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## Investment Objective

Invesco Perpetual European Absolute Return Trust plc ('the Company') is a UK investment trust listed on the London Stock Exchange.

The objective of the Company is to achieve absolute returns through investment principally in equity, fixed interest and cash securities within Continental Europe (excluding the UK). The Company aims to deliver returns to shareholders in excess of Sterling LIBOR.

## Share Capital

The Company's issued share capital consists of 26,100,000 ordinary shares of 10p each, including 600,000 ordinary shares held in Treasury.

## ISA Eligibility

The ordinary shares of the Company are eligible for investment via an ISA.

## Glossary of Terms

There is a glossary of terms on page 56 which defines some of the more technical references used in the Report.

The Company is a member of

**aic**

The Association of Investment Companies

## FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

*The Benchmark Index of the Company is represented by the Merrill Lynch 3 Month LIBOR Index*

### Performance Statistics

Terms marked † are defined in the Glossary of Terms.

	AT 31 DECEMBER 2008	AT 31 DECEMBER 2007	% CHANGE
<b>Capital</b>			
Total net assets (£'000)	30,845	49,297	-37.4
Net asset value† ('NAV') per ordinary share:			
– including net revenue for the year	121.0p	193.3p	-37.4
– excluding dividends for the year (capital)	113.8p	189.3p	-39.9
Total return net asset value*†			-37.7
Mid-market price per ordinary share	101.0p	164.8p	-38.7
Discount per ordinary share	16.5%	14.7%	
Actual gearing†	111	93	
<b>Index</b>			
Merrill Lynch 3 month LIBOR (Total Return) Index*	216.9	203.8	+6.4
<b>Total expense ratio†</b>			
– including performance fee	1.6%	1.4%	
– excluding performance fee	1.6%	1.4%	
<b>Return per ordinary share</b>			
Revenue return	7.6p	4.1p	
Capital return	(73.9)p	0.1p	
Total return	(66.3)p	4.2p	

\* Source: Datastream

### Five Year Historical Record

TO 31 DECEMBER	GROSS INCOME £'000	NET REVENUE AVAILABLE FOR ORDINARY SHARES £'000	DIVIDEND IN RESPECT OF THE RATE p	AMOUNT £'000	SHAREHOLDERS' FUNDS £'000	NET ASSET VALUE PER ORDINARY SHARE p	MID- MARKET PRICE PER ORDINARY SHARE p
2004 <sup>(1)</sup>	1,502	842	1.75	625	53,518	149.8	132.0
2005 <sup>(2)</sup>	1,768	1,007	2.75	793	49,593	171.8	160.3
2006 <sup>(3)</sup>	1,888	1,067	3.00	865	55,152	191.3	178.3
2007 <sup>(4)</sup>	1,983	1,116	4.00	1,020	49,297	193.3	164.8
2008	3,516	1,932	7.25 <sup>(5)</sup>	184,9	30,845	121.0	101.0

<sup>(1)</sup> Restated for new UK accounting standards.

<sup>(2)</sup> During the year ended 31 December 2005, 6,850,000 shares were bought back, of which 3,950,000 shares were cancelled and 2,900,000 shares held in Treasury. The investment management fees and finance costs are allocated 50% to the capital reserve and 50% to the revenue account (previously 70% and 30% respectively).

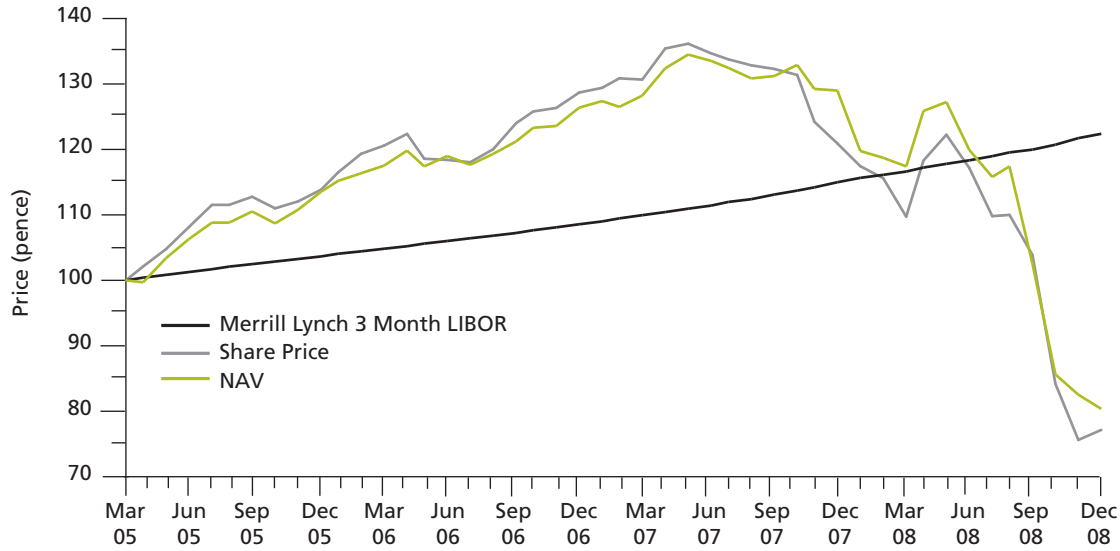
<sup>(3)</sup> During the year ended 31 December 2006, 50,000 shares were bought back and cancelled.

<sup>(4)</sup> During the year ended 31 December 2007, 2,900,000 shares held in Treasury and 2,750,000 shares bought back were cancelled and a further 600,000 shares were bought back and held in Treasury.

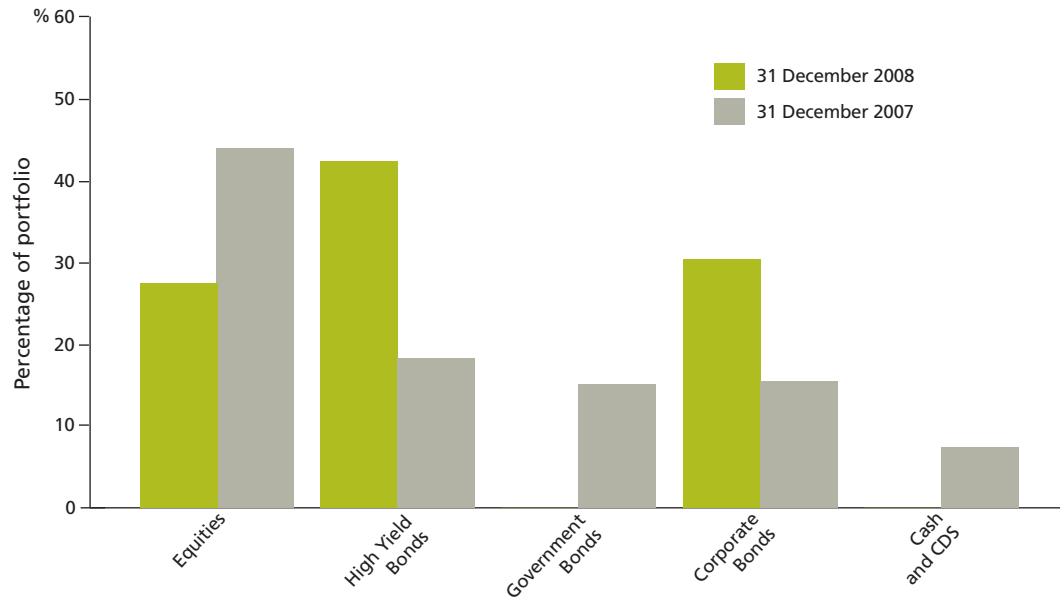
<sup>(5)</sup> Includes an amount of 1p per share in respect of VAT recoverable on management fees.

### NAV vs the Benchmark Return and Share Price

All figures are for total returns and are rebased to 100 at 31 March 2005, the date of change of the Company's objective



### Portfolio Breakdown (including Cash and Credit Default Swaps ('CDS'))



## CHAIRMAN'S STATEMENT

In the year ended 31 December 2008, your Company's total return net asset value per share ('NAV') fell by 37.7%, against the Merrill Lynch 3 month LIBOR (Total Return) Index which rose by 6.4%. The mid-market share price fell by 38.7%. Your Board believes that this was a very disappointing capital performance, notwithstanding the extremely difficult market conditions. The Board requested from the Manager a detailed explanation of the underperformance, and this is included in the Manager's Report that follows this statement.

The discount at which the Company's mid-market price traded widened from 14.7% in 2007 to 16.5% at the year-end and remains in line with the general widening of investment trust discounts in the turbulent market conditions we have seen during the year and up until now. It remains the view of the Board that the Company should aim to limit the discount to an acceptable level.

### Dividend

The decision by shareholders in 2005 to approve an amended investment policy meant that the Manager has had a wider range of asset types in which to invest. Since then one result of the asset allocation decisions taken has been the generation of increased income from the portfolio, and this in turn has enabled the payment of higher dividends to shareholders. Future dividend policy will be determined in the light of the outcome of the impending vote on continuation of the Company.

From 2004 to 2007, the Company was able to pay dividends of 1.75p, 2.75p, 3p and 4p per share respectively. I can report that, for the year ended 31 December 2008, the Directors will be proposing a final dividend of 5.25p per ordinary share which, together with the interim dividend of 2p per share, adds up to a total dividend of 7.25p per ordinary share. The final dividend of 5.25p per ordinary share includes 1p per share in respect of recovered VAT; for details please see below. If approved by shareholders, the final dividend of 5.25p for the year ended 31 December 2008 will be paid on 19 June 2009 to shareholders on the register on 22 May 2009.

### Gearing

The Board permits the Manager to alter the level of gearing to take advantage of investment opportunities up to a limit of 20% of net assets. During the year, the Company was geared within this limit and, as at 24 April 2009, the gearing had been reduced to 5.6%.

### VAT on Management Fees

Further to my update on VAT in the 2007 Annual Financial Report, I am pleased to confirm that the Company has recognised £600,000 in respect of VAT recoverable on management fees paid to the current manager, together with interest estimated at £93,000. This VAT refund has been credited £254,000 to revenue and £346,000 to capital, in the same proportion as originally charged to the income statement, with the interest being wholly credited to revenue. After tax, the resultant increase to revenue and capital is £262,000 and £346,000 respectively which, with shares in issue of 25,500,000, is the equivalent of 2.4p on the NAV. Of this, the net amount of 1p applicable to revenue will be distributed as part of the final dividend for the year ended 31 December 2008.

### Outlook

I have never before witnessed events in the global financial system as turbulent as those that have underlain the recent bear market, in equities and parts of the credit markets. It will clearly be very difficult to rebuild confidence quickly, as this will depend on hard evidence of improvement in the real economy, and this is scarce at present. As the measures taken by the authorities in major economies begin to bear fruit, as the effects of de-leveraging become less acute and as the true extent of "toxic" contamination of financial institution balance sheets becomes clearer, so economies and markets may begin to regain their poise. It is too early to predict at this stage exactly when this will happen, but in Europe, the investment focus of this Company, there are good reasons for believing that it may not be too far away.

### Special Business at the Annual General Meeting ('AGM')

- *Continuation of the Company*

As the first item of Special Business at the forthcoming AGM, Resolution 9, which is proposed as an ordinary resolution, asks that shareholders approve the continuation of the Company in being as an investment trust, subject to review by shareholders at the AGM to be held in 2012. If this resolution is not passed, in accordance with the Company's Articles of Association, the Directors would put

forward proposals to shareholders which would include a cash exit for those shareholders who may wish to seek to realise their investment for cash.

- *Share Buy backs and share issues*

Pursuant to Ordinary Resolution 10 and Special Resolutions 11 and 12, the Directors wish to renew the authorities to issue new ordinary shares and to undertake buy backs of the Company's ordinary shares in the market, in both instances within prescribed limits as set out in the Notice of Annual General Meeting. The existing authorities will otherwise expire at the conclusion of the meeting.

As last year, we are proposing that shares acquired by the Company either be cancelled or, alternatively, be held in treasury with a view to their resale, if appropriate, or later cancellation. Shares that are repurchased but not cancelled are known as treasury shares. The holding of treasury shares is restricted to 10% of each class of a company's share capital. Shares held in treasury will only be reissued on terms that are in the best interest of shareholders.

During the year, the Directors have not issued any shares, nor were any shares bought back. Out of the total number of 26,100,000 ordinary shares in issue, 600,000 are held in treasury. The Board considers it prudent to have the power to buy back shares and to issue new shares as and when they consider it appropriate. Approval of Resolutions 10, 11 and 12, which will be proposed as one Ordinary and two Special Resolutions, will enable the Board to act within a much shorter timescale than would otherwise be the case. New shares and those in treasury will not be issued at prices below the prevailing net asset value, nor will shares be repurchased at prices higher than the prevailing net asset value.

