of company earnings have been cut continually over the period, suggesting that demand in much of the economy continues to be sluggish. Also, bank lending to UK companies is still declining, indicating that business leaders lack the confidence to invest for growth. Hopefully this will come through in due course, and maybe we should just be thankful that the worst of the financial crisis is now behind us.

The smaller companies sector continues to be a fertile ground for stock pickers. The breadth of stocks available ensures that there are always companies to buy that can offer the potential for significant returns. We continue to seek fundamentally high quality businesses, with strong balance sheets, high but defendable margins and the potential to grow into significantly larger companies in the medium term. In many cases, due to the increase in value of what we would consider to be lower quality stocks over the past 12 months, it is still possible to buy genuinely great companies at very little premium to the market. It is this area of the market which interests us most. Whilst we have seen a distinct improvement in the UK economy over the last 12 months, we believe that growth over the next few years could still disappoint, relative to historic recoveries. This is due to the ongoing levels of consumer and government indebtedness, unfavourable demographics and a weak recovery in Europe, which is our largest trading partner. Buying high quality businesses, which have demonstrated the ability to grow in a difficult economic environment, rather than highly valued and at times lower quality "recovery" stocks should reap its rewards over the next few years. Highly cash generative businesses, which can re-invest their cash flow at high rates of return, offer the greatest potential for long term investors, and it is these stocks which will continue to be the focus of the portfolio.

Outlook

The beginning of 2014 has seen a continuation of last year's strong performance, with the Numis Smaller Companies Index (ex Investment Companies) rising 6.4% (total return to the end of February). There are however, potential headwinds in 2014 – in the shape of reduced central bank stimulus, historically high valuations and a new issue market that shows signs of overheating. Nevertheless, with the economy on a sounder footing and the potential return of M&A activity after the one of the quietest years on record, we remain optimistic about further positive returns in the coming year.

Jonathan Brown   Richard Smith,
Portfolio Managers

The Strategic Report was approved by the Board of Directors on 8 April 2014.

Invesco Asset Management Limited
Company Secretary

INVESTMENTS

INVESTMENTS IN ORDER OF VALUATION

AT 31 JANUARY 2014

Ordinary shares unless stated otherwise

COMPANY	ACTIVITY BY SECTOR	VALUE £'000	% OF PORTFOLIO
Synergy Health	Health Care Equipment & Services	7,146	3.7
Senior	Aerospace & Defence	5,784	3.0
Howden Joinery	Support Services	5,624	2.9
Diploma	Support Services	4,154	2.2
Elementis	Chemicals	3,714	1.9
RPS	Support Services	3,674	1.9
CVS[AIM]	General Retailers	3,658	1.9
Brown (N)	General Retailers	3,645	1.9
Euromoney Institutional Investor	Media	3,624	1.9
Dechra Pharmaceuticals	Pharmaceuticals & Biotechnology	3,613	1.9
Top Ten Holdings		**44,636**	**23.2**
LSL Property Services	Real Estate Investment & Services	3,598	1.9
Ultra Electronics	Aerospace & Defence	3,552	1.8
Mears	Support Services	3,418	1.8
Marston's	Travel & Leisure	3,278	1.7
RWS[AIM]	Support Services	3,248	1.7
RPC	General Industrials	3,085	1.6
Bovis Homes	Household Goods & Home Construction	3,059	1.6
Amerisur Resources[AIM]	Oil & Gas Producers	2,913	1.5
Hunting	Oil Equipment, Services & Distribution	2,785	1.4
Rentokil Initial	Support Services	2,769	1.4
Top Twenty Holdings		**76,341**	**39.6**
Innovation	Software & Computer Services	2,680	1.4
Northgate	Support Services	2,628	1.4
Micro Focus International	Software & Computer Services	2,474	1.3
PayPoint	Support Services	2,427	1.3
Beazley	Non-life Insurance	2,413	1.3
Essentra	Support Services	2,407	1.2
Workspace	Real Estate Investment Trusts	2,388	1.2
Aveva	Software & Computer Services	2,347	1.2
Brewin Dolphin	Financial Services	2,325	1.2
Dunelm	General Retailers	2,317	1.2
Top Thirty Holdings		**100,747**	**52.3**
Consort Medical	Health Care Equipment & Services	2,280	1.2
Victrex	Chemicals	2,246	1.2
Thomas Cook	Travel & Leisure	2,167	1.1
Carphone Warehouse	General Retailers	2,159	1.1
Betfair	Travel & Leisure	2,137	1.1
Domino Printing Sciences	Electronic & Electrical Equipment	2,058	1.1
Vertu Motors[AIM]	General Retailers	2,007	1.0
Dairy Crest	Food Producers	1,967	1.0
EMIS[AIM]	Software & Computer Services	1,932	1.0
St. Modwen Properties	Real Estate Investment & Services	1,897	1.0
Top Forty Holdings		**121,597**	**63.1**
Go-Ahead	Travel & Leisure	1,889	1.0
Guinness Peat	Financial Services	1,867	1.0
Staffline[AIM]	Support Services	1,821	0.9
Crest Nicholson	Household Goods & Home Construction	1,815	0.9
Premier Oil	Oil & Gas Producers	1,758	0.9
Jupiter Fund Management	Financial Services	1,756	0.9
Topps Tiles	General Retailers	1,713	0.9
Bellway	Household Goods & Home Construction	1,708	0.9
Tungsten[AIM]	Financial Services	1,640	0.8
Advanced Medical Solutions[AIM]	Health Care Equipment & Services	1,638	0.8
Top Fifty Holdings		**139,202**	**72.1**

COMPANY	ACTIVITY BY SECTOR	VALUE £'000	% OF PORTFOLIO
Dignity	General Retailers	1,625	0.8
Abcam[AIM]	Pharmaceuticals & Biotechnology	1,607	0.8
S&U	Financial Services	1,571	0.8
Mountview Estates	Real Estate Investment & Services	1,565	0.8
Polar Capital[AIM]	Financial Services	1,558	0.8
Sinclair IS Pharma[AIM]	Pharmaceuticals & Biotechnology	1,521	0.8
EnQuest	Oil & Gas Producers	1,499	0.8
Xaar	Electronic & Electrical Equipment	1,490	0.8
Stanley Gibbons[AIM]	General Retailers	1,489	0.8
Cranswick	Food Producers	1,479	0.8
Top Sixty Holdings		**154,606**	**80.1**
Norcros	Construction & Materials	1,438	0.7
Advanced Computer Software[AIM]	Software & Computer Services	1,427	0.7
Vectura	Pharmaceuticals & Biotechnology	1,415	0.7
Brooks Macdonald[AIM]	Financial Services	1,413	0.7
Latchways	Support Services	1,367	0.7
NewRiver Retail[AIM]	Real Estate Investment Trusts	938	0.7
NewRiver Retail[AIM] – Placing	Real Estate Investment Trusts	397	
Cape	Oil Equipment, Services & Distribution	1,299	0.7
Chemring	Aerospace & Defence	1,293	0.7
EKF Diagnostics[AIM]	Health Care Equipment & Services	1,282	0.7
Fidessa	Software & Computer Services	1,282	0.7
Top Seventy Holdings		**168,157**	**87.1**
Utilitywise[AIM]	Support Services	1,241	0.6
JD Wetherspoon	Travel & Leisure	1,197	0.6
Berendsen	Support Services	1,175	0.6
WS Atkins	Support Services	1,171	0.6
Kentz	Oil Equipment, Services & Distribution	1,160	0.6
Rathbone Brothers	Financial Services	1,153	0.6
Electrocomponents	Support Services	1,142	0.6
Servelec	Software & Computer Services	1,116	0.6
Fenner	Industrial Engineering	1,116	0.6
JD Sports Fashion	General Retailers	1,057	0.5
Top Eighty Holdings		**179,685**	**93.0**
CLS	Real Estate Investment & Services	1,043	0.5
Domino's Pizza	Travel & Leisure	1,036	0.5
Microgen	Software & Computer Services	1,000	0.5
Catlin – *US common stock*	Non-life Insurance	974	0.5
Restaurant Group	Travel & Leisure	966	0.5
International Personal Finance	Financial Services	869	0.4
Faroe Petroleum[AIM]	Oil & Gas Producers	869	0.4
Renishaw	Electronic & Electrical Equipment	770	0.4
Sthree	Support Services	763	0.4
Keywords Studios[AIM]	Support Services	744	0.4
Top Ninety Holdings		**188,719**	**97.5**
Immunodiagnostic[AIM]	Health Care Equipment & Services	723	0.4
Hargreaves Services[AIM]	Support Services	696	0.4
Telecom Plus	Fixed Line Telecommunications	659	0.3
Anglo Pacific	Mining	624	0.3
Games Workshop	Leisure Goods	568	0.3
Perform	Media	542	0.3
Trinity Exploration & Production[AIM]	Oil & Gas Producers	485	0.3
Brammer	Support Services	378	0.2
Safestore	Real Estate Investment & Services	67	-
TOTAL INVESTMENTS		**193,461**	**100.0**

[AIM] Investments quoted on AIM (formerly the Alternative Investment Market)

GOVERNANCE
DIRECTORS

Ian Barby†

Joined the Board in 2004. He is Chairman of the Board and the Nomination and Management Engagement Committees. A barrister, he was formerly a vice chairman of Mercury Asset Management plc and has wide experience of the investment trust sector. He is also a director of BlackRock World Mining Trust plc, Pantheon International Participations plc and chairman of Schroder Income Growth Fund plc and Ecofin Water and Power Opportunities plc.

Richard Brooman*

Joined the Board in 1988. He is Deputy Chairman of the Board and Chairman of the Audit Committee. A chartered accountant, he was formerly group finance director of Sherwood International Plc. Prior to this, he was finance director of VCI plc and CFO of the global consumer healthcare business at SmithKline Beecham plc, having held senior financial and operational roles at Mars and qualifying at Price Waterhouse. He is a non-executive director and chairman of the Audit Committee of HgCapital Trust plc, Acal plc and of the Camden & Islington NHS Foundation Trust. He is also a Trustee and Audit Committee Chair of Leonard Cheshire Disability.