- *Calling General Meetings at 14 days' notice*

It is expected that the new EU Shareholder Rights Directive that will come into effect on 3 August 2009 will amend the Companies Act 2006 so that the notice period for a general meeting will be 21 days (at present 14 days). However, companies are able to pass a special resolution permitting them to continue to call general meetings (other than AGMs) on a 14 day notice period if they allow voting by electronic means.

Approval of Special Resolution 13 will therefore enable the Board to call any general meetings other than AGMs on a 14 day notice period, should that be necessary.

In light of the disappointing investment performance of the Company and mindful that a number of shareholders may wish to realise their investment for cash, the Directors believe that Shareholders may wish to vote against the continuation of the Company in its current form. Such Shareholders should therefore vote against Resolution 9, as the Directors intend to do in respect of their own shares. In consideration of this, the Directors are exploring a number of possible proposals which, should the continuation vote not be passed, would seek to provide Shareholders with a cash exit and potentially an opportunity to rollover some or all of their investment. There can be no guarantee, however, that such proposals will materialise or at least in terms which the Directors may recommend.

The Board recommends that Shareholders vote in favour of all the other resolutions as each of the Directors intend to do in respect of their own shares.

The financial statements have been prepared on a break up basis, as detailed in note 1 (a) on page 39. This is a result of the uncertainty over the outcome of the vote for resolution 9, as detailed above. The impact is to recognise liquidation expenses of £450,000 and to move investments from fixed asset investments to current asset investments in the financial statements.

We look forward to seeing investors at the AGM of the Company on 18 June 2009, where there will be an opportunity to meet members of the Board and the Manager.

**Jonathan Bradley**

Chairman  
30 April 2009

## MANAGER'S REPORT

### Market Review

Your Company produced substantial negative returns during 2008 of -37.7% due to the weakness in equity and corporate bond markets where we were considerably exposed during the period. This represents significant underperformance against the benchmark 'Merrill Lynch 3 month LIBOR (Total Return) Index', which rose by 6.4% over the period.

The year under review was the most volatile in recent memory, as what started as a credit-market correction, extended to a banking crisis and the biggest reshaping of the financial landscape since the 1930s.

The year commenced with concerns that the US would be unable to avoid a recession, leading to a global economic slowdown. Additional writedowns from investment banks, in some cases accompanied by dilutive new capital injections, continued pressure on the monoline insurers, along with the collapse of several hedge funds that were unable to meet margin calls, all weighed on sentiment. Indiscriminate selling, driven by the de-leveraging of a range of complicated investment vehicles (SIVs, CDOs, etc.) with forced selling of the underlying assets, continued to drive credit spreads wider. According to data from Merrill Lynch, global high-yield spreads increased from 578 basis points (bps) at the start of January to 853bps on 17 March. The collapse of Bear Stearns and its subsequent takeover by JP Morgan Chase, on 17 March appeared to mark a turning point, as investors believed that the rescue of Bear Stearns signalled that large financial institutions would not be allowed to fail. Sentiment improved and high-yield spreads narrowed by around 200bps by mid June.

However, conditions deteriorated rapidly from late August onwards. The US Treasury effectively took control of mortgage-lending giants Fannie Mae and Freddie Mac, providing them with capital and placing them under control of their regulator. Shortly after, and having struggled to find a buyer, Lehman Brothers filed for bankruptcy protection, becoming the first major victim of the crisis. At the same time, we witnessed the hurried takeover of Merrill Lynch by Bank of America. In addition, the two remaining US investment banks – Morgan Stanley and Goldman Sachs – converted into traditional bank holding companies, subject to supervision by the US Federal Reserve (Fed). In the following days, Washington Mutual became the biggest bank to fail in American history and a Fed loan (ranking senior to those held by existing bondholders) saved insurer AIG.

The impact of Lehman Brothers' collapse was felt throughout financial markets. In money markets there has been a perceived increase in counterparty risk. One of the oldest money market funds in the US 'broke the buck' because it held Lehman Brothers paper. That led to a wave of money market fund redemptions, which in turn undermined the commercial paper market in the US and led to an increase in demand for bank credit lines. Institutions withdrew deposits from banks, which together with these draws on credit lines, led banks to hoard cash and caused interbank lending markets to seize.

The position in Europe was similarly grim. HBOS was forced into the arms of Lloyds TSB following a run on HBOS shares, Bradford & Bingley's mortgage business was nationalised and its savings assets sold to Santander. The UK government announced plans to part nationalise RBS and Lloyds TSB/HBOS, while Barclays raised additional funding from Middle Eastern investors. Benelux financial group Fortis was hastily broken up and part nationalised, and after the collapse of its banks, Iceland became the first Western nation to go to the IMF for support since 1976. In response, we have seen unprecedented action from the authorities, including aggressive cuts in interest rates to historic lows and central banks have been injecting liquidity.

Despite the stimulus, high-yield credit spreads continued to widen as we approached year-end, reaching almost 2200bps in mid-December before ending the year at 1858bps. Spreads on investment-grade bonds followed a similar pattern. Government bond yields fell sharply over the year as they benefited from a flight-to-quality, interest rate cuts and the deteriorating global economy. The yield on the 10-year US Treasury fell by 181bps and the yield on the 2-year US Treasury fell by 228bps, to just 0.76%. With the outlook for the UK economy particularly weak, sterling fell sharply, losing 26% versus the US dollar and 23% against the euro.

We did not benefit from the depreciation of sterling against the euro during 2008 due to our hedging of non-sterling denominated assets into sterling. The portfolio has been hedged to reduce volatility and help meet our sterling-based benchmark criteria, though clearly in 2008, with the extent of the depreciation of sterling, this has proved to be a missed investment opportunity. The fall of sterling to levels last seen when the UK received a bailout from the IMF in 1976 has been further than we could have imagined and, we believe, further than is justified despite the difficult financial conditions that the UK currently faces.

### Investment Strategy

We recognised the risk to corporate earnings, and thus equity markets, at a fairly early stage and lowered weighting accordingly from over 50% of NAV in December 2006 to 44% in December 2007 to around 30% at the time of writing this report. Within the equity portfolio we also dramatically increased the weightings to what we perceived as more defensive earnings streams such as in telecommunications, regulated utilities and pharmaceutical companies. However, the measures taken to reduce equity exposure have not been enough to preserve capital values; such has been the extent of the equity bear market. In other words, while healthcare contributed positively to performance and other defensive sectors like telecommunications and utilities were only marginally negative, the small exposures we had in sectors like consumer discretionary, materials and industrials, more than offset the defensive investments.

Furthermore, whilst we felt risk reward in credit markets was unfavourable during the credit bubble (high yield and investment grade bonds being less than 20% NAV in December 2006), we have been, in retrospect, premature in increasing credit exposure in late 2007 and 2008 particularly to high-yield and financial credits, as we have clearly underestimated the extent of the credit crisis. We were too positive on the prospects for the asset class in the period following the rescue of Bear Stearns and while it was impossible to predict the scale of the collapse in markets in the second half of the year we could have reacted more aggressively to the loss of confidence. We failed to fully appreciate the impact the financial crisis would have on the real economy and in particular on our holdings of cyclical and financial issuers. The secondary market for corporate debt collapsed and there was forced selling by many market participants that caused prices to be marked down aggressively. We saw this marking-to-market impact virtually every holding in our funds. High-yield bond markets were particularly weak. According to Merrill Lynch index data, European high-yield bonds fell by 12% in sterling terms in September followed by a 19% fall in October. The zero weighting in government bonds also detracted from the fund's absolute performance. Government bond yields fell further as they continued to benefit from flights-to-quality over the final quarter.

### Current Prospects

Looking ahead, markets are likely to remain volatile in the short term, particularly in high-yield bond and equity markets. The macroeconomic picture has clearly deteriorated and while we expect that headline news will probably be grim throughout 2009, it is important to recognise that a lot of bad news has already been discounted into equity and credit valuations. For example, in credit, although we expect that default rates will increase, especially in high yield, the market is currently discounting unprecedented levels of default, even in investment-grade bonds. In our opinion, these levels look unlikely. We expect to see strong price recovery in many holdings as the market begins to realize that not all high yield bonds will default. Similarly in equities, high quality companies with strong futures have been de-rated to extreme valuation lows relative to their intrinsic values and history. Some of the conditions that contributed to the perfect storm in markets last year, namely an uncompetitive currency and commodity price inflation have reversed, and together with the enormous amounts of monetary and fiscal stimulus, the initial building blocks that could lead to recovery in the future are taking their places.

It has been a truly awful twelve months and we hope that we do not experience another year like 2008 in our careers. However, we believe that having taken a huge amount of mark to market and capital pain, and having discounted a significant increase in defaults, the portfolio has value.

**John Surplice**

Invesco Asset Management Limited  
30 April 2009

## LIST OF INVESTMENTS

AT 31 DECEMBER 2008

## Equity Investments

COMPANY	PRINCIPAL ACTIVITY	AT MARKET VALUE £'000	% OF PORTFOLIO
<b>Swiss Franc</b>			
Roche	Pharmaceutical & Biotechnology	992	2.7
Novartis	Pharmaceutical & Biotechnology	773	2.1
Gate Gourmet	Food Producers	34	0.1
Swiss Franc equity investments		1,799	4.9
<b>Danish Krone</b>			
Group 4 Securicor	Support Services	470	1.3
<b>Euro</b>			
Endesa	Electricity	547	1.5
Acciona	Construction & Building Materials	481	1.3
Reed Elsevier	Media	461	1.3
Obrascon Huarte Lain	Construction & Building Materials	438	1.2
Public Power	Electricity	436	1.2
Deutsche Post	Transportation	394	1.1
Michelin	Automobiles & Parts	387	1.0
Telekom Austria	Telecommunication Services	383	1.0
Telefonica	Telecommunication Services	383	1.0
Thales	Aerospace and Defence	379	1.0
UPM-Kymmene	Forestry and Paper	377	1.0
OTE (Hellenic) Telecom	Telecommunication Services	359	1.0
Bilfinger Berger	Construction & Building Materials	348	0.9
Safran	Aerospace and Defence	339	0.9
Stora Enso Oyj	Forestry and Paper	338	0.9
RWE	Electricity	260	0.7
SBM Offshore	Oil & Gas	234	0.6
ASM International	Technology Hardware and Equipment	176	0.5
Kingspan	Construction & Building Materials	139	0.4
Rhodia	Industrials	111	0.3
Prisa	Media	100	0.3
Euro equity investments		7,070	19.1
<b>Norwegian Krone</b>			
Storebrand	Insurance	244	0.7
<b>Swedish Krona</b>			
AstraZeneca	Pharmaceutical & Biotechnology	404	1.1
Assa Abloy	Industrials	360	1.0
Swedish Krona equity investments		764	2.1
<b>Total value of equity investments</b>		<b>10,347</b>	<b>28.1</b>

## Fixed Interest Investments

†Credit ratings are defined in the Glossary of Terms

COMPANY	COUPON	MATURITY DATE	MOODY'S/ S&P RATING†	AT MARKET VALUE £'000	% OF PORTFOLIO
<b>Euro</b>					
FCE Bank	Floating	30 Sep 2009	Caa1/B-	1,015	2.8
Nordic Telephone	Floating	01 May 2016	B2/B+	654	1.7
UBS Capital Securities	Floating 8.836%	Perpetual	A1/BBB+	609	1.6
Lottomatica	Floating 8.250%	31 Mar 2066	Ba3/BB	587	1.5
Tereos Europe	6.375%	15 Apr 2014	B1/BB	555	1.5
Rexam	Floating 6.750%	29 Jun 2067	Ba2/BB+	534	1.4
Merrill Lynch	08 February 2010	Floating	A2/A	270	} 1.4
Merrill Lynch	29 September 2010	Floating	A2/A	253	
ING	8.000%	Perpetual	A2/A	472	1.2
Fixed Link Finance	Floating 7.850%	01 Feb 2025	Aaa/AAA	469	1.2
Corealcredit Bank	5.000%	01 Apr 2009	WR/NR	442	1.2
Voestalpine	Floating 7.125%	Perpetual	NR/NR	429	1.2

## LIST OF INVESTMENTS

AT 31 DECEMBER 2008 (continued)

## Fixed Interest Investments (continued)

COMPANY	COUPON	MATURITY DATE	MOODY'S/ S&P RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
<b>Euro (continued)</b>					
Kabel Deutschland	10.750%	01 Jul 2014	B2/B-	425	1.1
Eco-Bat Finance	10.125%	31 Jan 2013	B1/B+	423	1.1
Independent News	5.750%	17 May 2009	NR/NR	411	1.1
Art Five	Floating	26 May 2014	NR/NR	396	1.1
IESY Hessen	Floating	15 Apr 2013	B2/BB	391	1.1
Rhodia	Floating	15 Oct 2013	B1/BB	391	1.1
Deutsche Bank Capital Fund	8.000%	Perpetual	Aa2/A-	388	1.0
Johnson Diversey	9.625%	15 May 2012	B2/B	353	1.0
KBC Bank	8.000%	Perpetual	A1/A-	353	1.0
Deutsche Bank	Floating	20 Mar 2013	NR/NR	352	1.0
Corral Petroleum	Floating	15 Apr 2010	NR/NR	331	0.9
Codere Finance	8.250%	15 Jun 2015	B2/B+	314	0.9
Alcatel-Lucent	6.375%	07 Apr 2014	Ba3/BB-	313	0.8
Societe Generale	Floating 7.756%	Perpetual	A1/A	310	0.8
Lloyds TSB	7.875%	Perpetual	Aa2/A	305	0.8
SPCM	8.250%	15 Jun 2013	B3/B+	290	0.8
Ladbrokes	6.500%	17 Jul 2009	Ba2/BB	283	0.8
Central European Distribution	8.000%	25 Jul 2012	B2/B	279	0.8
Fortis Bank	Floating	Perpetual	Ba1/BB	252	0.7
BNP Paribas	Floating 8.667%	Perpetual	Aa3/AA-	245	0.7
Lecta	Floating	15 Feb 2014	B1/B+	242	0.7
Asset Repackaging	Floating	21 Dec 2011	NR/NR	240	0.7
Edcon	Floating	15 Jun 2014	B2/BB-	233	0.6
General Motors	8.375%	05 Jul 2033	C/C	218	0.6
BNP Paribas	7.781%	Perpetual	Aa3/AA-	215	0.6
Royal Caribbean	5.625%	27 Jan 2014	Ba1/BB	203	0.6
Intergen	8.500%	30 Jun 2017	Ba3/BB-	184	0.5
SLMA Corporation	Floating	15 Dec 2010	Baa2/BBB-	173	0.5
Pfleiderer Finance	Floating 7.125%	Perpetual	B2/NR	162	0.4
JSG Funding	7.750%	01 Apr 2015	B2/B+	160	0.4
C10 Capital	Floating 6.277%	09 May 2049	NR/BB+	121	0.3
Cognis Deutschland	Floating	15 Sep 2013	B1/B	116	0.3
TRW Automotive	6.375%	15 Mar 2014	B2/BB	116	0.3
Stena	6.125%	01 Feb 2017	Ba2/BB+	99	0.3
Boats Investments	11.000%	31 Mar 2017	NR/NR	96	0.3
Piaggio Finance	10.000%	30 Apr 2012	Ba2/BB	86	0.2
Investec Tier I UK	Floating 7.075%	Perpetual	Ba1/NR	58	0.2
Ineos	7.875%	15 Feb 2016	Caa2/CCC	56	0.2
Lecta	Floating	15 Feb 2014	B3/B-	51	0.2
Lehman Brothers	Floating	09 Nov 2009	WR/NR	27	} 0.1
Lehman Brothers	5.375%	17 Oct 2012	WR/NR	19	
Ceva	8.500%	01 Dec 2014	B3/B-	34	0.1
BCM Ireland	Floating	15 Feb 2017	B-	27	0.1
M&G Finance	Floating 7.500%	Perpetual	NR/NR	24	0.1
Mecachrome International	9.000%	15 May 2014	WR/D	17	0.0
Euro fixed interest investments				16,071	43.6
<b>Sterling</b>					
Fixed Link Finance	7.500%	01 Aug 2025	Aaa/AAA	1,213	3.3
SMFG Preferred Capital	Floating 10.231%	Perpetual	A2/BBB+	713	1.9
Constellation Brands	8.500%	15 Nov 2009	Ba3/BB-	682	1.8
HBOS Capital Funding	Floating 9.540%	Perpetual	A1/BBB+	555	1.5
First Hydro Finance	9.000%	31 Jul 2021	NR/NR	513	1.4
NTL Cable	9.750%	15 Apr 2014	B2/B-	488	1.3
Alliance Boots	5.500%	26 May 2009	WR/NR	482	1.3

## LIST OF INVESTMENTS

AT 31 DECEMBER 2008 (continued)

## Fixed Interest Investments (continued)

COMPANY	COUPON	MATURITY DATE	MOODY'S/ S&P RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
<b>Sterling (continued)</b>					
Intergen	9.500%	30 Jun 2017	Ba3/BB-	405	1.1
Alliance & Leicester	Floating 9.625%	30 Oct 2023	A1/A-	394	1.1
RBS Argon Capital	Floating 8.162%	Perpetual	A1/BBB+	345	0.9
Northern Rock	9.375%	17 Oct 2021	B1/BBB+	344	0.9
Societe Generale	Floating 8.875%	Perpetual	A1/A	340	0.9
ITV	5.625%	02 Mar 2009	Ba1/BB+	301	0.8
Barclays Bank	Floating 8.250%	Perpetual	Aa2/A+	288	0.8
International Lease Finance	6.625%	07 Dec 2009	Baa1/A-	245	0.7
Nationwide	Floating	07 Jul 2009	Aa2/A+	227	0.6
Asset Repackaging	Floating	30 Sep 2011	NR/NR	211	0.6
Dixons	6.125%	15 Nov 2012	Ba3/NR	180	0.5
Punch Taverns	5.000%	14 Dec 2010	NR/NR	174	0.5
ASIF II	5.375%	07 Dec 2009	Aa3/A+	174	0.5
British Airways	Floating 8.750%	23 Aug 2016	Ba1/BB+	166	0.5
Novae	Floating 8.375%	27 Apr 2017	Ba1/NR	162	0.4
Scottish Mutual	7.250%	Perpetual	WR/NR	151	0.4
Heating Finance	7.875%	31 Mar 2014	Caa3/CCC-	110	0.3
Cattles	7.125%	05 Jul 2017	BB+	60	} 0.3
Cattles	6.875%	17 Jan 2014	BB+	40	
Anglo Irish Asset	Floating 8.533%	Perpetual	A3/BB	96	0.3
American International	Floating 8.625%	22 May 2038	Baa1/BBB	93	0.3
Pipe Holding	7.750%	01 Nov 2011	B1/B	66	0.1
Northern Rock	8.399%	Perpetual	B3/BBB-	28	0.1
Bradford & Bingley	Floating 6.462%	Perpetual	C/NR	12	0.0
Sterling fixed interest investments				9,258	25.1
<b>US Dollar</b>					
Wells Fargo	Floating 9.750%	Perpetual	Aa2/A+	340	0.9
Vedanta Resources	8.750%	15 Jan 2014	Ba2/BB	219	0.6
IKB Deutsche Industrie Bank	Floating	24 Jul 2009	Baa3/NR	199	0.5
Natixis	9.000%	Perpetual	A1/BBB+	188	0.5
Standard Chartered	8.125%	Perpetual	Baa2/BBB+	154	0.4
Kabel Deutschland	10.625%	01 Jul 2014	B2/B-	153	0.4
American International	8.175%	15 May 2068	Baa1/BBB	136	0.4
US Dollar fixed interest investments				1,389	3.7
<b>Total value of fixed interest investments</b>				<b>26,718</b>	<b>72.4</b>

## Derivative Instruments – Credit Default Swaps

COMPANY	NOMINAL EXPOSURE '000	COUPON	MATURITY DATE	MOODY'S/ S&P RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
<b>Euro</b>						
British Energy	(500)	4.550%	20 Mar 2013	Ba3/BB	16	0.0
Alcatel-Lucent	(250)	3.600%	20 Mar 2009	Ba3/BB-	(4)	(0.0)
Codere Finance	(250)	3.100%	20 Mar 2009	B2/B	(6)	(0.0)
Grohe Holding	(500)	4.500%	20 Mar 2009	B3/CCC+	(16)	(0.0)
Arcelor Mittal	(200)	5.000%	20 Jun 2009	BBB2	(18)	(0.0)
Thomson	(500)	7.250%	20 Sep 2009	B2/B-	(23)	(0.1)
ITRAXX Eur Xover SR9	(250)	6.500%	20 Jun 2013	NR/NR	(58)	(0.2)
International Power	(500)	3.700%	20 Dec 2012	NR/NR	(84)	(0.2)
<b>Total value of derivatives</b>					(193)	(0.5)
<b>Total value of investments</b>					<b>36,872</b>	<b>100.0</b>

## DIRECTORS

### **N J Bradley (Chairman)**

Jonathan Bradley, the Chairman of the Board and the Management Engagement Committee, joined the Board in 1989. He is a business consultant and university academic specialising in international economics. He is a director of Naya Bharat Property Company plc and a director of other investment companies. He is also a director of Charlemagne Capital (UK) Limited and Viosolar Inc. As a former director of the Tyndall Investment Group, he has a wide experience of international investment.

### **M D A Bentata**

David Bentata, the Deputy Chairman, joined the Board in 1990. He is proprietor of Bentata Associates, a business consultancy established in 1988. He has had over thirty years' experience of international and, in particular, European investment as a Manager and an Investment Director at both Hill Samuel and Charterhouse. He is also chairman of Composite Metal Technologies plc and a director of a number of private companies.

### **T M Knowles**

Tim Knowles, joined the Board in 2006. Formerly executive director at Goldman Sachs Asset Management and Chief Investment Strategist at the Fixed Income Division of Fleming Investment Management, he ran multi-currency fixed income portfolios for international government, corporate and private clients. Since 2000, he has been Bursar of Lincoln College, Oxford, and he is also a director of Lincoln College Enterprises Ltd and of MCS Oxford Ltd.

### **M Roddan**

Margaret Roddan, joined the Board in 2004. She worked as a European fund manager at Bank of America and Warburg Asset Management, then joined Perpetual in 1992 and became head of European Equities in 1993. She left Perpetual in 2001. She is a director of Clinox Ltd and is involved in other consultancy assignments.

### **S M Searle**

Mark Searle, the Chairman of the Audit Committee, joined the Board in 1989. He has spent his entire career in investment management, initially with Samuel Montagu and subsequently as Managing Director of Richards Longstaff Investment Management Limited and Investment Director of Gerrard Vivian Gray Asset Management. He is a director of Regent Pacific Group.

All Directors are independent and non-executive.

All Directors are members of the Audit Committee and the Management Engagement Committee.

## ADVISERS AND PRINCIPAL SERVICE PROVIDERS

**Manager, Secretary and Registered Office**

Invesco Asset Management Limited  
30 Finsbury Square  
London EC2A 1AG  
☎ 020 7065 4000  
Company Secretarial Contact: Kerstin Rucht

**Company Number**

Registered in England and Wales.  
Number 2335976

**Invesco Perpetual Client Services**

Invesco Perpetual has an Investor Services Team available to assist you from 8.30 am to 6.00 pm every working day. Please feel free to take advantage of their expertise.

☎ 0800 085 8677

**Custodian**

Citibank, N.A.  
Citigroup Centre  
Canada Square  
Canada Wharf  
London E14 5LB

**Auditors**

Ernst & Young LLP  
Registered Auditor  
1 More London Place  
London SE1 2AF

**Stockbrokers**

Fairfax I.S. PLC  
46 Berkeley Square  
Mayfair  
London W1J 5AT

**Registrars**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire HD8 0LA

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 extras.

Shareholders can also access their holding details via Capita's websites: [www.capitaregistrars.com](http://www.capitaregistrars.com) or [www.capitashareportal.com](http://www.capitashareportal.com).

Capita Registrars 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](http://www.capitadeal.com) or

☎ 0870 458 4577.

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

## SHAREHOLDER INFORMATION

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The shares of Invesco Perpetual European Absolute Return Trust plc are quoted on the London Stock Exchange.

### NAV Publication

The net asset value of the Company's Ordinary Shares ('NAV') is calculated by the Manager on a daily basis and is notified to the Stock Exchange by the Manager on the following business day.

It is published daily in the newspapers detailed below under share price listings.