Christopher Fletcher†*

Joined the Board in December 2010. For a number of years until 2011, he was Head of Retail Investments at Baillie Gifford & Co with responsibility for administration and non-institutional business development, particularly of investment trusts and pooled funds. He is a director of Northern 2 VCT plc, The Association of Investment Companies and other companies. Prior to joining Baillie Gifford & Co in 1997, Mr Fletcher was a partner in the Edinburgh office of KPMG. He is a member of the Investment Committee of The National Trust for Scotland and a Trustee of the National Museums of Scotland.

Jane Lewis

Joined the Board in December 2013. Jane is an investment trust specialist who, until August of 2013, was Director of Corporate Finance and Broking at Winterflood Investment Trusts. Prior to this she worked at Henderson Global Investors and Gartmore Investment Management Limited in investment trust business development and at West LB Panmure as an investment trust broker. Jane has a BA and LLB and also holds the Securities Institute Diploma and the Investment Management Certificate.

Garth Milne†*

Joined the Board in 2001. He has been involved in investment funds in the City for over 40 years. He was formerly head of the investment funds team at UBS Warburg, having originally set up the team at Laing & Cruickshank. He is chairman of Westhouse (Holdings) plc.

John Spooner

Joined the Board in 2001. He is a director of a number of companies and an active investor in AIM listed and private companies. He has 35 years' venture capital and investment experience. He founded Quester in 1984 after six years as an investment manager with 3i; Quester became one of the leading independent venture capital companies in the UK. He qualified as a chartered accountant with Moore Stephens.

All Directors are independent and non-executive. All Directors are members of the Management Engagement Committee.

* Member of the Audit Committee.

† Member of the Nomination Committee.

The Board and Committees

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 and administration to the Manager and other external service providers.

The Board

Six non-executive directors

Chairman Ian Barby
Deputy Chairman and Senior Independent Director Richard Brooman

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 challenge constructively and scrutinise performance of all outsourced activities.

Management Engagement Committee

Chairman
Ian Barby

All the directors

Key objective:
– to review regularly the management contract and the performance of the Manager.

Audit Committee

Chairman
Richard Brooman

Additional members:
– Christopher Fletcher
– Garth Milne

Key objectives:
– to oversee the control environment and financial reporting; and
– to review other service providers, including the auditor.

Nominations Committee

Chairman
Ian Barby

Additional members:
– Christopher Fletcher
– Garth Milne

Key objectives:
– to review regularly the Board's structure and composition; and
– to make recommendations for any changes or new appointments.

Remuneration Committee Function

The Board as a whole performs this function

Key objective:
– to set the remuneration policy of the Company.

The Portfolio Managers

Jonathan Brown and Richard Smith. Jonathan Brown is a member of the UK Equity team specialising in smaller companies and has been with Invesco Perpetual for more than ten years. Richard Smith has over twenty five years' experience in the management of smaller company funds and over thirty years in investment management. Richard will be retiring at the end of June 2014, at which point Jonathan will become the sole named portfolio manager.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 JANUARY 2014

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 Board has considered the principles and recommendations of the 2013 AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2012 UK Corporate Governance Code (UK Code), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The AIC Code is available from the Association of Investment Companies (www.theaic.co.uk). The UK Code is available from the Financial Reporting Council website (www.frc.org.uk).

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

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of Invesco Perpetual UK Smaller Companies Investment Trust plc, being an externally managed investment company with no executive employees and in view of the Manager having an internal audit function. The Company has therefore not reported further in respect of these provisions.

Information on how the Company has applied the principles of the AIC Code and the UK Code is provided in the Directors' Report as follows:

The composition and operation of the Board and its committees are summarised on pages 22 and 23, and page 24 in respect of the Audit Committee.

The Company's approach to internal control and risk management is summarised on page 25.

The contractual arrangements with, and assessment of, the Manager are summarised on pages 26 and 27.

The Company's capital structure and voting rights are summarised on page 28.

The most substantial shareholders in the Company are listed on page 28.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 24. 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.

By order of the Board

Invesco Asset Management Limited
Company Secretary
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH

8 April 2014

AUDIT COMMITTEE CHAIRMAN'S LETTER

FOR THE YEAR ENDED 31 JANUARY 2014

Dear Shareholder,

This is my first report to you in accordance with the recent changes to Corporate Governance in the UK and it presents an opportunity to show more clearly the range of work that the Audit Committee has considered and the judgments it has exercised. The Committee met three times in the course of the year to 31 January 2014 and continued to support the Board in fulfilling its oversight responsibilities, reviewing financial reporting, the system of internal controls and management of risk, the audit process and the Company's process for monitoring compliance with laws and regulations. The responsibilities of a listed company's audit committee are set out in the UK Corporate Governance Code, Disclosure and Transparency Rule 7.1 and the Committee's terms of reference.

The Audit Committee is chaired by me, Richard Brooman and I am ably supported by the other members: Christopher Fletcher and Garth Milne. The Committee members consider that collectively they have substantial recent and relevant financial experience, properly to fulfil the role. 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, as well as on the Manager's website. A separate risk committee has not been established.

The Audit Committee's responsibilities 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 whistleblowing arrangements;

– consideration of the annual and half-yearly financial reports prepared by the Manager, of the appropriateness of the accounting policies applied and of any financial judgements and key assumptions therein, together ensuring compliance with relevant statutory and listing requirements;

– advising the Board on whether the Committee believes 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 performance, business model and strategy; and

– managing the relationship with the external auditor, including evaluation of their reports and the scope, effectiveness, independence and objectivity of their audit, as well as their appointment, re-appointment and removal.

The Committee normally meets three times a year to review and consider each of the above responsibilities as appropriate and, together with the Manager, reviews 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 attend at least two meetings each year. Representatives of the external auditor, Grant Thornton UK LLP, attend the Committee meeting at which the draft annual financial report is reviewed and are given the opportunity to speak to Committee members without the presence of representatives of the Manager.

The audit programme and timetable are drawn up and agreed with the auditor in advance of the end of the financial period and matters for audit focus are discussed and agreed. The auditor ensures that these matters are given particular attention during the audit process and reports on them, and other matters as required, in their report to the Committee. This report, together with reports from the Manager, and the Manager's Internal Audit and Compliance Departments, form the basis of the Audit Committee's consideration and discussions with the various parties, prior to approval and signing of the financial statements.

Principal Matters Considered by the Committee in 2013/14

During the year, the Committee discharged its responsibilities by monitoring, reviewing and, where necessary, challenging. The principal matters considered and how these were addressed are shown in the following table.

AUDIT COMMITTEE CHAIRMAN'S LETTER

continued

PRINCIPAL MATTERS CONSIDERED	HOW ADDRESSED
Accuracy of the portfolio valuation, encompassing proof of existence of all the portfolio holdings	Actively traded listed investments are valued using stock exchange bid prices provided by third party pricing vendors. There were no reported differences between the portfolio holdings shown in the accounting records and those held by the custodian.
The focusing of risk management on the key risks pertinent to the Company and the Board	The Committee considered the strategy, investment policy and objective of the Company in assessing whether risk management processes were appropriate.
Assessing the risks arising in relation to the Company's operations and internal controls and other actions used to mitigate those risks	The Committee reviewed the Company's risk matrix of the Company's principal risks, details of which are provided in the Strategic Report; and identified the controls exercised to mitigate them by the Board, the Manager and other service providers.
Evaluation of the effectiveness of controls, with emphasis on external service providers and safeguarding of the Company's assets	The Committee received and considered, together with representatives of the Manager where appropriate, reports on the operational controls of the portfolio managers, accounting administrator, Custodian, Company Secretary and the Registrar. These reviews identified no issues of significance in the last year.
Following the Board's request, the Committee reviewed the annual financial report to ensure that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, its business model and its strategy.	The Committee considered, together with the Manager and the auditor, the annual financial report to ensure that the overall layout of the report and the narrative therein presents a clear and concise story that reflects the year being reported as well as the position of the Company at the year end.
Audit planning	Discussion pre-year end with the Manager and external auditor, including identification of key risks.
Effectiveness of the external audit process and independence and objectivity of external auditor	Detailed consideration of audit findings and discussions with the external auditor. Additionally the Audit Committee considered carefully the independence of Grant Thornton UK LLP and the objectivity of the audit process and is satisfied that, as auditor, it has fulfilled its obligations to shareholders and is independent of the Company.

The significant issue considered by the Committee in relation to the annual financial report is the first one of the above table: the accuracy (and thus safeguarding) of the reported portfolio position.

Review of the External Auditor, including Non-Audit Services and Re-appointment

The Audit Committee considers that Grant Thornton UK LLP carried out its duties as auditor of the Company in a professional and effective manner. As part of the review of audit effectiveness, a formal evaluation process was followed, which incorporated views from the members of the Committee and relevant personnel at the Manager.

It is the Company's policy normally not to seek substantial non-audit services from its auditor. Non-audit services related to tax compliance and advice were provided for the year for a fee of £5,250 (2013: £5,500), excluding VAT. Prior to any engagement for non-audit services, the Audit Committee considers whether the skills and experience of the auditor make them a suitable supplier of such services and satisfies itself that there is no threat to objectivity and independence in the conduct of the audit as a result. Individual non-audit services up to £5,000 each require approval of the Chairman of the Audit Committee; amounts in excess of this require the approval of the Committee as a whole.

The Committee is mindful of the changes to the UK Corporate Governance and AIC Codes as well as proposed Competition Commission and European regulation in respect of audit tendering and, in the case of the latter, audit rotation. Grant Thornton UK LLP (formerly RSM Robson Rhodes) has been the auditor of the Company, since its inception in 1987 and both the audit partner and manager have rotated in accordance with prevailing audit guidance. After proper consideration, the Committee has concluded that it is not necessary to initiate a re-tendering process at this time, but it will continue to keep the situation under review. The Committee has accordingly recommended to the Board the inclusion of a resolution which proposes the re-appointment of Grant Thornton UK LLP at the forthcoming AGM.

Internal Controls

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness and has delegated the review and assessment of controls and their effectiveness to the Audit Committee. The system controls aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the controls of the Company by a series of regular investment performance reviews, investment guideline reports and Manager's reports together with review of independent auditor reports on the external service providers. Key risks have been identified and controls put in place to mitigate them. The effectiveness of the internal controls is assessed by the Manager's Compliance and Internal Audit Departments on a continuing basis and is also reviewed by the Committee. The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risk of failure to achieve objectives.

Internal Audit

The Company, being an externally managed investment company does not have its own internal audit function. However, it places substantial reliance on the reports of the Manager's own internal audit team.

Committee Evaluation

The Committee's activities formed part of the review of Board effectiveness performed in the year. Details of this process can be found under 'Board, Committee and Directors' Performance Appraisal' on page 24.

I look forward to seeing you at the Company's AGM.

Yours faithfully,

Richard Brooman
Chairman of the Audit Committee

8 April 2014

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2014

Introduction

The Directors present their report for the year ended 31 January 2014.

Business and Status

The Company was incorporated and registered in England and Wales on 7 May 1987 as a public limited company, registered number 2129187. It is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust within the meaning of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust and, in the opinion of the Directors, the Company has conducted its affairs so as to enable it to maintain such approval.

Corporate Governance

The Corporate Governance Statement set out on page 18 is included in this Directors' Report by reference.

The Board

The Board comprises six Directors, all of whom are non-executive and all of whom the Board regards as independent of the Company's Manager.

The Board considers that the independence of Richard Brooman, Garth Milne, John Spooner and Ian Barby, each of whom has served on the Board for more than 9 years, is not compromised by their length of service but, to the contrary, is strengthened by their experience.

Chairman

The Chairman of the Board is Ian Barby, who has no conflicting relationships. He has been a member of the Board since 2004 and Chairman since 2005.

Senior Independent Director/Deputy Chairman

The Deputy Chairman of the Board is Richard Brooman who also fulfils the role of Senior Independent Director. He is available to shareholders if they have concerns which contact through the normal channels of Chairman or Manager have failed to resolve or for which such contact is inappropriate.

Board Balance

The Directors have a range of business, financial or asset management skills and experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 16.

Board Responsibilities

The Board has overall responsibility for the Company's affairs. The Directors are equally responsible under United Kingdom law for promoting the success of the Company and for the proper conduct of the Company's affairs. 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. In addition, the Board is responsible for ensuring that the Company's policies and activities are in the interests of the Company's shareholders and that the interests of creditors and suppliers to the Company are properly considered. The success of the Company is promoted by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed.

The schedule of matters reserved for decision by the Board is available at the registered office of the Company and on the Manager's website at www.invescoperpetual.co.uk/investmenttrusts. The main responsibilities include: setting the Company's objectives; policies 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; setting long-term objectives and strategy; assessing risk; reviewing investment performance; approving loans and borrowing; and controlling risks. The Board also seeks to ensure that shareholders are provided with sufficient information in order to understand the balance between risk and reward to which they are exposed by holding the Company's shares, through the portfolio details given in the annual financial and half-yearly financial reports, interim management statements, factsheets and daily net asset value disclosures.

The Board as a whole undertakes periodically the responsibilities for remuneration. The remuneration of Directors and their shareholdings are reported on in more detail in the Directors' Remuneration Report on pages 30 to 32.

Supply of Information

To enable the Directors of the Board to fulfil their roles, the Manager ensures that all Directors have timely access to all relevant management, financial and regulatory information.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are frequently updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from key members of the Manager's staff and which ensure that Directors can keep up to date with regulation, best practice and the changing risk environment.

The Board meets on a regular basis at least five times each year. Additional meetings are arranged as necessary. Regular contact is maintained between the Manager and the Board between formal meetings.

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

There is an agreed procedure for Directors, if thought necessary 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 with the Chairman.

Audit Information

The Directors confirm that, 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 he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Chairman's Letter on pages 19 to 21, which is included in this Directors' Report by reference.

Nomination Committee

The Nomination Committee currently comprises Ian Barby, Chris Fletcher and Garth Milne. The Chairman of the Nomination Committee is Ian Barby. The Committee meets at least once each year to review the Board's size and structure, and to ensure an appropriate balance of skills, experience, independence and knowledge of the Company. The Committee has due regard for the benefits of diversity (including gender) in its members, but has not set any measurable objective for diversity for the Company or the Committee, there being only six directors and no employees. The Committee has written terms of reference, which clearly define its responsibilities and duties. The terms of reference of the Nomination Committee are available for inspection at the AGM, at the registered office address of the Company and also available via the Manager's website.

The Board and Committee undertook a review of the Board taking into consideration the above items and also the changes that the Company may face, given the future of the Company as outlined in the Chairman's Statement. Having due regard to these factors, including diversity, a search was conducted for a director and a short list of strong candidates compiled, without the need to use an external search consultancy, from which the Committee proposed the appointment of Jane Lewis. The Board and the Committee considers that, with her considerable knowledge and experience in both broking and the investment company sector, Jane will make a valuable contribution to the Board and recommends that shareholders approve her election as a Director by supporting resolution 9 at the Company's AGM.

DIRECTORS' REPORT

continued

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, via the Manager's website and will also be available at the AGM.

Appointment, Re-election and Tenure of Directors

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must be put up for appointment at the next Annual General Meeting.

In accordance with the Board's tenure policy set out below, long-serving Directors will retire at this year's AGM and will offer themselves for re-election. Therefore, the Directors retiring and offering themselves for re-election at the Company's AGM are Ian Barby, Richard Brooman and Garth Milne, each having served on the Board for more than 9 years.

In accordance with the Company's Articles of Association, at every AGM, there shall retire from office any Director who shall have been a Director at each of the preceding two AGMs and who was not appointed or re-appointed by the Company in general meeting since. A retiring Director is eligible for re-appointment. Therefore, Christopher Fletcher will retire and stand for re-election at the Company's AGM in June 2014. Jane Lewis was appointed to the Board as a Director with effect from 17 December 2013. In accordance with the Articles of Association she will stand for election by shareholders at the forthcoming AGM.

A Director's tenure of office will be for three terms of three years only, 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. In this case, a Director serving longer than nine years will seek re-election annually.

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, the Audit Committee and individual Directors. The performance of the Board, Audit Committee and Directors has been assessed during the year in terms of:

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

The Board has conducted its performance evaluation through questionnaires and discussion between the Directors and the Chairman/ Audit Committee Chairman respectively. The employment of a third party for the purposes of Directors' performance evaluation has been considered by the Board and the issue will be kept under review for the future. The result of the most recent performance evaluation process was that the Board collectively, and the Directors individually, continue to be effective and demonstrate commitment to the role.

Attendance at Board and Committee Meetings

All Directors are considered to have a good attendance record at Board and Committee meetings of the Company. The following table sets out the number of Directors' meetings (including Committee meetings) held during the year ended 31 January 2014 and the number of meetings attended by each Director:

	BOARD	AUDIT COMMITTEE	MANAGEMENT ENGAGEMENT COMMITTEE	NOMINATION COMMITTEE
Meetings held in year:	5	3	1	3
Ian Barby, Chairman	5	n/a	1	3
Richard Brooman	5	3	1	n/a
Christopher Fletcher	5	3	1	3
Jane Lewis	1*	n/a	1	n/a
Garth Milne	5	3	1	3
John Spooner	5	n/a	1	n/a

*Only one Board meeting held since appointment.

Non-members of the Audit Committee may attend meetings by invitation from the Chairman of the Audit Committee.

Richard Brooman, John Spooner and Jane Lewis are not members of the Nomination Committee. However, they may attend the Nomination Committee meetings by invitation from the Chairman of the Nomination Committee.

Directors

Directors' Interests in Shares

The Directors' interests in the ordinary share capital of the Company are disclosed in the Directors' Remuneration Report on page 32.

Disclosable Interests

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year end. The Company has entered into a Deed of Indemnity with each Director, as expanded upon below.

Conflicts of Interest

The Articles of Association of the Company give the Directors authority to approve conflicts and potential conflicts of interest, and safeguards apply. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. Directors who have potential conflicts of interest will not take part in any discussions which relate to any of their potential conflicts.The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

The Company's Register of Potential Conflicts of Interest is kept at the registered office of the Company. Currently, there are no recorded potential conflicts of interest of any of the Directors. Directors must advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

Directors' Indemnities and Insurance

The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for any legal action brought against its Directors. In addition, deeds of indemnity have been exercised on behalf of the Company for each of the Directors under the Company's Articles of Association.

Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

Internal Controls and Risk Management

The Directors acknowledge that they are responsible for ensuring that the Company maintains a sound system of internal controls to safeguard shareholders' investment and the Company's assets.

The Board reviews, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the Company's objective, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from their review. There are no significant failings or weaknesses that have occurred throughout the year ended 31 January 2014 and up to the date of this Annual Financial Report.

The Board reviews financial reports and performance against revenue forecasts, stock market indices and the Company's peer group. In addition, the Manager and Custodian maintain their own systems of internal controls and the Board and Audit Committee receive regular reports from the Internal Audit and Compliance Departments of the Manager. Formal reports are also produced on the internal controls and procedures in place for custodial, investment management and accounting activities, and these are reviewed annually by the Board.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as the Company has adequate resources to continue in operational existence for the foreseeable future. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet funding commitments and the ability of the Company to meet all of its liabilities, including any bank borrowings and ongoing expenses from its assets.

The Manager and the Management Engagement Committee

The Directors have delegated to Invesco Asset Management (IAML (the Manager)) the responsibility for the day-to-day investment management activities of the Company.

The Manager also provides full administration, company secretarial and accounting services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and officiating at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which the Manager prepares half-yearly and annual financial reports and interim management statements on behalf of the Company.

Investment Management Agreement (IMA)

The Manager provides investment and administration services to the Company under an agreement dated 12 December 2001 as subsequently amended, with the latest amendment being dated 13 September 2012. The agreement is terminable by either party giving not less than one year's notice and immediately in certain circumstances.

The management fee is payable monthly in arrears and is calculated at the rate of 0.65% per annum by reference to the Company's gross funds under management.