### Share Price Listings

The price of your shares can be found in the following places:

<b>Financial Times</b>	Investment Companies
<b>The Times</b>	Investment Companies
<b>Daily Telegraph</b>	Investment Trusts
<b>Ordinary Shares</b>	
Reuters	IPE.L
Topic	IPE.L
<b>Internet addresses</b>	
Trust net	<a href="http://www.trustnet.com">www.trustnet.com</a>
Interactive Investor	<a href="http://www.iii.co.uk">www.iii.co.uk</a>
Invesco Perpetual	<a href="http://www.invescoperpetual.co.uk/">www.invescoperpetual.co.uk/</a>
	<a href="http://investmenttrusts">investmenttrusts</a>
	<a href="http://www.theaic.co.uk">www.theaic.co.uk</a>

The Association  
of Investment  
Companies

### Financial Calendar

The timing of the announcement and publication of the Company's results may normally be expected in the months shown below:

#### March/April

Preliminary results and final dividend for the financial year announced  
Annual Financial Report published

#### April/May

Interim Management Statement

#### May/June

Annual General Meeting  
Dividend paid

#### August

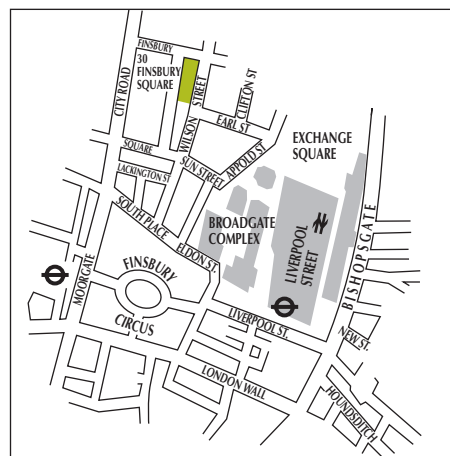
Half-yearly figures announced and half-yearly financial report published

#### October

Interim Management Statement

### Location of Annual General Meeting:

To be held at 2.30 pm on Thursday, 18 June 2009 at 30 Finsbury Square, London EC2A 1AG



## REPORT OF THE DIRECTORS (incorporating the Business Review) FOR THE YEAR ENDED 31 DECEMBER 2008

### Introduction and Content

The Directors present their annual report together with the audited financial statements of Invesco Perpetual European Absolute Return Trust plc ('the Company') for the year ended 31 December 2008.

The Report of the Directors incorporates the Business Review and expands on the following areas:

Page 14	Nature of the Company
Page 14	Objective and Investment Policy
Page 15	Life of the Company
Page 15	Share Capital and Rights Attaching to the Company's Shares
Page 16	Key Performance Indicators
Page 17	Principal Risks and Uncertainties
Page 19	Financial Position
Page 19	Resources, Relationships and Advisers
Page 20	Social and Environmental Policies
Page 20	Substantial Holdings in the Company
Page 20	Special Business at the Annual General Meeting
Page 21	The Manager
Page 22	Directors
Page 23	Conflicts of Interest
Page 24	Deeds of Indemnity
Page 24	Report of the Audit Committee

### Nature of the Company

The Company was incorporated and registered in England and Wales on 17 January 1989 as a public limited company under the Companies Act 1985 (as amended), registered number 2335976.

The Company is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act ('ICTA') 1988. HM Revenue & Customs have approved the Company's status as an investment trust, subject to there being no subsequent enquiry under Corporation Tax Self Assessment, in respect of the year ended 31 December 2007. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to maintain such approval.

### Objective and Investment Policy

#### Objective

The Company's objective is to achieve absolute returns through investment principally in equity, fixed interest and cash securities within Continental Europe (excluding the UK). However, a small proportion of the portfolio is allowed to be held in UK-listed investments, details of which are given on pages 8 to 10. The Company aims to deliver returns to shareholders in excess of sterling LIBOR.

#### Investment Policy and Risk

The portfolio is invested by the Manager so as to maximise exposure to attractive investment opportunities at both the asset class and individual security level and to create a portfolio around these with the objective of delivering absolute total returns over both the short and medium term. This is intended to be achieved through a combination of top-down asset allocation and bottom-up security selection. Top-down asset allocation is the starting point for the process. Through a combination of quantitative and qualitative macro analysis the absolute and relative expectations for individual asset classes and, where appropriate, their various component parts (e.g. government, investment grade and high yield for bonds) are determined. The output from this analysis is then used to structure the asset allocation for the portfolio.

The objective in asset allocation is to generate performance through concentrating exposure in those asset classes that the Investment Manager believes have the best risk-adjusted absolute return profile relative to cash and where the Investment Manager's conviction is the greatest. Cash is the default option for the portfolio against which all asset allocation decisions are measured. Subject to the requirements of the UK Listing Authority and to retaining investment trust and investment company status, asset allocation is unconstrained and as such there are no benchmark weightings set for individual asset classes.

Security exposure is suitably diversified, subject to the characteristics of the underlying asset classes and the overall size of the portfolio.

### Investment Limits

The Board has prescribed limits on the investment policy, among which are the following:

- no single equity investment may exceed 10% of total assets;
- the Company will not invest more than 15% of its assets in other listed investment companies;
- the Company may enter into derivative transactions (such as options, futures, forward currency contracts and credit default swaps) periodically for efficient portfolio management purposes, up to a maximum of 10% of gross assets. It will not use derivatives for speculative purposes;
- banks used for cash deposits have a minimum rating of AA; and
- asset gearing of the Company may not exceed 120.

### Company Business

The Board does not at present envisage any significant changes to the business of the Company. No important events affecting the Company have occurred since the end of its financial year. A review of the business is detailed in the Chairman's Statement on pages 4 and 5 and in the Manager's Report on pages 6 and 7.

### Life of the Company

In accordance with the Company's Articles of Association, in every third year at the Annual General Meeting (a 'Relevant General Meeting'), an Ordinary Resolution is to be proposed to the effect that the Company shall continue in being as an investment trust for the period expiring at the end of the next following Relevant General Meeting. The Annual General Meeting convened for 18 June 2009 is a Relevant General Meeting. If at any such Relevant General Meeting such an Ordinary Resolution is not passed, the Directors will within four months of such Relevant General Meeting convene an Extraordinary General Meeting of the Company at which the following resolutions shall be proposed:

- a) a Special Resolution for the reconstruction of the Company incorporating proposals for shareholders to elect either (i) to continue their investment in a closed-ended company or (ii) to receive a cash alternative; and
- b) if the Special Resolution referred to in (a) above shall not be passed, a Special Resolution requiring the Company to be wound up voluntarily.

In the case of the Special Resolution relating to voluntary winding up only, any member may demand a poll and, each holder of shares present in person or by proxy and who votes in favour of the Special Resolution shall, on a poll, have such number of votes in respect of each share held by him or her (including fractions of a vote) that the aggregate number of votes cast in favour of the resolution shall be four times the aggregate number of shares in respect of which votes are cast against the resolution and each holder of shares who votes against the resolution shall have one vote for each share held by him/her.

As explained in the Chairman's Statement, the Board is reviewing the options available for the future of the Company, as the Directors believe that Shareholders may wish to vote against the continuation of the Company by voting against Resolution 9, the continuation resolution. Should the continuation resolution not be passed, the Directors are exploring a number of possible proposals. As it is probable that the Company will not continue in the foreseeable future in its current legal form, the accounts have been prepared on a break-up basis. Further details are disclosed in the accounting policies.

### Share Capital and Rights Attaching to the Company's Shares

At the year end, the Company's issued share capital consisted of 26,100,000 ordinary shares of 10p of which 600,000 shares were held in Treasury. During the year, no share buy backs or issues were undertaken.

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

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

No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any interested person failed to supply the Company with the information requested within 14 days after

## REPORT OF THE DIRECTORS

continued

delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

### Share Valuations

On 31 December 2008 the mid-market price and the net asset value per 10p Ordinary Share were 101.0p and 121.0p respectively. The comparative figures on 31 December 2007 were 164.75p and 193.3p.

### Key Performance Indicators

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

- Asset Performance
- Revenue and Dividends
- Premium and Discount
- Peer Group Performance
- Total Expense Ratio

### Asset Performance

The Company's objective is to achieve absolute returns through investment principally in equity, fixed interest and cash securities within Continental Europe. The Company aims to deliver returns to shareholders in excess of Sterling LIBOR. When discussing and assessing shareholders' returns, the Board makes reference to the Merrill Lynch 3 Month LIBOR (Total Return) Index. The performance during the year of the net asset value relative to this index is shown in the performance statistics on page 2.

### Revenue and Dividends

The financial results for the year ended 31 December 2008 are shown in the income statement.

During the year, an interim dividend of 2p (2007: nil) per ordinary share was paid to shareholders.

Subject to approval at the Annual General Meeting, the final proposed dividend for the year ended 31 December 2008 of 5.25p (2007: 4p) per ordinary share will be payable on 19 June 2009 to shareholders on the register on 22 May 2009. This includes 1p per ordinary share in respect of VAT on management fees receivable. Together with the interim dividend paid these amount to a total dividend for the year of 7.25p per ordinary share.

### Premium and Discount

The Board monitors the price of the shares in relation to their net asset value and the discount at which the Company's shares trade. During the year, the shares traded at a discount to net asset value in the range of 5.7% to 16.5%. At the year end, the discount stood at 16.5% (2007: 14.7%). 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 issue shares. This may assist in the management of the discount, but the primary reason for buying back or issuing shares is to enhance investor value.

### Peer Group Performance

There are currently some 300 investment trust companies in the UK, of which there are 11 in the general European equities sector. The Board monitors the performance of the Company in relation to both the sector as a whole and to those companies within and outside it which most closely match its objectives and capital structure. Since the Company's move in March 2005 to become an absolute return trust, the peer group has changed from a primarily European equities peer group to an absolute return peer group. However, an

absolute return sector which would allow shareholders to compare the performance of the Company against an absolute return peer group, does not as yet exist. Therefore, for the time being, the Company continues to compare its performance against the general European equities sector as well as a few individual absolute return trusts which are deemed most appropriate for this purpose.

#### **Total Expense Ratio ('TER')**

The expenses of managing the Company are carefully monitored by the Board. Expenses for the year totalled £652,000 (2007: £706,000) excluding VAT recoverable on management fees and liquidation expenses. No performance fee was payable in 2008 and in 2007. It is the intention of the Board to seek to minimise the TER which provides a guide to the effect on performance of all annual operating costs. The TER for the year was 1.6% compared with 1.4% for the previous financial year.

#### **Principal Risks And Uncertainties**

The principal risk factors relating to the Company can be divided into the following areas:

##### **Investment Objective**

The company's investment objective is described on pages 14 and 15. There is no guarantee that the Company's investment objective will be achieved or will provide the returns sought by the Company.

##### **Investment Process and Policy**

The investment process employed by the Investment Manager combines top-down assessment of economic and market conditions with stock selection. Fundamental analysis forms the basis of the Company's stock selection process, with an emphasis on sound balance sheets, good cash flows, the ability to pay and sustain dividends, good asset bases and market conditions. The process is complemented by constant assessment of market valuations. It is important to have a sense of a company's realistic valuation which, to some extent, will be independent of the price at which the company currently trades in the market.

Overall, the investment process is aiming to achieve absolute return through a genuinely active fund management approach.

Portfolio performance is substantially dependent on the performance of fixed-interest stocks, equity and cash in Continental Europe. The stocks are influenced by prevailing interest rates, government monetary policy and by demand for income. The Investment Manager strives to maximise both capital growth and income from the stocks in which he invests, but these stocks are influenced by European and global market conditions and the Board naturally recognises the external influences on portfolio performance.

Risk Management is an integral part of the investment management process. The Manager effectively controls risk by ensuring that the Company's portfolio is always appropriately diversified. In-depth and continual analysis of the fundamentals of all holdings should give the Manager a full understanding of the financial risks associated with any particular stock.

##### **Market Movement and Portfolio Performance**

The majority of the Company's investments are traded on a number of Europe's major securities markets. The principal risk for investors in the Company is of a significant fall in the markets and/or a prolonged period of decline in the markets relative to other forms of investment as well as bad performance of individual portfolio investments.

The value of investments held within the portfolio is influenced by many factors including the general health of the world economy, interest rates, inflation, government policies, industry conditions, political and diplomatic events, tax laws, environmental laws, and by changing investor demand. The Manager strives to maximise the total return from the investments held, but these investments are influenced by market conditions and the Board acknowledges the external influences on portfolio performance.

While the Board obviously cannot influence market movements, it is vigilant in monitoring and taking steps to mitigate the effects of falls in markets should they occur. The performance of the Manager is carefully monitored by the Board, and the continuation of the Manager's mandate is reviewed each year. The Board has established guidelines to ensure that the investment policy that has been approved is pursued by the Manager. The Board and the Manager maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying NAV, and that buy-back and issuance facilities help the management of this process.

The past performance of the Company, and all of the investments in the portfolio, are not necessarily indicative of future performance.

For a fuller discussion of the economic and market conditions facing the Company and the current and future performance of the portfolio of the Company, please see both the Chairman's Statement and Manager's Report on pages 4 to 7.

## REPORT OF THE DIRECTORS

continued

### The Ordinary Shares

The market value of, and the income derived from, the Company's ordinary shares can fluctuate and may go down as well as up. The market value may not always reflect the NAV per ordinary share. The market price of an ordinary share may therefore trade at a discount to its NAV. As at 31 December 2008, an ordinary share of the Company traded at a discount of 16.5%.

The market value of the ordinary shares will be affected by a number of factors, including the dividend yield from time to time of the ordinary shares, prevailing interest rates and supply and demand for those ordinary shares, along with wider economic factors and changes in the law, including tax law and political factors. As such, the market value of an ordinary share may vary considerably from its underlying NAV. There can be no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investment.