A performance fee is payable annually in arrears if the change in the Company's net asset value (capital only) exceeds the change in the benchmark index excluding income reinvested. The performance fee is equal to 12.5% of the value of outperformance, but is not allowed to exceed in any one year 1% of the value of the Company's average funds under management. Any unpaid, but earned, performance fees are held over and paid in the following year subject to an overall cap of two times 1% of the Company's average funds under management. Any performance fee is based on the outperformance over the benchmark index after taking into account any previous underperformance (up to a maximum of two times 1% of the Company's average funds under management).

The Management Engagement Committee

The Management Engagement Committee comprises the entire Board under the chairmanship of Ian Barby. The Management Engagement Committee has written terms of reference which clearly define its responsibilities and duties. The terms of reference of the Management Engagement Committee, including its role and authority, will be available for inspection at the AGM, can be inspected at the registered office of the Company and are available via the Manager's website. The Committee meets at least annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager.

Assessment of the Manager

The Management Engagement Committee has carried out a review following the Company's financial year end on 31 January 2014 and has decided that the continuing appointment of Invesco Asset Management Limited as Manager and Secretary is in the best interests of the Company and its shareholders.

Alternative Investment Fund Managers Directive

The Board is taking independent legal advice in relation to the Directive and has decided, in principle, to appoint Invesco Fund Managers Limited (IFML) as the Company's Alternative Investment Fund Manager, pending IFML's approval as such by the Financial Conduct Authority. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The 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. Finally, the Secretary is responsible for advising the Board through the Chairman on all governance matters.

Stewardship

The Board considers that the Company has a responsibility as a shareholder to encourage that high standards of Corporate Governance are maintained in the companies in which it invests. The Company’s stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility to shareholders 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 consider shareholder value and comply with local recommendations and practices, such as the UK Corporate Governance Code. To achieve this, the Manager 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 improve those standards. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis. A copy of the Manager’s Policy on Corporate Governance and Stewardship can be found at www.invescoperpetual.co.uk.

Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the half-yearly and annual financial report, which aim to provide shareholders with a full understanding of the Company’s activities and their results. This information is supplemented by the bi-annual publication of the interim management statement, the daily publication at the Stock Exchange of the net asset value and monthly and daily fact sheets. At each AGM, a presentation is made by the Manager following the formal business of the meeting and shareholders have the opportunity to communicate directly with the whole Board. All shareholders are encouraged to attend the AGM.

Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or in writing to the Company Secretary at the address given on page 56.

Shareholders can also visit the Manager’s website in order to access copies of annual and half-yearly financial reports, interim management statements, shareholder circulars, factsheets and Stock Exchange Announcements. Shareholders can also access various Company reviews and information, such as an overview of UK equities and the Company’s share price. Finally, shareholders are able to access copies of the Schedule of Matters Reserved for the Board, the Terms of Reference of the Committees of the Board and, following any shareholders' general meetings, proxy voting results.

There is a regular dialogue between the Manager and individual major shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help develop an understanding of their issues and concerns. General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

The Board employs Kepler Partners to complement the marketing activities of Invesco Perpetual. Kepler is a specialist marketing firm that seeks to widen investment interest in the Company’s shares amongst the regional offices of private client wealth managers and other adviser firms. To date, the Board is pleased with the results produced by Kepler on behalf of the Company and its shareholders.

Social and Environmental Policies

As an investment trust company with no employees, property or activities outside investment management, environmental policy has limited application.

The Manager considers various factors when evaluating potential investments. Some are financial ratios and measures, such as free cash flow, earnings per share and price-to-book value. Others are more subjective indicators which rely on first hand research; for example quality of management, innovation and product strength. The Company’s policy is that, subject to an overriding requirement to pursue the interests of the Company and its shareholders, the Manager should take account of social, environmental and ethical factors in making and holding investments and in the use of voting powers conferred by such investments.

The Company is able to supply documents or information to shareholders in electronic form (e.g. by email) or by means of a website. This delivers environmental benefits through reduced use of paper and of the energy required for its production and distribution.

Greenhouse Gas Emissions

The Company has no employees or premises and does not purchase energy for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes.

Share Capital

Capital Structure and Repurchases

At 31 January 2014, the Company's issued share capital consisted of 53,209,084 ordinary shares (2013: 53,209,084 ordinary shares) of 20p each. To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders every year, to buy back and to issue shares. During the year, the Company did not issue, repurchase or cancel any ordinary shares. No ordinary shares have been repurchased by the Company since the financial year end, and no shares are currently held in treasury.

Restrictions

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.

Voting

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

Substantial Holdings in the Company

At 31 March 2014, the Company had been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	HOLDING AS AT 31 MARCH 2014	%	HOLDING AS AT 31 JANUARY 2014	%
1607 Capital Partners	6,794,910	12.8	6,923,468	13.0
Lazard Asset Management	6,046,473	11.4	6,097,212	11.5
Royal London Asset Management	4,658,453	8.8	4,658,453	8.8
West Yorkshire PF	2,985,000	5.6	2,985,000	5.6
Sarasin & Partners	2,594,412	4.9	2,694,882	5.1
Investec Wealth & Investment	2,299,290	4.3	2,124,090	4.0
Invesco Perpetual	2,027,914	3.8	2,027,914	3.8
Invesco Perpetual ISA and savings scheme	1,748,711	3.3	1,733,469	3.3
CG Asset Management	1,691,000	3.2	1,191,000	2.2

Individual Savings Accounts (ISA)

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

Business of the Annual General Meeting

The following summarises the special business of the forthcoming AGM of the Company, which is to be held on 5 June 2014 at 12.00 pm. The notice of the AGM and related notes can be found on pages 51 to 54. All resolutions are ordinary resolutions unless otherwise identified.

Resolution 1 is for members to receive this Annual Financial Report (AFR), including the financial statements and auditor's report.

Resolution 2 is to approve the Directors' Remuneration Policy. This is a new requirement and the vote is binding. The Directors' Remuneration Policy is set out on page 30 of this AFR.

Resolution 3 is to approve the Annual Statement and Report on Remuneration. It is mandatory for listed companies to put their Annual Statement and Report on Remuneration to an advisory shareholder vote. The Annual Statement and Report on Remuneration is set out on pages 31 and 32 of this AFR.

Resolution 4 is to declare the final dividend for the year.

Resolutions 5 to 8 are to re-elect Directors and **Resolution 9** is to elect Jane Lewis a Director; she was appointed by the Board during the year. Biographies of the Directors can be found on page 16.

Resolution 10 is to re-appoint the auditor and to authorise the Directors to determine their remuneration. Grant Thornton UK LLP have expressed their willingness to continue to hold office until the conclusion of the next AGM of the Company.

Special Business

Resolution 11 is an ordinary resolution to renew the Directors' authority to allot shares. Your Directors are asking for authority to allot new ordinary shares up to an aggregate nominal value of £532,090 (5% of the Company's issued share capital at 8 April 2014). This will allow Directors to issue shares within the prescribed limits should opportunities to do so arise that they consider would be in shareholders' interests. This authority will expire at the AGM in 2015.

Special Resolution 12 is to renew the authority to disapply pre-emption rights. Your Directors are asking for authority to issue new ordinary shares for cash up to an aggregate nominal value of £532,090 (5% of the Company's issued share capital as at 8 April 2014), disapplying pre-emption rights. 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 (with debt at fair value) and will expire at the AGM in 2015.

Special Resolution 13 is to renew the authority for the Company to purchase its own shares. Your Directors are seeking authority for the purchase of up to 14.99% of the Company's issued ordinary share capital as at the date of the AGM, subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2015. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, 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. The current authority (to buy back up to shares) expires at the AGM and had not been utilised to the date of this report.

Special Resolution 14 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days notice, which is the minimum notice period permitted by the Companies Act 2006. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless two 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 this flexibility will be used only where the Board believes it is in the interests of shareholders as a whole.

The Directors have carefully considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

By order of the Board

Invesco Asset Management Limited
Company Secretary
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH

8 April 2014

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 JANUARY 2014

The Board presents this Remuneration Report which has been prepared under the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 and in accordance with the Listing Rules of the Financial Conduct Authority. Ordinary resolutions for the approval of the Directors' Remuneration Policy (binding) and the Annual Statement and Report on Remuneration (advisory) will be put to shareholders at the Annual General Meeting.

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included on pages 34 to 36.

Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the Board's responsibilities to be addressed regularly. All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered.

Directors' Remuneration Policy

The Board's policy is that the remuneration of Directors should be fair and reasonable in relation to that of other comparable investment trust companies and be sufficient to retain and motivate appointees, as well as ensure that candidates of a high calibre are recruited to the Board taking into account the views, where appropriate, of shareholders. Remuneration levels should properly reflect time incurred and responsibility undertaken. Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum currently dictated by the Company's Articles of Association is £150,000 in aggregate per annum.

The level of remuneration paid to Directors is reviewed annually, although such review will not necessarily result in any changes. The same level of remuneration will apply to any new appointments.

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. 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.

Discretionary fees per day are payable to Directors for any additional work undertaken on behalf of the Company, which is outside their normal duties. Any such extra work undertaken is subject to prior approval of the Chairman or, in the case of the Chairman undertaking the extra work, subject to prior approval of the Chairman of the Audit Committee. No such extra fees were paid during the year.

The Board did not use the services of external remuneration consultants.

The Board may amend the level of remuneration paid to Directors within the parameters of the directors' remuneration policy.

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

Directors' Fees

From 1 August 2013, Directors' fees were paid at the following per annum rates: the Chairman £27,500; the Audit Committee Chairman £23,500; and Other Directors £19,500. Discretionary fees are set at £1,250 per day.

Chairman's Annual Statement on Directors' Remuneration

During the year the Board reviewed the level of Directors' remuneration, taking into consideration increased regulatory and corporate governance requirements and the additional workload that each Director will continue to experience. As a result, fees were revised with effect from 1 August 2013, this being the first increase in three years. The change in the levels of fees is set out below.

	FEE AT 1 AUGUST 2013	2010	CHANGE	ANNUALISED CHANGE
Chairman	£27,500	£25,000	£2,500	3.2%
Audit Committee Chairman	£23,500	£21,000	£2,500	3.8%
Other Directors	£19,500	£17,000	£2,500	4.7%

No discretionary payments were made in the year, or the previous year.