Although the ordinary shares are listed on the Official List and admitted to trading on the London Stock Exchange's main market for listed securities, it is possible that there may not be a liquid market in the ordinary shares and shareholders may have difficulty in selling them.

### Derivatives

The Company may enter into derivative transactions for efficient portfolio management. Derivative instruments can be highly volatile and expose investors to a high risk of loss. There is a risk that the returns on the derivative do not exactly correlate to the returns on the underlying investment, obligation or market sector being hedged against. If there is an imperfect correlation, the Company may be exposed to greater loss than if the derivative had not been entered into.

### High Yield Fixed Interest Securities

High yield fixed interest securities are subject to credit, liquidity, duration and interest rate risks. Adverse changes in the financial position of an issuer or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.

46% of the Company's portfolio currently consists of non-investment grade securities. To the extent that the Company invests in non-investment grade securities, the Company may realise a higher current yield than the yield offered by investment grade securities, but investment in such securities involves a greater volatility of price and a greater risk of default by the issuers of such securities, with consequent loss of interest payment and principal. Non-investment grade securities are likely to have greater uncertainties of risk exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations. A lack of liquidity in non-investment grade securities may make it difficult for the Company to sell those securities at or near their purported value.

### Gearing

Performance may be geared by means of a bank loan. Gearing levels may change from time to time in accordance with the Manager's assessment of risk and reward. As a consequence, any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its net asset value (which is likely to affect the Company's share price adversely). Any reduction in the number of shares in issue (for example, as a result of buy backs) will, in the absence of a corresponding reduction in borrowings, result in an increase in the Company's gearing. At the year end the Company had an overdraft of £3,322,000 (2007: nil).

### Regulatory and Tax Related

The Company is subject to various laws and regulations by virtue of its status as a Company registered under the Companies Act 2006 as an investment company, and its listing on the London Stock Exchange. A serious breach of regulatory rules may lead to suspension from the London Stock Exchange, a fine or a qualified Audit Report. 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 s842 ICTA 1988 and other financial regulatory requirements on a regular basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all perceived risks and the measures in place to control them. The Board ensures that satisfactory assurances are received from service providers. The Manager's Compliance and Internal Audit Officers produce regular reports for review by the Company's Audit Committee. A breach of s842 ICTA 1988 could lead to the Company being subject to capital gains tax on the sale of its investments.

Further details of the risk management policies and procedures as they relate to the financial assets and liabilities of the Company are detailed in note 18 to the financial statements.

## Financial Position

### Assets and Liabilities

At 31 December 2008, the Company's net assets were valued at £30.8 million. These comprised a portfolio of equities, high-yielding fixed-interest securities, credit default swaps and net current liabilities including a bank overdraft.

The Company has an uncommitted bank overdraft facility under which borrowings should not exceed in aggregate the lower of 20% of the Company's net asset value and £10 million. At 31 December 2008, £3.3 million had been drawn down (2007: nil) under this facility. The overdraft interest rates are related to the inter-bank offered rate for the currency in question. All currency borrowings are covered by investments in matching currencies to manage exposure to exchange rate fluctuations.

Due to the readily realisable nature of the Company's assets, cash flow does not have the same significance as for an industrial or commercial company. The Company's principal cash flows arise from the purchase and sales of investments. Cash flow also derives from investment income, against which must be set the management expenses and any borrowing costs.

### Gearing Policy

The gearing level is regularly reviewed with the Company's gearing policy being under the control of the Board which has established maximum gearing parameters being the lower of 20% of net assets or £10 million. Gearing is likely to be used differently in a portfolio based on a multi-asset class investment policy compared with one based purely on equities and is the exception rather than the rule. In the year under review, however, the Company has used its available facility.

### Resources

The Company is an investment company which outsources its management, company secretarial and administrative functions. As a result, the Company has no employees. However, through the contractual arrangements in place, a full range of services is available to it. The most significant contract is with the Manager, Invesco Asset Management Limited, to whom responsibility for the management of the portfolio is delegated. The Board reviews the performance of the Manager formally at every Board meeting and otherwise as appropriate.

The day-to-day management of the portfolio is the responsibility of the Investment Manager.

The Board has adopted guidelines within which the Manager is permitted wide discretion; any proposed variations outside these parameters are referred to the Board. The Board has the power to replace the Manager and reviews the management contract formally once a year. The outcome of this review is discussed on page 22.

Other contractual arrangements govern relationships with the Company Secretary and Administrator, Broker, Registrar and Custodian. These contracts are also reviewed by the Board in relation to agreed service standards on a regular basis and, more formally, on an annual basis.

### Relationships

Through the annual and half-yearly financial reports, interim management statements, monthly factsheets and the publication of a daily net asset value, the Company's website, the AGM and other methods, the Board endeavours to ensure that shareholders understand the Company's investment policy and objective and that the Board, both independently and through the Manager, reviews its policy and objective in the light of feedback from shareholders. The Board monitors and reviews shareholder communications on a regular basis.

### Advisers and Principal Service Providers

The Company's main supplier of services is the Manager who provides both Investment Management Services and Company Secretarial and Administrative support.

The Company also has the following advisers:

- Ernst & Young LLP as Auditors;
- Capita Registrars as Registrars;
- Citibank as Custodian; and
- Kepler Partners LLP as marketing specialists.

Further details of the advisers can be found on page 12.

### Corporate Brokers

On 21 January 2009, Fairfax I.S. PLC was appointed as the Company's Corporate Brokers.

## REPORT OF THE DIRECTORS

continued

### 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 best financial 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.

At the AGM in 2008, the Directors received approval from shareholders to send or supply documents or information to shareholders in electronic form (e.g. by e-mail) or by means of a website. This should deliver significant environmental benefits through reduced use of paper and of the energy required for its production and distribution.

### Substantial Holdings in the Company

At 31 March 2009, the Company had been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	HOLDING	%
Invesco Perpetual	6,857,500	26.9
1607 Capital Partners	4,718,289	18.5
Lazard Asset Management	1,568,280	6.2
Best Invest Stockbrokers	1,352,200	5.3
Invesco Perpetual Investment Trust PEP/ISA	1,043,378	4.1

### Special Business at the Annual General Meeting ('AGM')

Shareholders will find on pages 53 to 55 the notice of the forthcoming AGM of the Company to be held on 18 June 2009. In addition to the ordinary business of the meeting, five resolutions are proposed as special business. These will be proposed as two Ordinary Resolutions and three Special Resolutions as follows:

#### Continuation of the Company

Ordinary Resolution 9 seeks the renewal of Shareholders' approval that the Company continues in being as an investment trust. In accordance with the Articles of Association, such approval will again be sought at the AGM in 2012.

In accordance with the Articles of Association of the Company, in the case that the ordinary resolution in respect of continuation of the Company is not passed, the Directors will, within four months of the AGM, convene an Extraordinary General Meeting of the Company. Further details are set out on page 15 under "Life of the Company".

#### Authority to Allot Shares

By law, Directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, Directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings.

Resolution 10 is an Ordinary Resolution which seeks to renew the Directors' authority to allot up to £850,000 or one third of the Company's issued ordinary share capital. This will allow the Directors to issue ordinary shares within the prescribed limits should any favourable opportunities arise to the advantage of shareholders. The powers authorised will not be exercised at a price below net asset value of the relevant share so that interests of existing shareholders are not diluted.

Resolution 11 is a Special Resolution which seeks authority to issue new ordinary shares pursuant to a rights issue or otherwise than in connection with a rights issue of up to an aggregate nominal amount of £255,000 (10% of the issued ordinary share capital) disapplying pre-emption rights. This will allow ordinary shares to be issued to new shareholders without having to be offered to existing shareholders first, thus broadening the shareholder base of the Company. These authorities will expire at the AGM in 2010.

The Resolution provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders. The Directors would not use the authority to dilute the interests of existing shareholders by issuing shares at a price which is less than the NAV attributable to the shares.

### **Authority to Buy Back Ordinary Shares**

The Directors were granted authority at last year's AGM to buy back shares for cancellation and for holding in Treasury.

The Directors are seeking to renew this authority and Special Resolution 12, a resolution to purchase in the market, for cancellation or holding in Treasury, up to 3,822,450 ordinary shares (being 14.99% of the issued ordinary share capital as at 30 April 2009), will be proposed at the AGM. This authority, if approved, will expire on the date of the Company's next AGM, unless renewed. The Directors intend that the authority to purchase the Company's shares will only be exercised when such a purchase would result in an increase in the NAV per share and is in the best interests of the Company and of shareholders generally.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing NAV per ordinary share. Under the Listing Rules of the Financial Services Authority, the maximum price which can be paid is 5% above the average of the middle market values of the ordinary shares for the five business days before the purchase is made. The minimum price which may be paid will be 10p per share, this being the nominal value of a share. In making purchases, the Company will deal only with member firms of the London Stock Exchange.

The Company will finance the purchase of ordinary shares by using its existing cash balance or by selling securities in the Company's portfolio.

As companies may hold shares repurchased as treasury shares with a view to a possible resale at a future date as an alternative to simply having to cancel them, the Directors might consider holding repurchased shares as treasury shares with a view to possible resale. The disapplication of pre-emption rights has been extended to apply to the resale of treasury shares (if any) in the same way as to the allotment of new securities.

### **Calling General Meetings at 14 days' notice**

It is expected that the new EU Shareholder Rights Directive that will come into effect on 3 August 2009 will amend the Companies Act 2006 so that the notice period for a general meeting will be 21 days (at present 14 days). However, companies are able to pass a special resolution permitting them to continue to call general meetings (other than AGMs) on a 14 day notice period if they allow voting by electronic means.

With Special Resolution 13 the Board therefore seeks shareholders' authority to call any general meetings other than AGMs on a 14 day notice period, should that be necessary. If approved, this authority will need to be renewed at every AGM of the Company.

### **Investment Management Agreement**

Invesco Asset Management Limited provides investment and administration services, including secretarial services to the Company under an agreement dated 19 February 2002. The agreement is terminable by either party by giving not less than one year's notice and immediately in certain circumstances. Under a Supplemental Agreement dated 30 March 2005 effective from 31 March 2005, new terms provide for a fee at a flat rate of 0.8% per annum of the Company's net assets. The previous terms provided for a fee of 1.0% per annum on the first £75 million of the Company's funds under management, 0.75% per annum on the next £75 million and 0.5% on funds under management over £150 million.

Under the new terms, a performance related fee will be payable in relation to any financial year if the Company's NAV total return exceeds Sterling LIBOR plus 2% over the same period (the 'Benchmark Return') and the Company's NAV per share at the year end exceeds the highest year end NAV per share in respect of which a performance fee has previously been earned (the 'High Water Mark'). Where a performance fee is payable, it will be an amount equal to 15% of the amount by which the NAV total return exceeds the higher of the Benchmark Return and the High Water Mark. The performance fee payable in any year will be subject to a maximum of 2% of the Company's net assets at the year end.

Investment management fees and finance costs are allocated equally to capital reserve – realised and revenue in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company. The performance fee is allocated 100% to the capital reserve as it arises predominantly from capital returns.

### **The Manager's Responsibilities**

The Directors have delegated to Invesco Asset Management Limited ('the Manager') the responsibility for the day-to-day investment management activities of the Company, for seeking and evaluating investment opportunities and for analysing the accounts of investee companies. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies as determined from time to time by the Board. Within the guidelines specified by the Board, the Manager has

## REPORT OF THE DIRECTORS

continued

discretion to make purchases and sales, make and withdraw cash deposits, enter into underwriting commitments and exercise all rights over the investment portfolio. The Manager also advises on currency exposures and borrowings.

The Manager also provides full administration, company secretarial and accounting services to the Company, ensuring that the Company complies with all legal and regulatory 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 on behalf of the Company as well as Interim Management Statements.

### Assessment of the Investment Manager

The Company's investment management, company secretarial and administrative arrangements are considered annually by the Management Engagement Committee. The results of this formal review are advised to the Board. The ongoing requirements of the Company and services received are assessed with reference to key performance indicators. Performance in particular is reviewed by reference to the 3 month Sterling LIBOR rate, the Merrill Lynch 3 month LIBOR (Total Return) Index, the FTSE World Europe (ex UK) £ (Total Return) Index, the Merrill Lynch High Yield Euro Master (Total Return) Index, the JPM EMU Government Bond (Total Return) Index and to peer group performance. The quality and timeliness of reports to the Board is also taken into account and the overall conduct of the Company's affairs by the Manager is considered.

The management fee arrangements include a performance element designed to strike a suitable balance between potential growth of shareholders' assets and the proper remuneration of the Manager.