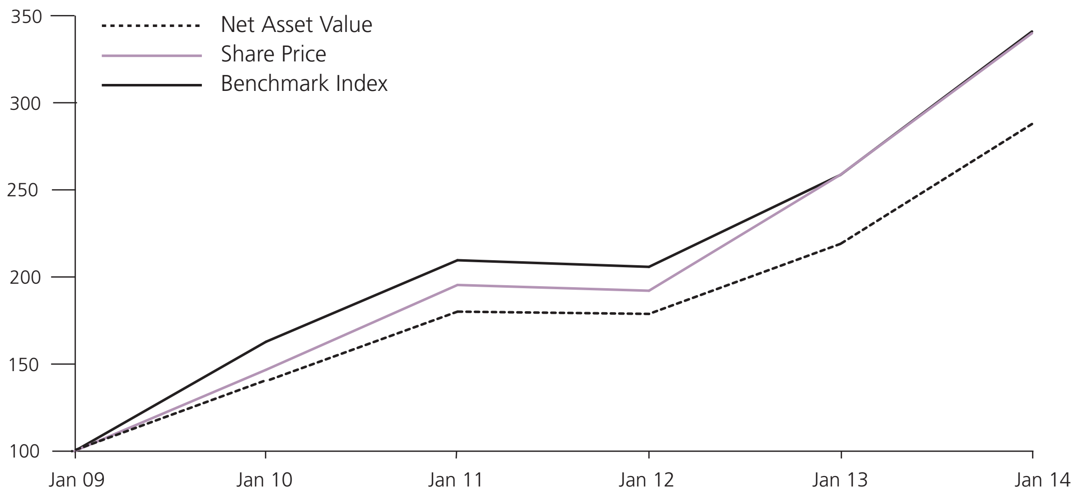
Report on Remuneration for the Year Ended 31 January 2014

Your Company's Performance

The graph below plots the total return to ordinary shareholders compared with the total return of the Numis Smaller Companies Index (excluding Investment Companies) (the benchmark index) over the five years to 31 January 2014.

Total Return of Share Price, Net Asset Value and Benchmark Index

Figures have been rebased to 100 at 31 January 2009.



Directors' Emoluments for the Year (Audited)

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

	2014 £	2013 £
Ian Barby – Chairman	26,250	25,000
Richard Brooman – Chairman of the Audit Committee	22,250	21,000
Christopher Fletcher	18,250	17,000
Jane Lewis – appointed 17 December 2013	2,458	–
Garth Milne	18,250	17,000
John Spooner	18,250	17,000
Total	105,708	97,000

Directors' Shareholdings and Share Interests (Audited)

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

	31 January 2014	31 January 2013
Ian Barby – Chairman	25,000	25,000
Richard Brooman – Chairman of the Audit Committee	19,670	19,670
Christopher Fletcher	10,450	10,450
Jane Lewis	nil	n/a
Garth Milne	5,000	5,000
John Spooner	25,000	25,000

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the period. No 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 and, although share ownership is encouraged, no guidelines have been set.

Relative Importance of Spend on Pay

The following table compares the remuneration paid to the Directors with aggregate distributions to shareholders in the year to 31 January 2014 and the prior year. This disclosure is a statutory requirement, however, the Directors consider that comparison of Directors' remuneration with annual dividends does not provide a meaningful measure relative to the Company's overall performance as an investment trust with an objective of providing shareholders with long-term total return.

	2014 £'000	2013 £'000	CHANGE £'000
Aggregate Directors' Emoluments	106	97	9
Aggregate Shareholder Distributions	3,459	3,193	266

Voting at Last Annual General Meeting

At the Annual General Meeting of the Company held on 21 May 2013, an advisory resolution was put to shareholders to approve the remuneration report set out in the 2013 annual financial report. This resolution was passed on a show of hands. The proxy votes registered in respect of the resolution were: For 30,553,057 (99.91%); Against 27,250 (0.09%); 13,860 (0.04%) votes were withheld.

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 8 April 2014.

Ian Barby
Chairman
Signed on behalf of the Board of Directors

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the preparation of the Annual Financial Report

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they 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.

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

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

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

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

In so far as each of the Directors is aware:

- there is no information, relevant to the audit, of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors of the Company each confirm to the best of their knowledge, that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit 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 performance, business model and strategy.

Signed on behalf of the Board of Directors

Ian Barby
Chairman

8 April 2014

Electronic Publication

The annual financial report is published on *www.invescoperpetual.co.uk/investmenttrusts* which is the Company's website maintained by the Company's Manager. The work carried out by the Auditor did not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT

to the Members of Invesco Perpetual UK Smaller Companies Investment Trust plc

We have audited the financial statements of Invesco Perpetual UK Smaller Companies Investment Trust plc (the 'Company') for the year ended 31 January 2014 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Auditor commentary

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and relevant third party service providers. This included a review of reports on the description, design and operating effectiveness of internal controls at relevant third party service providers. We undertook substantive testing on significant transactions, account balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £1,992,000 which is 1% of the Company's total assets. For the Statement of Comprehensive Income we determined that misstatements for a lesser amount than materially for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information, would have been changed or influenced by the misstatement or omission. Accordingly, we established materially for the revenue column of the Statement of Comprehensive Income to be £492,000.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be £100,000. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, balances or disclosures.

Investments

The Company's business is investing in financial assets with a view to profit from the total return in the form of revenue and capital gains. Accordingly, the investment portfolio is a significant, material item in the financial statements. The recognition and measurement of the investment portfolio is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, understanding management's process to recognise and measure investments including ownership of those investments, obtaining a confirmation of investments held at the year end directly from the independent custodian, testing the reconciliation of the custodian records to the records maintained by the Company's administrator, testing a selection of investment additions and disposals shown in the Company's records to supporting documentation and agreeing the valuation of quoted investments to an independent source of market prices.

The Company's accounting policy on the valuation of quoted investments is included in note 1(c), and disclosures about investments held at the year end are included in note 9.

Investment income

Investment income is the Company's major source of revenue and a significant, material item in the Statement of Comprehensive Income. Accordingly, the recognition of investment income is a risk that requires particular audit attention.

Our audit work included, but was not restricted to, assessing whether the Company's accounting policy for revenue recognition is in accordance with IAS 18 'Revenue', obtaining an understanding of management's process to recognise revenue in accordance with the stated accounting policy, testing whether a sample of income transactions has been recognised in accordance with the policy, and for a sample of investments held in the period confirming that income that should have been received has been received and recorded and assessing whether any of the dividends should have been treated as capital receipts.

The Company's accounting policy on the recognition of income is shown in note 1(f), 1(i) and the components of that revenue are included in note 2.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Other reporting responsibilities

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 25, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Julian Bartlett
(Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

8 April 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JANUARY

	NOTES	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Profits on investments held at fair value	9	—	43,806	43,806	—	25,353	25,353
Losses on derivative instruments	10	—	—	—	—	(45)	(45)
Income	2	4,555	—	4,555	4,123	—	4,123
Investment management fees	3	(567)	(567)	(1,134)	(451)	(451)	(902)
Other expenses	4	(314)	(4)	(318)	(290)	(2)	(292)
Profit before finance costs and taxation		3,674	43,235	46,909	3,382	24,855	28,237
Finance costs	5	(1)	(5)	(6)	(7)	(29)	(36)
Profit before tax		3,673	43,230	46,903	3,375	24,826	28,201
Taxation	6	—	—	—	(5)	—	(5)
Profit after tax		3,673	43,230	46,903	3,370	24,826	28,196
Return per ordinary share							
Basic	7	6.9p	81.2p	88.1p	6.3p	46.7p	53.0p

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards. The profit after tax is the total comprehensive income for the year. 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 and the Company has no other gains or losses. No operations were acquired or discontinued in the year.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JANUARY

	NOTES	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 January 2012		10,669	21,244	3,359	87,299	4,200	126,771
Profit for the year		—	—	—	24,826	3,370	28,196
Shares repurchased and cancelled		(27)	—	27	(278)	—	(278)
Dividends paid	8	—	—	—	—	(2,655)	(2,655)
At 31 January 2013		10,642	21,244	3,386	111,847	4,915	152,034
Profit for the year		—	—	—	43,230	3,673	46,903
Dividends paid	8	—	—	—	—	(3,188)	(3,188)
At 31 January 2014		10,642	21,244	3,386	155,077	5,400	195,749

The accompanying notes are an integral part of this statement.

BALANCE SHEET

AS AT 31 JANUARY

	NOTES	2014 £'000	2013 £'000
Non-current assets			
Investments held at fair value through profit or loss	9	193,461	146,338
Current assets			
Other receivables	11	1,108	950
Cash and cash equivalents		4,690	7,742
		5,798	8,692
Total assets		199,259	155,030
Current liabilities			
Other payables	12	(3,510)	(2,996)
Net assets		195,749	152,034
Issued capital and reserves			
Share capital	13	10,642	10,642
Share premium	14	21,244	21,244
Capital redemption reserve	14	3,386	3,386
Capital reserve	14	155,077	111,847
Revenue reserve	14	5,400	4,915
Total Shareholders' funds		195,749	152,034
Net asset value per ordinary share			
Basic	15	367.9p	285.7p

The financial statements were approved and authorised for issue by the Board of Directors on 8 April 2014.

Signed on behalf of the Board of Directors

Ian Barby
Chairman

Richard Brooman
Deputy Chairman

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JANUARY

	2014 £'000	2013 £'000
Cash flow from operating activities		
Profit before tax	46,903	28,201
Taxation	—	(5)
Adjustments for:		
Purchases of investments	(86,351)	(33,823)
Sales of investments	81,044	50,595
	(5,307)	16,772
Profits on investments	(43,806)	(25,353)
Finance costs	6	36
Operating cash flows before movements in working capital	(2,204)	19,651
Increase in receivables	(49)	(62)
Increase/(decrease) in payables	24	(378)
Net cash flows from operating activities after tax	(2,229)	19,211
Cash flows from financing activities		
Interest paid	(6)	(36)
Shares repurchased and cancelled	—	(280)
Equity dividends paid – note 8	(3,188)	(2,655)
Net cash used in financing activities	(3,194)	(2,971)
Net (decrease)/increase in cash and cash equivalents	(5,423)	16,240
Cash and cash equivalents at the beginning of the year	7,742	(8,498)
Cash and cash equivalents at the end of the year	2,319	7,742

Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:

	2014 £'000	2013 £'000
Cash held at custodian	–	102
STIC* money market fund	4,690	7,640
Bank overdraft	(2,371)	–
Cash and cash equivalents	2,319	7,742

* Short-Term Investment Company (Global Series) plc

The accompanying notes are an integral part of this statement.

1. Principal Accounting Policies

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 the preceding year, unless otherwise stated. The accounts have been prepared on a going concern basis. The disclosure on going concern on page 26 of the Report of the Directors forms part of the financial statements.

(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 (IFRSs) 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 31 January 2013.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009, is consistent with the requirements of IFRSs, the Directors have sought to prepare 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 this.

(ii) *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).

- IFRS 9: Financial Instruments (2013) (No mandatory effective date. Early adoption is permitted for accounting periods starting on or after a date to be announced, and this date will be after 1 January 2015).
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 Financial Instruments: Disclosure (effective 1 January 2015 or when IFRS 9 is first applied (see above)).
- IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective 1 January 2014).
- Amendments to IFRS10, IFRS 12 and IAS 27 (October 2012) – Investment Entities (effective for accounting periods starting on or after 1 January 2014).

The Directors do not expect the adoption of the 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.

(b) Foreign Currency and Segmental Reporting

(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 share capital and expenses are denominated, as well as a majority of its assets and liabilities.

(ii) *Transactions and balances*

Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currency, are translated to sterling at the rates of exchange ruling on the dates of such transactions, and are taken to revenue or capital depending on whether they are revenue or capital in nature. All are recognised in the statement of comprehensive income.

1. Principal Accounting Policies (continued)

(iii) *Segmental reporting*
The Directors are of the opinion that the Company is engaged in a single segment of business of investing in equity and debt securities, issued by companies operating and generating revenue mainly in the UK.

(c) Financial Instruments

(i) *Recognition of financial assets and financial liabilities*
The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company offsets financial assets and financial liabilities 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*
The Company derecognises a financial asset 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*
The Company derecognises financial liabilities when its 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
The Company's investments are designated at fair value through profit or loss as the investments are managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy, and this is also the basis on which information about the 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 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. Unquoted investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Association Guidelines.

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) Hedging and Derivatives

Derivative instruments are valued at fair value in the balance sheet. Derivative instruments may be capital or revenue in nature and, accordingly, changes in their fair value are recognised in revenue or capital in the income statement as appropriate.

Futures contracts may be entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital. Where futures contracts are used for investment exposure any net income/expense is included within revenue in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. Principal Accounting Policies (continued)

(e) Cash and Cash Equivalents

Cash and cash equivalents include any cash held at custodian and approved depositories, holdings in Short Term Investments Company any (Global Services) plc (STIC), a triple-A rated money market fund and overdrafts.

(f) Income

All dividends are taken into account on the date investments are marked ex-dividend; other income from investments is taken into account on an accruals basis. Deposit interest and underwriting commission receivable are taken into account on an accruals basis. Special dividends representing a return of capital are allocated to capital in the statement of comprehensive income and then taken to capital reserves.

(g) Expenses and Finance Costs

All expenses and finance costs are accounted for in the statement of comprehensive income on an accruals basis.

The investment management fee is allocated equally to capital and revenue. This is in accordance with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the portfolio.

The performance-related management fee is allocated wholly to capital as it arises from capital returns on the portfolio.

The Company has a bank overdraft facility to enable the portfolio managers to borrow when they believe it is advantageous to do so. As the portfolio managers will only do this with a view to capital growth, finance costs are allocated 80% to capital and 20% to revenue.

All other expenses are allocated to revenue in the statement of comprehensive income.

(h) Taxation

Tax represents the sum of tax payable, withholding tax suffered and deferred tax. Tax is charged or credited in the statement of comprehensive income. Any tax payable is based on taxable profit for the year, however, as expenses exceed taxable income no corporation tax is due. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted. Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period when the liability is settled or the asset realised.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

(i) Dividends

Dividends are not accrued in the financial statements unless there is an obligation to pay the dividends at the balance sheet date. Proposed final dividends are recognised in the financial year in which they are approved by the shareholders.

(j) Consolidation

Consolidated accounts have not been prepared as the subsidiary, whose principal activity is investment dealing, is not material in the context of these financial statements. The one hundred pounds net asset value of the investment in Berry Starquest Limited has been included in the investments in the Company's balance sheet. Berry Starquest Limited has not traded throughout the year and the preceding year and as a dormant company has exemption under 480(1) of the Companies Act 2006 from appointing auditors or obtaining an audit.

2. Income

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

	2014 £'000	2013 £'000
Income from listed investments		
UK dividends	3,453	3,540
UK unfranked investment income	36	76
Scrip dividend	206	–
Overseas dividends	273	188
Special dividends	587	319
Total income	4,555	4,123

Overseas dividends include dividends received on UK listed investments where the investee company is domiciled outside of the UK.

3. Investment Management Fees

This note shows the fees due to the Manager. These are made up of the management fee calculated and paid monthly and a performance fee calculated and paid annually. Both are based on the value of the assets being managed.

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Base management fee	567	567	1,134	451	451	902
	567	567	1,134	451	451	902

Invesco Asset Management Limited (IAML) provides investment and administration services to the Company. Details of the Investment Management Agreement can be found in the Directors' Report. No performance fee was due for this year and the previous year.

At 31 January 2014, £107,000 (2013: £81,000) was accrued in respect of the base management fee.

4. Other Expenses

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

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Directors' fees	106	—	106	97	–	97
Auditor's remuneration:						
– for audit of the annual financial statements	24	—	24	22	–	22
– other services relating to taxation compliance	5	—	5	6	–	6
Other expenses	179	4	183	165	2	167
	314	4	318	290	2	292

The Director's Remuneration Report provides further information on Directors' fees. Included within other expenses is £9,000 (2013: £8,300) of employer's National Insurance payable on Directors' fees. As at 31 January 2014, the amounts outstanding on Directors' fees and employer's National Insurance was £12,600 (2013: £8,900).

Fees payable to the Company's auditor are shown excluding VAT, which is included in other expenses.

Any expenses to capital arise from custodian transaction charges.

5. Finance Costs

Finance costs arise on any borrowing facilities the Company has.

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Interest on bank overdraft	1	5	6	7	29	36
	1	5	6	7	29	36

6. Taxation

As an investment trust the Company pays no tax on capital gains and, as the Company invested principally in UK equities, it has little overseas tax. In addition, no deferred tax is required to provide for tax that is expected to arise in the future due to differences in accounting and tax bases.

(a) Current tax charge

	2014 £'000	2013 £'000
Overseas taxation	—	5

(b) Reconciliation of current tax charge

	2014 £'000	2013 £'000
Total return on ordinary activities before taxation	46,903	28,201
Theoretical tax at UK Corporation Tax rate of 23.2% (2013: 24.3%)	10,864	6,861
Effects of:		
– UK dividends which are not taxable	(983)	(939)
– Overseas dividends which are not taxable	(61)	(44)
– Gains on investments which are not taxable	(10,147)	(6,168)
Losses on derivative instruments which are not taxable	—	11
– Expenses in excess of taxable income	326	278
– Disallowable expenses	1	1
– Overseas taxation	—	5
Actual current tax amount	—	5

(c) Factors That May Affect Future Tax Charges

The Company has excess management expenses of £23,083,000 (2013: £21,676,000) that are available to offset future taxable revenue. A deferred tax asset of £4,617,000 (2013: £4,985,000) at 20% (2013: 23%) has not been recognised in respect of these expenses, since they are recoverable only to the extent that the Company has sufficient future taxable revenue. The Company has no deferred tax liability at the balance sheet date.

7. Earnings per Ordinary Share

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

	2014 REVENUE	2014 CAPITAL	2014 TOTAL	2013 REVENUE	2013 CAPITAL	2013 TOTAL
Basic	6.9p	81.2p	88.1p	6.3p	46.7p	53.0p

Basic total earnings per ordinary share is based on the net total profit for the financial year of £46,903,000 (2013: £28,196,000).

Basic revenue earnings per ordinary share is based on the net revenue profit for the financial year of £3,673,000 (2013: £3,370,000).

Basic capital earnings per ordinary share is based on the net capital profit for the financial year of £43,230,000 (2013: £24,826,000).

All three earnings are based on the weighted average number of shares in issue during the year of 53,209,084 (2013: 53,217,249).

8. Dividends on Ordinary Shares

Dividends represent the return of income less expenses to shareholders. The Company pays two dividends each year – an interim and a final dividend.

Dividends paid in the year:	2014 pence	2014 £'000	2013 pence	2013 £'000
Final paid in respect of previous year	4.4	2,341	3.4	1,809
Interim paid	1.6	852	1.6	852
Return of unclaimed dividends from previous years	–	(5)	–	(6)
	6.0	3,188	5.0	2,655

Dividends payable in respect of the year:

	2014 pence	2014 £'000	2013 pence	2013 £'000
Interim	1.6	852	1.6	852
Final	4.9	2,607	4.4	2,341
	6.5	3,459	6.0	3,193

The final dividend is based on shares in issue at the record date or, if the record date has not been reached, on shares in issue on the date the balance sheet is signed.

9. Investments

The portfolio is made up of investments which are listed or traded on a regulated stock exchange or AIM. Gains and losses in the year are either:

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

	2014 £'000	2013 £'000
Investments listed on a recognised stock exchange	158,213	125,738
AIM quoted investments	35,248	20,600
	193,461	146,338
Opening valuation	146,338	135,045
Movements in year:		
Purchases at cost	84,470	36,139
Sales – proceeds	(81,153)	(50,199)
– profit on disposal of investments	23,926	12,070
Movement in investment holding gains	19,880	13,283
Closing valuation	193,461	146,338
Closing book cost	126,994	99,751
Closing investment holding gains	66,467	46,587
Closing valuation	193,461	146,338
Profit on disposals of investments in year	23,926	12,070
Movement in investment holding gains in year	19,880	13,283
Total profits in year	43,806	25,353

The transaction costs included in gains on investments amount to £443,000 on purchases and £133,000 for sales (2013: £226,000 and £103,000 respectively).