The Management Engagement Committee has carried out a review following the Company's financial year end on 31 December 2008. On the basis of the Committee's report, and in light of the impending continuation vote and the uncertainty affecting the future of the Company, the Board has decided that it is in the best interests of the Company and its Shareholders that Invesco Asset Management Limited continues to act as investment manager and company secretary for the time being.

### Directors

Directors are elected 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 stand for election by shareholders at the next Annual General Meeting.

Subject to its Articles of Association and relevant statutory law and to such direction as may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

The present members of the Board, all of whom served throughout the year, are listed on page 12 together with their biographies. In accordance with the Board's tenure policy set out in the Corporate Governance Statement on page 29, 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 Jonathan Bradley, David Bentata and Mark Searle. The Board supports their re-appointment.

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.

Tim Knowles, having been elected at the Company's AGM in 2006, will stand for re-election at the forthcoming AGM and Margaret Roddan, having been elected at the Company's AGM in 2008, will next stand for re-election at the AGM in 2011.

All Directors are considered to have a good attendance record at Board and Committee meetings of the Company. The table below sets out the number of Directors' meetings (including committee meetings) held during the year ended 31 December 2008 and the number of scheduled meetings attended by each Director. All Directors are members of the Audit Committee and the Management Engagement Committee.

Apart from the scheduled Board meetings, there were also a number of unscheduled telephonic Board meetings to discuss particular issues. These were attended by all Directors available at the time.

	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS		MANAGEMENT ENGAGEMENT COMMITTEE MEETINGS	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Jonathan Bradley (Chairman)	5	5	2	2	1	1
David Bentata	5	4	2	2	1	1
Tim Knowles	5	4	2	1	1	1
Margaret Roddan	5	5	2	2	1	1
Mark Searle	5	5	2	2	1	1

All Directors have letters of appointment which are available for inspection at the Registered Office of the Company and which are also available on the Company's website. All Directors are independent of the investment manager.

### Directors' Interests

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

ORDINARY SHARES	31 DECEMBER 2008	1 JANUARY 2008
Jonathan Bradley	26,488	20,095
David Bentata	3,000	3,000
Tim Knowles	7,867	3,995
Margaret Roddan	250,000	250,000
Mark Searle	71,545	40,000

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year.

On 13 February 2009, Jonathan Bradley bought a further 7,404 ordinary shares, bringing the total number of shares in which he had an interest to 33,892. The Company had previously announced that all inside information, which the Directors and the Company have in leading up to the announcement of the annual results, has been notified to a Regulated Information Service.

No further changes to these holdings have been notified up to the date of this report.

### 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.

### Conflicts of Interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

The Articles of Association of the Company, approved by shareholders at last year's AGM on 15 April 2008, give the Directors authority to approve such situations and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. Only Directors who have no interest in the matter being considered will be able to take the relevant decision. Moreover, 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. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Going forward, it is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

## REPORT OF THE DIRECTORS

continued

The Directors have advised any potential conflicts of interest with the Company. The Register of Potential Conflicts of Interests is kept in the Registered Office of the Company. It is reviewed regularly by the Board and the Directors will advise the Company Secretary as soon as they become aware of any potential conflicts of interest. Directors who have potential conflicts of interest will not take part in any discussions which relate to any of their potential conflicts.

### Deeds of Indemnity

At the AGM in 2006, shareholders approved a widening of the indemnity provisions for Directors and officers of the Company. Following that approval, a Deed of Indemnity was executed on behalf of the Company for each Director.

Under the terms of the indemnities, a Director may be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the discharge of his duties or the exercise of his powers or discretions as a Director of the Company. This includes any liability incurred by the Director in disputing, defending, investigating or providing evidence in connection with any actual or threatened or alleged claims, demands, investigations or proceedings whether civil or criminal, and any settlement in respect thereof. Directors will continue to be indemnified under the terms of the indemnities notwithstanding that they may have ceased to be Directors of the Company.

However, Directors will not be entitled to be indemnified for any liability to the Company, for fines payable to regulatory authorities, for defending any criminal proceedings in which they are convicted or in defending any civil proceedings brought by the Company. In the event that judgment is given against a Director in relation to any claim, the Director will repay to the Company any amount received from the Company with regard to such claim under his indemnity. The indemnity does not apply to the extent that a liability is recoverable from any insurers, if it is prohibited by the Companies Acts 1985 and 2006 or otherwise prohibited by law, if it relates to tax payable on remuneration or other benefits received, or if a liability arises from an act or omission of the Director which is shown to have been in bad faith or arising from gross negligence.

### Report of the Audit Committee

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, the Manager's systems of internal control and the management of financial risks, the audit process; relationships with the external auditors; the Company's processes for monitoring compliance with laws and regulations, its code of business conduct; and for making recommendations to the Board.

The Company's internal financial controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board. The Committee has also received a satisfactory report on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers.

The audit programme and timetable is considered with the Company's Auditors in advance of the Company's financial year end. At that stage, matters for audit focus are discussed and agreed. These matters are given particular attention during the audit process and, among other matters, reported on by the Auditors in their report to the Committee. The audit review is considered by the Committee and discussed with the Auditors and the Manager prior to approving and signing the financial statements.

The Committee reviewed the financial statements for the period to 31 December 2008 with the Manager and Auditors at the conclusion of the audit process. There were no matters arising from the audit that needed to be brought to the Board's attention.

The Audit Committee has considered the independence of the Auditors and the objectivity of the audit process and is satisfied that Ernst & Young LLP has fulfilled its obligations as independent auditors of the Company.

Details of the audit fee are shown in note 4 to the financial statements.

### Audit Information

The Directors who held office at the date of the approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

### Auditors

Should the Shareholders approve that the Company continues in being as an investment trust, Ernst & Young LLP have expressed their willingness to continue in office as Auditors to the Company.

A resolution proposing the re-appointment of Ernst & Young LLP as the Company's Auditors and authorising the Directors to determine their remuneration will be put to the forthcoming AGM.

### **Individual Savings Account ('ISA')**

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

### **Supplier Payment Policy**

It is the Company's policy to obtain the best terms for all business, including purchases of investments, and to abide by those agreed terms. The Company had no trade creditors at 31 December 2008 (2007: none).

### **Donations**

The Company made no charitable or political donations during the year.

### **Going Concern**

As disclosed in the Chairman's Statement on page 5, the Directors believe that it is no longer appropriate to prepare the accounts on a going concern basis. Accordingly, the accounts have been prepared on a break-up basis.

By order of the Board

**Invesco Asset Management Limited**

Secretary  
30 Finsbury Square  
London EC2A 1AG

30 April 2009

## DIRECTORS' REMUNERATION REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2008

The Board presents this Report which has been prepared under the requirements of Schedule 7A of the Companies Act 1985. An Ordinary Resolution for the approval of this Report will be put to shareholders at the Annual General Meeting.

The Company's auditors are required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The auditors' opinion is included in their Report.

#### Remuneration Committee

The Board is of the opinion that a remuneration committee is not appropriate for a company of this size and nature. Remuneration responsibilities are part of the Board's responsibilities, to be addressed periodically.

All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered. The Board seeks advice from the Secretary, Invesco Asset Management Limited, when considering the level of Directors' fees.

In the previous year the Board reviewed Directors' fees and approved remuneration increases as follows with effect from 1 January 2007:

- Chairman from £18,000 to £22,500;
- Deputy Chairman from £14,000 to £17,500;
- Audit Committee Chairman from £14,000 to £17,500; and
- Other Directors from £12,000 to £15,000.

Directors' remuneration remained at these levels all through 2008.

#### Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should be fair and reasonable in relation to that of other investment trusts. Furthermore, the objective is to ensure that Directors are rewarded for their individual contributions to the success of the Company, also taking into consideration any committee memberships.

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 £120,000 per annum. The Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits.

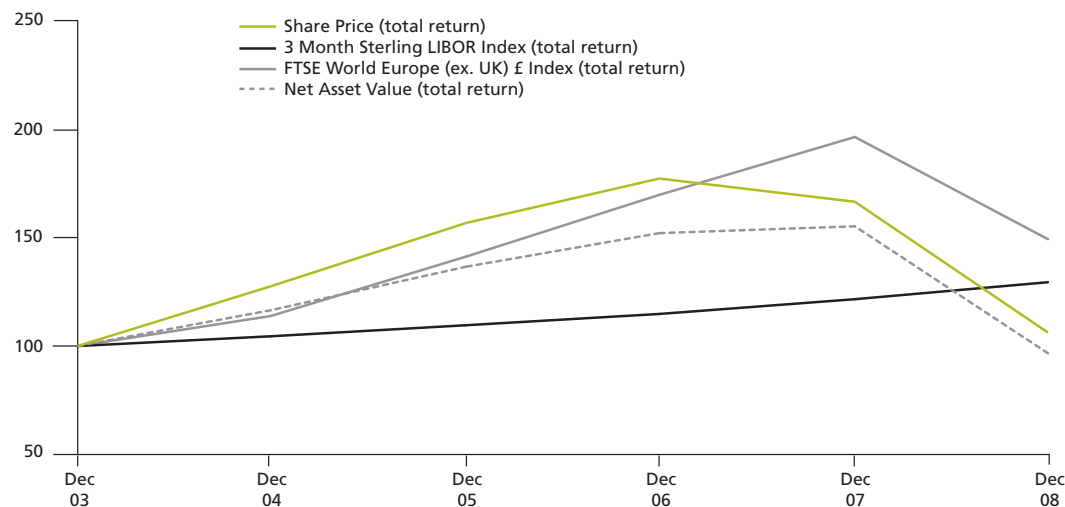
It is intended that this policy will continue for the year ending 31 December 2009 and subsequent years.

#### Service Contracts

All Directors have letters of appointment which are available for inspection at the Registered Office of the Company and on the Company's website. Under the Articles of Association of the Company, the terms of the Directors' appointment provide that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. The terms also provide that a Director may be removed from office without notice and that no compensation will be due on leaving office.

## The Company's Performance

The graph plots the Share Price and Net Asset Value total return to ordinary shareholders compared to the total return of the FTSE World Europe (ex UK) £ Index, which was the benchmark of the Company for performance measurement purposes until 31 March 2005 and the 3 Month Sterling LIBOR Index (represented by the Merrill Lynch 3 month Sterling LIBOR Index), which was the benchmark thereafter, over the five years to 31 December 2008. Figures have been rebased to 100 at 31 December 2003.



## Directors' Emoluments for the Year (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	2008 £	2007 £
N J Bradley (Chairman of the Board)	22,500	22,500
S M Searle (Chairman of the Audit Committee)	17,500	17,500
M D A Bentata (Deputy Chairman of the Board)	17,500	17,500
T M Knowles	15,000	15,000
M Roddan	15,000	15,000
<b>Total</b>	<b>87,500</b>	<b>87,500</b>

The fees in respect of Directors' services for Jonathan Bradley and David Bentata were paid to third parties.

## Approval

The Directors' Remuneration Report was approved by the Board of Directors on 30 April 2009.

### Jonathan Bradley

Chairman

Signed on behalf of the Board of Directors

## CORPORATE GOVERNANCE STATEMENT

Directors' Statement of Compliance with the revised Association of Investment Companies' Code of Corporate Governance ('the AIC Code') and the AIC's Corporate Governance Guide for Investment Companies ('the AIC Guide').

### The Principles

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

In February 2007, the Financial Reporting Council confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide would meet their obligations in relation to the 2006 Combined Code on Corporate Governance and paragraph 9.8.6 of the Listing Rules. This statement describes how the principles of the AIC Code and Guide have been complied with in the affairs of the Company. Any reference to the AIC Code in this statement includes references to the AIC Guide. Copies of the AIC Code and AIC Guide can be found on the AIC's website at [www.theaic.co.uk](http://www.theaic.co.uk)

During the year under review, the terms of reference for the Board, the Audit Committee and the Management Engagement Committee were reviewed and updated to ensure they remain in line with latest best practice and the AIC Code.

The Company's Corporate Governance procedures are considered regularly by the Board and amended as necessary.

The Directors believe that, throughout the year under review, they have complied with the provisions of the AIC Code and Guide and, therefore, with all the relevant provisions in Section 1 of the Combined Code. The Company has also complied with the Turnbull guidance throughout the year under review and up to the date of signing the accounts.

## DIRECTORS

### Independence

The Board consists of five 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 Messrs Bradley, Bentata and Searle, each of whom has served on the Board for more than 10 years, is not compromised by their length of service but, to the contrary, is strengthened by their experience.

Mrs Roddan, despite being a former employee of the Manager, is also considered independent by the Board. She left Perpetual in 2001, eight years ago, and the Board values her wide experience of the investment markets.

### Chairman

The Chairman of the Board is Jonathan Bradley, a non-executive Director who has no conflicting relationships. As the Company is an investment trust and sub-contracts its day-to-day investment management and administration, its Board consists exclusively of non-executive Directors and it does not have a Chief Executive Officer.