10. Derivative Instruments

Derivatives 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. In accordance with Board approved policies, the Company can use derivatives for investment exposure and to manage its exposure to fluctuations in foreign exchange rates.

	2014 £'000	2013 £'000
Net realised losses on derivative instruments – futures contracts	–	45

There were no opening or closing unrealised gains or losses on derivatives.

11. Other Receivables

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

	2014 £'000	2013 £'000
Amounts due from brokers	796	687
Prepayments and accrued income	312	263
	1,108	950

12. Other Payables

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

	2014 £'000	2013 £'000
Amounts due to brokers	959	2,840
Bank overdraft	2,371	–
Accruals and deferred income	180	156
	3,510	2,996

13. Share Capital

Share capital represents the total number of shares in issue, on which dividends accrue.

	2014		2013	
	NUMBER	£'000	NUMBER	£'000
Authorised:				
Ordinary shares of 20p each	160,000,000	32,000	160,000,000	32,000
Allotted, called-up and fully paid:				
Ordinary shares of 20p each	53,209,084	10,642	53,209,084	10,642

During the year, the Company did not issue or repurchase any ordinary shares. In the previous year, the Company repurchased and cancelled 137,000 ordinary shares for a total consideration of £278,000.

14. Reserves

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

The share premium arises whenever shares are issued at a price above the nominal value and any issue costs. The capital redemption reserve maintains the equity share capital and arises from the nominal value of shares repurchased and cancelled. The share premium and capital redemption reserve are non-distributable.

The capital reserve includes investment holding gains/(losses), being the difference between cost and market value. At the year end this was a gain of £66,467,000 (2013: £46,587,000). The revenue reserve shows the net revenue retained after payment of any dividends. The capital and revenue reserves are distributable by way of dividend.

15. 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 SHARE		NET ASSETS ATTRIBUTABLE	
	2014 PENCE	2013 PENCE	2014 £'000	2013 £'000
Ordinary shares – Basic	367.9	285.7	195,749	152,034

Net asset value per ordinary share is based on net assets at the year end and on 53,209,084 (2013: 53,209,084) ordinary shares, being the number of ordinary shares in issue at the year end.

16. Subsidiary Undertaking

The Company has one dormant subsidiary which has total assets of £100.

	NET ASSET VALUE AT 31 JANUARY 2014	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION AND OPERATION	DESCRIPTION OF SHARES HELD	PERCENTAGE HELD
Berry Starquest Limited	£100	Investment dealing	England and Wales	Ordinary shares	100%

During the year and the preceding year, no transactions were undertaken by the subsidiary.

17. Contingencies, Guarantees and Financial Commitments

Any 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 are no contingencies, guarantees or financial commitments of the Company at the year end (2013: £nil).

18. 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 accounting standards, the Manager is not a related party.

Under International Financial Reporting Standards, the Company has identified the Directors as related parties and Directors' fees and interests have been disclosed in the Directors' Remuneration Report on pages 30 to 32 with additional disclosure in note 4. No other related parties have been identified.

Invesco Asset Management Limited (IAML), a wholly owned subsidiary of Invesco Limited, acts as Manager, Company Secretary and Administrator to the Company. Details of IAML's services and fees are disclosed in the Directors' Report.

19. Risk Management, Financial Assets and Liabilities

Financial instruments comprise the Company's investment portfolio and derivative financial instruments (for the latter see note 10) as well as any cash, borrowings, other receivables and other payables.

Financial Instruments

The Company's financial instruments comprise its investment portfolio (as shown on pages 14 and 15), cash, overdraft, other receivables and other payables that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

Risk Management Policies and Procedures

The Directors have delegated to the Manager the responsibility for the day-to-day investment activities of the Company as more fully described in the Report of the Directors.

As an investment trust the Company invests in equities and other investments for the long-term so as to meet its investment policy (incorporating the Company's investment objective). In pursuing its investment objective, 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 of the profits available for dividends. Those related to financial instruments include market risk, liquidity risk and credit risk. These policies are summarised below and have remained substantially unchanged for the two years under review.

The main risk that the Company faces arising from its financial instruments is market risk – this risk is reviewed in detail below. Since the Company invests mainly in UK equities traded on the London Stock Exchange, liquidity risk and credit risk are not significant. Liquidity risk is minimised as the majority of the Company's investments comprise a diversified portfolio of readily realisable securities which can be sold to meet funding commitments as necessary. In addition, an overdraft if used provides short-term funding flexibility.

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered, and cash balances. Counterparty risk is minimised by using only approved counterparties. The Company's ability to operate in the short-term may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The Board reviews the custodian's annual controls report and the Manager's management of the relationship with the custodian. Cash balances are limited to a maximum of £2.5 million with any one depositary, with only approved depositories being used, and a maximum of £10 million for holdings in the Short-Term Investments Company (Global Series) plc (STIC), a triple-A rated money market fund.

Market Risk

The fair value or future cash flows of a financial instrument may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. Looking at the component parts of market risk, the currency risk component effect is minimal as the Company's financial instruments are either all or mainly denominated in sterling. For the remaining two components of market risk, the Company's Manager assesses the Company's exposure when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance, as disclosed in the Board Responsibilities on page 22. The Company may utilise hedging instruments to manage market risk. Gearing is used to enhance returns, however, this will also increase the Company's exposure to market risk and volatility.

1. Interest Rate Risk

Interest rate movements will affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the Custodian, Bank of New York Mellon. Additionally, holdings in STIC are subject to interest rate changes.

1. Interest Rate Risk (continued)

The Company has an uncommitted bank overdraft facility up to a maximum of 30% of the net asset value of the Company or £20 million, whichever is the lower; the interest rate is charged at 0.85% over LIBOR. The Company uses the facility when required at levels approved and monitored by the Board.

At the year end the £2.4 million of the overdraft facility had been drawn down (2013: none drawn down). Based on the maximum amount that can be drawn down at the year end under the overdraft facility of £20 million, the effect of a +/– 1% in the interest rate would result in an increase or decrease to the Company's statement of comprehensive income of £200,000.

The Company's portfolio is not directly exposed to interest rate risk.

2. Other Price Risk

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the investments, but it is the business of the Manager to manage the portfolio to achieve the best return that he can.

Management of Other Price Risk

The Directors manage the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis the Manager's compliance with the Company's stated objectives and policies and to review investment performance.

The Company's portfolio is the result of the Manager's investment process and as a result is not correlated with the Company's benchmark or the market in which the Company invests. Therefore the value of the portfolio will not move in line with the market but will move as a result of the performance of the company shares within the portfolio.

If the value of the portfolio fell by 10% at the balance sheet date, the profit after tax for the year would decrease by £19.3 million (2013: £14.6 million). Conversely, if the value of the portfolio rose by 10%, the profit after tax would increase by the same amount.

Fair Values of Financial Assets and Financial Liabilities

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

Fair Value Hierarchy Disclosures

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in IFRS 7 'Financial Instruments: Disclosures'. The three levels set out in the IFRS 7 hierarchy follow:

Level 1 — fair value based on quoted prices in active markets for identical assets;

Level 2 — fair value based on valuation techniques using observable inputs other than quoted prices within Level 1; and

Level 3 — fair value based on valuation techniques using inputs that are not based on observable market data.

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

The valuation techniques used by the Company are explained in the accounting policies note. Level 2 comprised futures of which none were held at year end. For the year under review, the Company held one Level 3 investment, being the dormant subsidiary Berry Starquest Limited.

Maturity Analysis of Contractual Liability Cash Flows

The contractual liabilities of the Company are shown in note 12 and comprise amounts due to brokers, bank overdrafts and accruals. All are paid under contractual terms. For amounts due to brokers, this will generally be the purchase date of the investment plus three business days.

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 7.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 8 and 9. These also explain that the Company is able to gear 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 determines dividend payments.

The Company is subject to externally imposed capital requirements with respect to the obligation and ability to pay dividends by s1159 Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the overdraft facility, by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Total equity at 31 January 2014, the composition of which is shown on the balance sheet on page 38, was £195,749,000 (2013: £152,034,000).

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 Invesco Perpetual UK Smaller Companies Investment Trust plc, please forward this document and the 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

NOTICE IS GIVEN that the Annual General Meeting ('AGM') of Invesco Perpetual UK Smaller Companies Investment Trust plc will be held at the offices of Invesco Perpetual at 43-45 Portman Square, London W1H 6LY at 12.00 noon on 5 June 2014 for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 31 January 2014.
2. To approve the Directors' Remuneration Policy.
3. To approve the Annual Statement and Report on Remuneration.
4. To declare a final dividend as recommended.
5. To re-elect Ian Barby a Director of the Company.
6. To re-elect Richard Brooman a Director of the Company.
7. To re-elect Garth Milne a Director of the Company.
8. To re-elect Christopher Fletcher a Director of the Company.
9. To elect Jane Lewis a Director of the Company.
10. To re-appoint the Auditor and authorise the Directors to determine their remuneration.

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 12, 13 and 14 as special resolutions:

11. THAT:

    the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this resolution (the 'Act') to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any securities into, shares up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £532,090, this being 5% of the Company's issued ordinary share capital as at 8 April 2014, such authority to expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted, or rights to be granted, after such expiry as if the authority conferred by this resolution had not expired.

12. THAT:

    the Directors be and are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this resolution (the 'Act') to allot equity securities for cash, either pursuant to the authority given by resolution 11 set out above or (if such allotment constitutes the sale of relevant shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

    (a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);

(b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £532,090, this being 5% of the Company's issued ordinary share capital as at 8 April 2014; and

(c) to the allotment of equity securities at a price not less than the net asset value per share (as determined by the Directors)

and this power shall expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this resolution.

13. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued Shares of 20p each in the capital of the Company ('Shares').