Jonathan Bradley has been a member of the Board since 1989. Like all Board members, he is subject to an annual performance appraisal. Following this year's appraisal, the Board has confirmed that the Chairman's performance continues to be effective and therefore recommends his re-election.

The Chairman will be present at the AGM to answer questions.

### Senior Non-Executive Director

The AIC Code recommends the appointment of a Senior Independent Director. The Board is of the opinion that such an appointment is unnecessary considering the size of the Company and the Board. However, Mr Bentata was appointed as Deputy Chairman of the Board and he will additionally act as Senior Independent Director in relevant circumstances.

### Board Balance

The Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 11.

### Board Responsibilities

The Directors are equally responsible under United Kingdom law for the proper conduct of the Company's affairs. In addition, the Board is responsible for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. A formal schedule of matters reserved for decision by the Board and detailing the responsibilities of the Board has been established. 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 risk/reward balance to which they are exposed by holding their shares, through the portfolio details given in the annual and half-yearly reports, interim management statements, factsheets and daily net asset value disclosures.

The Board as a whole undertakes periodically the responsibilities which would otherwise be assumed by committees for nomination and remuneration, having decided that separate nomination and remuneration committees are not appropriate for a company of this size and nature.

### Supply of Information

To enable the Directors of the Board to fulfil their roles, the Manager and Company Secretary ensure 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 continually 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 new legislation and changing risks.

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 members 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, 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.

### The Manager's Responsibilities

The Manager is responsible for the day-to-day investment management decisions of the Company and for provision of Company Secretarial and Accounting Services. A statement of the Manager's responsibilities is shown on page 21 in the Report of the Directors.

The Board has reviewed and accepted the Managers' 'whistleblowing' policy under which staff of Invesco Asset Management Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

### Appointment, Re-election, and Tenure of Directors

The Board as a whole undertakes the function of the Nomination Committee. In doing so, the Board reviews the size, structure and skills of the Board and considers any changes necessary or new appointments.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment available on the Company's website. They are also available for inspection at the Registered Office of the Company and will be available at the Annual General Meeting ('AGM').

The Articles of Association require that a Director shall retire and be subject to re-election at the first AGM after appointment. No Director serves a term of more than three years before re-election. Accordingly, Mr Knowles seeks re-election at the forthcoming AGM.

A Director's normal 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. Accordingly, Messrs Bradley, Bentata and Searle stand for re-election at this year's AGM.

The Chairman and the Board confirm that the performance of all Directors continues to be effective and demonstrates commitment to the role, and recommend to shareholders the approval of Resolutions 4, 5, 6 and 7 relating to the Directors seeking re-election. Mrs Roddan, having been re-elected at the AGM in 2008, does not yet need to seek re-election.

Directors may, by notice in writing, remove any Director from the Board without notice or compensation.

## CORPORATE GOVERNANCE STATEMENT

continued

### Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendations in respect of evaluating the performance of the Board as a whole, 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 independence of Directors;
- 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 their role; and
- the Board's ability to challenge the Manager's recommendations, suggest areas of debate and fix timetables for debates on the future strategy of the Company.

The Board again opted to conduct its performance evaluation through questionnaires and discussion between the Directors and the Chairman and used the findings and feed back as the basis for a review of performance during the year. The result of this year's evaluation process was that the Board collectively, and the Directors individually, were deemed to have performed satisfactorily. The Directors are confident of their ability to continue to make effective contributions and to demonstrate commitment to their roles.

### Directors' Remuneration

The remuneration of the Directors is reviewed on a regular basis by the Board as a whole. Details of the Company's policy on Directors' remuneration and of payments to Directors are given in the Directors' Remuneration Report on pages 26 and 27.

### 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.

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

### Accountability and Audit

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 33. The Auditors' Report appears on pages 34 and 35.

### Audit Committee

As the Board is considered small for the purposes of the AIC Code, the Audit Committee comprises all non-executive Directors. The Chairman of the Audit Committee is Mark Searle. The Committee has written terms of reference which clearly define its responsibilities. The terms of reference of the Audit Committee, including its role and authority, were updated during the year to ensure ongoing best practice and compliance with the AIC Code. They will be available for inspection at the AGM and can be inspected at the Registered Office of the Company as well as on the Company's website.

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, systems of internal control and the management of financial risks, the audit process, relationships with external auditors, the Company's processes for monitoring compliance with laws and regulations, its code of business conduct and for making recommendations to the Board. It is responsible for the appointment, reappointment and removal of auditors as laid out in the terms of reference of the Audit Committee.

The Committee meets at least twice a year to review the internal financial and non-financial controls, accounting policies and the contents of the interim and annual reports to shareholders. In addition, the Committee reviews the Auditors' independence, objectivity and effectiveness, the quality of the services of the service providers to the Company and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. At each meeting, representatives of the Manager's Internal Audit and Compliance Department are present. Representatives of Ernst & Young LLP, the Company's Auditors, attend the Committee meeting at which the draft annual report and financial statements are reviewed and are given the opportunity to speak to Committee members without the presence of representatives of the Manager.

The areas of focus for the audit and timetable are agreed with the Auditors in advance of the financial year end. At this stage, matters for audit focus are discussed and agreed. These matters are given particular attention during the audit process and, among other matters, are reported on by the Auditors in their report to the Committee. This report is considered by the Committee and discussed with the Auditors and the Manager prior to approving and signing the financial statements.

The Committee has reviewed the financial statements for the year ended 31 December 2008 with the Manager and Auditors at the conclusion of the audit process.

The Committee has recommended approval by the Board of an audit fee of £22,750, exclusive of expenses and VAT. The Committee has considered and are satisfied with the objectivity and the independence of the Auditors.

#### **Auditors' Non-Audit Services**

It is the Company's policy normally not to seek substantial non-audit services from its Auditors. The Audit Committee considers whether the skills and experience of the Auditors makes them a suitable supplier of the non-audit service and whether there are safeguards in place to ensure that there is no threat to their objectivity and independence in the conduct of the Audit resulting from the provision of such services by the Auditors.

#### **Internal Financial and Non-Financial Controls**

The Directors acknowledge that they are responsible for the Company's systems of internal financial and non-financial controls which have been in place throughout the year and up to the date of this report. The effectiveness of the Company's operations has been reviewed, and control systems codified to facilitate regular monitoring and management of risks and to facilitate regular review by the Audit Committee.

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board. The Audit Committee has also received a satisfactory report on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers. The Audit Committee is pleased to report that, as a result of this year's review, no weaknesses were found in the financial reporting process.

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 control is designed to manage rather than eliminate risk of failure to achieve business objectives. This system can therefore 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 December 2008 and up to the date of this annual financial report.

As stated above, the Board meets regularly, at least five times a year, and 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 Manager's Internal Audit and Compliance Departments. Formal reports are produced annually on the internal controls and procedures in place for secretarial and administrative, custodial, investment management and accounting activities and are reviewed by the Board. The programme of reviews is set up by the Manager and the reports are not necessarily directed to the affairs of any one client of the Manager.

The Directors consider that these procedures enable the Company to comply with the Financial Reporting Council's Internal Control: Revised Guidance for Directors on the Combined Code.

#### **Internal Audit Function**

The Directors have reviewed the need for the Company to establish an internal audit function but, in view of the extent of the Manager's executive responsibilities, consider that such a function is not necessary.

#### **The Management Engagement Committee**

The Management Engagement Committee comprises the entire Board under the chairmanship of Jonathan Bradley. The Management Engagement Committee has written terms of reference which clearly define its responsibilities and duties. The Committee meets annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager. The terms of reference of the Management Engagement Committee, including its role and authority, will be available for inspection at the AGM and can be inspected at the Registered Office of the Company as well as on the Company's website.

## CORPORATE GOVERNANCE STATEMENT

continued

A statement of Invesco Asset Management Limited's responsibilities as Manager and Administrator of the Company and the assessment of the Investment Manager by the Management Engagement Committee can be found in the Report of the Directors on pages 21 and 22.

### Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime media by which the Company communicates with shareholders is through the annual and half-yearly financial reports as well as interim management statements, which aim to provide shareholders with a full understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication at the Stock Exchange of the net asset value of the Company's ordinary shares and by a monthly fact sheet. At each AGM, a presentation is made by the Manager following the business of the Meeting and shareholders have the opportunity to communicate directly with the whole Board. All shareholders are encouraged to attend the Annual General Meeting.

There is a regular dialogue between the Manager and institutional 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 institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and institutional shareholders are reported to the Board.

It is the intention of the Board that the Annual Financial Report and Notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of 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 12. At other times, the Company responds to letters from shareholders on a range of issues.

Shareholders can also visit the Manager's investment trust website at [www.invesco-perpetual.co.uk/investmenttrusts](http://www.invesco-perpetual.co.uk/investmenttrusts) in order to access copies of annual and half-yearly financial reports, interim management statements, shareholder circulars, Company 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 also able to access copies of the Schedule of Matters Reserved for the Board, and the Terms of Reference of the Committees of the Board and, following any shareholders' general meetings, proxy voting results.

### Institutional Voting

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. The Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure those standards are met. The 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 and are not simply passed back to the company concerned for discretionary voting by its chairman.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

### IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that 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 1985 (as and when updated by the Companies Act 2006). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Report of the Directors 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.

**Jonathan Bradley**  
Chairman

Signed on behalf of the Board of Directors  
30 April 2009

### Electronic Publication

The annual financial report is published on [www.invesco-perpetual.co.uk/investmenttrusts](http://www.invesco-perpetual.co.uk/investmenttrusts) which is the Company's website maintained by the Company's Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditors accept 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 AUDITORS' REPORT

to the members of Invesco Perpetual European Absolute Return Trust plc

We have audited the financial statements of Invesco Perpetual European Absolute Return Trust plc for the year ended 31 December 2008 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The Directors' responsibilities for preparing the Annual Financial Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities .

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Financial Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Financial Information and Performance Statistics, Chairman's Statement, Manager's Report, List of investments, Directors, Advisers and Principal Service Providers, Shareholder Information, the Report of the Directors (incorporating the business Review), the unaudited part of the Directors' Remuneration Report, Corporate Governance Statement, Notice of Annual General Meeting and Glossary of Terms. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.



## Opinion

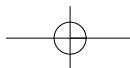
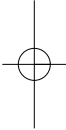
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its net return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

## Ernst & Young LLP

*Registered auditor*  
London

30 April 2009



## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2008			2007		
		REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
(Losses)/gains on investments	9	—	(11,046)	(11,046)	—	2,709	2,709
Gains on futures and options		—	—	—	—	87	87
Exchange losses		—	(7,874)	(7,874)	—	(2,612)	(2,612)
Income	2	3,516	—	3,516	1,983	—	1,983
Investment management fees	3	(169)	(169)	(338)	(224)	(224)	(448)
VAT recoverable on management fees	3	254	346	600	—	—	—
Other expenses	4	(760)	(4)	(764)	(257)	(1)	(258)
<b>Net return before finance costs and taxation</b>		2,841	(18,747)	(15,906)	1,502	(41)	1,461
Finance costs	5	(81)	(81)	(162)	(4)	(4)	(8)
<b>Return on ordinary activities before taxation</b>		2,760	(18,828)	(16,068)	1,498	(45)	1,453
Tax on ordinary activities	6	(828)	(26)	(854)	(382)	68	(314)
<b>Return on ordinary activities after tax for the financial year</b>		1,932	(18,854)	(16,922)	1,116	23	1,139
<b>Return per ordinary share:</b>							
<b>Basic</b>	7	7.6p	(73.9)p	(66.3)p	4.1p	0.1p	4.2p

The total column of this statement represents the Company's profit and loss account. The supplementary revenue and capital columns are both prepared under guidance published 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 therefore no statement of recognised gains or losses is presented. No operations were acquired or discontinued in the year.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER

	SHARE	SHARE	CAPITAL	CAPITAL	REVENUE	TOTAL
	CAPITAL	PREMIUM	REDEMPTION	RESERVES	RESERVE	
	£'000	£'000	RESERVE £'000	£'000	£'000	£'000
<b>At 31 December 2006</b>	3,173	13,609	427	36,523	1,420	55,152
Dividend paid	—	—	—	—	(865)	(865)
Share buy backs	(563)	—	563	(6,129)	—	(6,129)
Return for the year from the income statement	—	—	—	23	1,116	1,139
<b>At 31 December 2007</b>	2,610	13,609	990	30,417	1,671	49,297
Dividend paid	—	—	—	—	(1,530)	(1,530)
Return for the year from the income statement	—	—	—	(18,854)	1,932	(16,922)
<b>At 31 December 2008</b>	2,610	13,609	990	11,563	2,073	30,845

The accompanying notes are an integral part of these statements.