PROVIDED ALWAYS 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 7,976,041 as at 8 April 2014;

(ii) the minimum price which may be paid for a Share shall be 20p;

(iii) the maximum price which may be paid for a Share shall be an amount equal to 105 per cent. of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for five business days immediately preceding the day on which the Share is purchased;

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

(v) the authority hereby conferred shall expire at the conclusion of the AGM of the Company in 2015 or, if earlier, on the expiry of fifteen months from the passing of this resolution unless the authority is renewed at any other general meeting prior to such time;

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

(vii) any shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of Sections 724 to 731 of the Companies Act 2006 and any applicable regulations of the United Kingdom Listing Authority, be held (or otherwise dealt with in accordance with Section 727 or 729 of the Companies Act 2006) as Treasury Shares.

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

Please refer to the Directors' Report on pages 28 to 29 for further explanations of all the resolutions.

Dated this 8th April 2014
By order of the Board

Invesco Asset Management Limited
Company Secretary

One of the portfolio managers will give a presentation following the Annual General Meeting.

Notes:

1. 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 by one of the following methods:
   - via Capita Asset Services website www.capitashareportal.com; or
   - In hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; 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.
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(s) 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 changes 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 provider(s) 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 practical limitations of the CREST system and timings.
3. A form of appointment of proxy is enclosed. 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 this meeting.

   To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's registrars, Capita Asset Services, The Registry, PO Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 12.00 noon on 3 June 2014.
4. A person entered on the Register of Members at close of business on 3 June 2014 ('a member') is entitled to attend and vote at the Meeting 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 Meeting. If the Meeting 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.

5. The Terms of Reference of the Audit Committee and the Management Engagement Committee and the Letters of Appointment for Directors will be available for inspection for at least 15 minutes prior to and during the Company's AGM.
6. A copy of the Articles of Association are available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the AGM and will also be available at the AGM for at least 15 minutes prior and during the Meeting.
7. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the above rights of the shareholders in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.
8. 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.
9. 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 for 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.
10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) 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.
11. As at 8 April 2014 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 53,209,084 ordinary shares of 20p each carrying one vote each.
12. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.invescoperpetual.co.uk/investmenttrusts.
13. Shareholders should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006 (the '2006 Act'), the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 February 2013; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 February 2013 ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006 (in each case) that the members propose to raise at the relevant Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

The shares of Invesco Perpetual UK Smaller Companies Investment Trust plc (the Company) are quoted on the London Stock Exchange.

Savings Plan and ISA

The Company is a member of the Invesco Perpetual Investment Trust Savings Scheme and the Invesco Perpetual Investment Trust ISA. Shares can be purchased and sold via these two schemes.

Invesco Perpetual Investment Trust Savings Scheme

The Invesco Perpetual Investment Trust Savings Scheme allows an investor to make monthly purchases from as little as £20 per month or through lump sum investments of £500 or above in the shares of the Company in a straightforward and low cost way.

Invesco Perpetual Investment Trust ISA

The Invesco Perpetual Investment Trust ISA allows investments up to the ISA limit. For the tax year 2014/15 this has been increased to £15,000 from 1 July 2014; up to that date only £11,880 can be invested. Investors can also choose to make lump sum investments from £500, or regular investments from as little as £20 per month.

For full details of these schemes please contact Invesco Perpetual's Investor Services team free on ☎ 0800 085 8677.

Net Asset Value (NAV) Publication

The NAV of the Company is calculated by the Manager on a daily basis and is notified to the Stock Exchange on the following business day. An estimated NAV is also published daily in the newspapers detailed under Share Price Listings.

Manager's Website

Information relating to the Company can be found on the Manager's website, www.invescoperpetual.co.uk/investmenttrusts.

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

Share Price Listings

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

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

Internet addresses:

Invesco Perpetual	www.invescoperpetual.co.uk/investmenttrusts
The Association of Investment Companies	www.theaic.co.uk

Financial Calendar

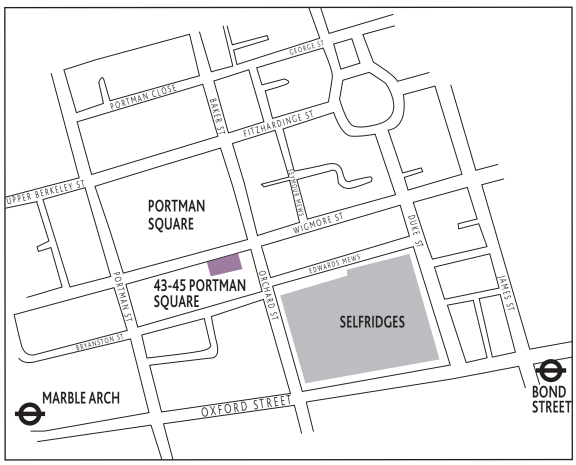
The Company publishes information according to the following calendar:

Announcements:	
Annual financial report	March/April
Half-yearly financial report	September
Interim Management Statements	May and November
Annual General Meeting	May/June
Year End	31 January
Normal Dividend Timetable:	
– Interim	October
– Final	May/June

Location of Annual General Meeting:

To be held at 12 noon on 5 June 2014 at the offices of Invesco Perpetual at 43-45 Portman Square, London W1H 6LY.

The nearest tube stations to Portman Square are Marble Arch and Bond Street.



ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Manager and Company Secretary

Invesco Asset Management Limited
Correspondence address
6th Floor
125 London Wall
London EC2Y 5AS
☎ 020 3753 1000
Company Secretarial Contacts: Kevin Mayger and Kelly Nice

Registered Office

Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH
Registered in England and Wales
Number 2129187

Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team available to you from 8.30 am to 6.00 pm Monday to Friday (excluding Bank Holidays). Current valuations, statements and literature can be ordered, however, no investment advice can be given.
☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

Savings Scheme and ISA Administration

For queries relating to both the Invesco Perpetual Investment Trust Savings Scheme and ISA please contact:

Invesco Perpetual
PO Box 11150
Chelmsford
Essex CM99 2DL
☎ 0800 086 8677

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

If you hold your shares direct and not through a Savings Scheme or ISA and have queries relating to your shareholding, you should contact the Registrars on:
☎ 0871 664 0300.
Calls cost 10p per minute plus network charges.

From outside the UK: +44 20 8639 3399. Lines are open from 9.00 am to 5.30 pm Monday to Friday (excluding Bank Holidays).

Shareholders can also access their holding details via Capita's websites www.capitaassetservices.com or www.capitashareportal.com.

Capita Asset Services provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.capitadeal.com or
☎ 0871 664 0454.
Calls cost 10p per minute plus network charges.

From outside the UK: +44 20 3367 2699. Lines are open from 8.00 am to 4.30 pm Monday to Friday (excluding Bank Holidays).

Banker and Custodian

The Bank of New York Mellon
160 Queen Victoria Street
London EC4V 4LA

Auditor

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Corporate Broker

JP Morgan Cazenove
25 Bank Street
London E14 5JP

Benchmark

A market index, which averages the performance of companies in any sector, giving a good indication of any rises or falls in the market. The benchmark used in these accounts is the Numis Smaller Companies Index (excluding Investment Companies).

Discount

The amount by which the mid-market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

Dividend Yield

The annual dividend expressed as a percentage of the current market price.

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or 'nil', shows the company is ungeared.

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

Gross Gearing

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 shareholders' funds.

Net Gearing

This reflects the amount of net borrowings invested, ie borrowings less cash. It is based on net borrowings as a percentage of shareholders' funds.

Maximum Permissible Gearing

This reflects the maximum permissible borrowings of a company taking into account both any gearing limits laid down in the investment policy and the maximum borrowings laid down in covenants under any borrowing facility. It is calculated from maximum permissible borrowings as a percentage of shareholders' funds.

Net Cash

This reflects the Company's net exposure to cash and cash equivalents expressed as a percentage of shareholders' funds after any offset against its gearing.

Market Capitalisation

For a company is calculated by multiplying the stockmarket price of an ordinary share by the number of ordinary shares in issue.

Net Asset Value

Also described as shareholders' funds, the net asset value is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The net asset value per share is calculated by dividing the net asset value by the number of ordinary shares in issue.

Total Assets

Total assets less current liabilities.

Ongoing Charges

The annualised ongoing charges, including those charged to capital but excluding interest, incurred by the Company, expressed as a percentage of the average undiluted net asset value (with debt at fair value) in the period reported.

Volatility

The relative rate at which the price of a security moves up and down. Volatility is found by calculating the annualised standard deviation of daily change in price. If the price of a stock moves up and down rapidly over short time periods, it has high volatility. If the price changes infrequently, it has low volatility.

Invesco Perpetual

The Manager of Invesco Perpetual UK Smaller Companies Investment Trust plc is Invesco Asset Management Limited.

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

Invesco Perpetual is a business name of Invesco Asset Management Limited.

Invesco is one of the largest independent global investment management firms, with assets under management in excess of $787 billion.*

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

**Funds under management as at 31 March 2014*

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

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 combined with a degree of security. The Company may use bank borrowings.

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 at above the rate of inflation. The Company may use bank borrowings.

Invesco Perpetual Enhanced Income Limited (formerly Invesco Leveraged High Yield Fund 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 Perpetual Select Trust plc Managed Liquidity Portfolio
Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

Invesco Perpetual Select Trust plc – UK Equity Portfolio
Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio may use bank borrowings.

Invesco Property Income Trust Limited
The investment objective of the Company is to repay its bank borrowings and other liabilities and, having met these obligations, to provide a return for shareholders. The Company holds a diversified portfolio of European commercial properties.

Keystone Investment Trust plc
Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has debenture stocks in issue.

Perpetual Income and Growth Investment Trust plc
Aims to generate capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK and fixed interest markets. The Company has a debenture stock in issue and may use bank borrowings.

The Edinburgh Investment Trust plc
Invests primarily in UK securities with the long-term objective of achieving:

1. an increase of the Net Asset Value per share by more than the growth in the FTSE All Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

The Company has two debenture stocks in issue.

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. The pursuit of income is of secondary importance. 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 All Country Asia Pacific ex Japan Index, measured in Sterling. The Company may use bank borrowings.

Invesco Perpetual 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 Perpetual Select Trust pit – Balanced Risk 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 Perpetual Select Trust plc
- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk 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 which will not normally pay dividends.

Please contact our Investor 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.invescoperpetual.co.uk/investmenttrusts.