**BALANCE SHEET**

AS AT 31 DECEMBER

	NOTES	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Investments at fair value through profit or loss	9	—	46,202
<b>Current assets</b>			
Investments at fair value through profit or loss	9	36,872	—
Debtors	10	1,796	695
Cash at bank		—	3,723
		38,668	4,418
<b>Creditors: amounts falling due within one year</b>	11	(7,823)	(1,323)
<b>Net current (liabilities)/assets</b>		30,845	3,095
<b>Total assets less current liabilities</b>		30,845	49,297
<b>Capital and reserves</b>			
Share capital	12	2,610	2,610
Share premium	13	13,609	13,609
Capital redemption reserve	13	990	990
Capital reserves	13	11,563	30,417
Revenue reserve	13	2,073	1,671
<b>Total Shareholders' funds</b>		30,845	49,297
<b>Net asset value per ordinary share:</b>			
Basic	14	121.0p	193.3p

These financial statements were approved by the Board of Directors and authorised for issue on 30 April 2009.

**Jonathan Bradley**

Chairman

Signed on behalf of the Board of Directors

*The accompanying notes are an integral part of this statement.*

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2008 £'000	2007 £'000
<b>Net cash inflow from operating activities</b>	15(a)	2,243	432
<b>Servicing of finance</b>	15(b)	(147)	(8)
<b>Taxation</b>		38	35
<b>Capital expenditure and financial investment</b>	15(b)	(1,738)	8,748
<b>Equity dividends paid</b>	8	(1,530)	(865)
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>		(1,134)	8,342
<b>Financing</b>	15(b)	—	(6,129)
<b>(Decrease)/increase in cash</b>		(1,134)	2,213
<b>Reconciliation of net cash flow to movement in net funds/(debt)</b>			
	NOTES	2008 £'000	2007 £'000
Cash movement from (decrease)/increase in cash		(1,134)	2,213
<b>Change in net funds resulting from cash flows</b>		(1,134)	2,213
Exchange movements		(5,911)	(109)
<b>Movement in net (debt)/funds in the year</b>		(7,045)	2,104
Net funds at beginning of year		3,723	1,619
<b>Net (debt)/funds at end of year</b>	15(c)	(3,322)	3,723

*The accompanying notes are an integral part of this statement.*

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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### 1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

#### (a) Basis of preparation

##### (i) *Accounting Standards applied*

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and with 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.

As it is probable that the Company will not continue in the foreseeable future in its current legal form, the accounts have been prepared on a break-up basis. As a consequence, all assets and liabilities are classified as current; investments continue to be stated at bid price which is a reasonable estimation of their fair value with no provision for impairment. In addition, estimated liquidation expenses of £450,000 have been recognised in the financial statements. The comparative figures are presented on a going concern basis.

##### (ii) *Changes in presentation*

Following the publication of technical guidance by the Institute of Chartered Accountants in England and Wales in Tech 01/08, capital reserves are now shown in aggregate in the balance sheet and reconciliation of movements in shareholders' funds. This has no effect on either the net assets or earnings of the Company.

#### (b) Foreign currency

##### (i) *Functional and presentation currency*

The financial statements are presented in sterling, which is the Company's functional and presentation currency and the currency in which the Company's share capital and expenses are denominated, as well as certain of its assets and liabilities.

##### (ii) *Transactions and balances*

Transactions in foreign currency, whether of a revenue or capital nature, are translated to sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Any gains or losses, whether realised or unrealised, are taken to the capital reserve or to the revenue account, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the income statement.

#### (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 will offset 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.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 1. Accounting policies (continued)

#### (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

The Company classifies all financial assets as 'fair value through profit or loss.' Financial liabilities are classified as 'fair value through profit or loss' or 'other financial liabilities.' The classification depends on the purpose for which the financial liability was acquired. The classification of financial instruments is determined on initial recognition.

#### *Fair value through profit or loss*

A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivative financial instruments are also included in this category.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the capital column of the income statement and are subsequently carried at fair value.

#### *Other financial liabilities*

Other 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, with interest expense recognised on an effective yield basis.

### (d) Hedging and derivatives

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are included in capital reserves.

Futures contracts are entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital reserves.

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.

### (e) Income

Income from equity investments, including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Where the Company elects to receive dividends in the form of additional shares rather than cash, the equivalent to the cash dividend is recognised as income in revenue and any excess in value of the shares received over the amount of the cash dividend is recognised in capital. Interest income arising from fixed income securities and deposit interest is accounted for on an accruals basis.

### (f) Expenses and finance costs

Expenses are recognised on an accruals basis and finance costs are recognised using the effective interest method in the income statement. The investment management fee and interest payable are 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 of the Company. All other expenses are charged through revenue except the performance-related fee is charged wholly to capital as it arises predominantly from capital returns on the portfolio, and transaction charges.

### (g) Taxation and deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, 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 underlying timing differences can be deducted. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

The tax effect of different items of expenditure is allocated between capital and revenue on the same basis as the particular item to which it relates, using the marginal method.

## 1. Accounting policies (continued)

### (h) Dividends

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

## 2. Income

	2008 £'000	2007 £'000
<b>Income from listed investments</b>		
UK dividends	14	26
Overseas dividends	480	599
Unfranked investment income	2,882	1,316
	3,376	1,941
<b>Other income</b>		
Deposit interest on cash balances	47	42
Interest on VAT recoverable on management fees	93	—
<b>Total income</b>	<b>3,516</b>	<b>1,983</b>

## 3. Investment management fees

	2008			2007		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	169	169	338	198	198	396
VAT suffered	—	—	—	26	26	52
	169	169	338	224	224	448

Details of the management agreement are disclosed in the Report of the Directors. The balance due at the year end in respect of the investment management fee was £70,000 (2007: £100,000).

A performance related fee is also payable annually in arrears if the Company's performance exceeds both the benchmark index and a high water mark based on the criteria also outlined in the Report of the Directors. No performance fee is payable for the year ended 31 December 2008 (2007: nil).

With effect from 1 October 2007, no VAT has been paid on management fees. An amount of £600,000 has been recognised in these accounts in respect of VAT recoverable on management fees paid to the current manager, this has been credited £254,000 to revenue and £346,000 to capital, in the same proportion as originally charged to the income statement. VAT on management fees paid to the previous managers will be recognised on receipt.

## 4. Other expenses

	2008			2007		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
General expenses	195	4	199	144	1	145
Liquidation expenses	450	—	450	—	—	—
Directors fees (i)	88	—	88	88	—	88
Fees payable to the Company's auditor for (ii)						
— the audit of the annual financial statements	23	—	23	21	—	21
— tax compliance	4	—	4	4	—	4
	760	4	764	257	1	258

(i) The Directors' fees authorised by the Articles of Association are £120,000 per annum.

(ii) Fees payable to the Company's auditor are shown net of VAT, which is included in other expenses.

## NOTES TO THE FINANCIAL STATEMENTS

continued

**5. Finance costs**

	2008			2007		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Overdraft interest	81	81	162	4	4	8

**6. Tax on ordinary activities****(a) Analysis of the charge for the year**

	2008			2007		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
United Kingdom tax:						
Corporation Tax at 28.5% (2007: 30%)	924	26	950	445	(68)	377
Double tax relief	(143)	—	(143)	(137)	—	(137)
Overseas taxation	47	—	47	74	—	74
	828	26	854	382	(68)	314

**(b) Factors affecting tax charge for the year**

	2008 £'000	2007 £'000
Revenue return on ordinary activities before taxation	2,760	1,498
Theoretical tax at UK Corporation Tax rate of 28.5% (2007: 30%)	787	449
Effects of :		
– Double tax relief	(47)	(74)
– Overseas tax	47	74
– Overseas tax now relieved	(82)	(63)
– Non taxable income	(5)	(4)
– Disallowed expenses	128	—
Tax charge for the year	828	382

The Company is not liable to tax on capital gains due to its status as an investment trust company.

**(c) Factors that may affect future tax charges**

The Company has no unrelieved excess expenses and loan relationship deficits (2007: none) and has excess unrelieved foreign tax of £303,000 (2007: £283,000).

**7. Return per ordinary share**

	2008			2007		
	REVENUE	CAPITAL	TOTAL	REVENUE	CAPITAL	TOTAL
Basic	7.6p	(73.9)p	(66.3)p	4.1p	0.1p	4.2p

All three returns above are based on the returns on ordinary activities after tax and on 25,500,000 (2007: 27,234,178) ordinary shares (excluding shares held in Treasury), being the weighted average number of ordinary shares in issue during the year.

**8. Dividends on ordinary shares**

	2008 £'000	2007 £'000
Dividends paid and recognised in the year:		
Final dividend paid for 2007 of 4p (2006: 3p)	1,020	865
Interim dividend paid for 2008 of 2p (2007: nil)	510	—
	1,530	865

Set out below are the total dividends payable in respect of the financial year ended 31 December.

Interim dividend paid for 2008 of 2p (2007: nil)	510	—
Proposed final dividend for 2008 of 5.25p (2007: 4p)	1,339	1,020
	1,849	1,020

The proposed final dividend will be paid on 19 June 2009 to shareholders on the register on 22 May 2009.

**9. Investments at fair value through profit or loss**

	2008 £'000	2007 £'000
<b>(a) Analysis of investments</b>		
Investments listed on a recognised investment exchange	36,872	46,202
<b>(b) Analysis of investments (losses)/gains:</b>		
<b>Listed overseas</b>		
Opening book cost	43,953	47,800
Opening unrealised appreciation	2,249	4,486
Opening valuation	46,202	52,286
Movements in the year:		
Purchases at cost	42,243	31,352
Sales – proceeds	(40,527)	(40,145)
– realised gains on sales	149	4,946
Movement in unrealised appreciation	(11,195)	(2,237)
Closing valuation	36,872	46,202
Closing book cost	45,818	43,953
<b>Closing unrealised (depreciation)/appreciation</b>	<b>(8,946)</b>	<b>2,249</b>
Realised gains in the year	149	4,946
Unrealised losses in the year	(11,195)	(2,237)
<b>Total (losses)/gains in the year</b>	<b>(11,046)</b>	<b>2,709</b>

(c) Transaction costs on purchases of £22,000 (2007: £42,000) and on sales of £37,000 (2007: £46,000) are included in gains and losses on investments.

(d) Included in the analysis above are credit default swaps with a market value loss of £193,000 (2007: profit £22,000).

(e) As disclosed in the Chairman's Statement, the accounts have been prepared on a break-up basis. Consequently, all investments held at 31 December 2008 have been treated as current assets.

## NOTES TO THE FINANCIAL STATEMENTS

continued

**10. Debtors**

	2008 £'000	2007 £'000
Prepayments and accrued income	1,179	666
Tax recoverable	15	29
VAT recoverable	602	—
	1,796	695

**11. Creditors: amounts falling due within one year**

	2008 £'000	2007 £'000
Amounts due to brokers	—	22
Overdraft	3,322	—
Corporation tax payable	1,034	232
Unrealised losses on forward currency contracts	2,875	912
Accruals	142	157
Liquidation expenses	450	—
	7,823	1,323

**12. Called-up share capital**

	2008 £'000	2007 £'000
<b>Authorised:</b>		
120,000,000 ordinary shares of 10p each	12,000	12,000
<b>Allotted, called-up and fully paid:</b>		
26,100,000 (2007: 26,100,000) ordinary shares of 10p each	2,610	2,610

There were no buy backs or issues of shares during the year and at the year end 600,000 (2007: 600,000) shares were held in treasury.

**13. Reserves**

	SHARE PREMIUM ACCOUNT £'000	CAPITAL REDEMPTION RESERVE (ii) £'000	CAPITAL RESERVES (i) £'000	REVENUE RESERVE £'000
Beginning of year	13,609	990	30,417	1,671
Dividends paid	—	—	—	(1,530)
Exchange differences	—	—	(7,874)	—
Realised gains on investments	—	—	149	—
Increase in unrealised depreciation on investments	—	—	(11,195)	—
Management fee allocated to capital (i)	—	—	(169)	—
VAT recoverable on management fees allocated to capital	—	—	346	—
Finance costs charged to capital	—	—	(81)	—
Tax effect of capital items	—	—	(26)	—
Other capital charges	—	—	(4)	—
Revenue return for the year	—	—	—	1,932
End of year	13,609	990	11,563	2,073

(i) The capital reserve includes the investment holding gains/(losses), being the difference between cost and market value at 31 December 2008 totalled a loss of £8,946,000 (2007: £2,249,000 gain).

(ii) The capital redemption reserve maintains the equity share capital arising from the buy back of shares; it is not distributable.

#### 14. Net asset value

The net asset per ordinary share and the net assets attributable at the year end were as follows:

	NET ASSET VALUE		NET ASSETS	
	PER SHARE		ATTRIBUTABLE	
	2008	2007	2008	2007
	pence	pence	£'000	£'000
Ordinary shares				
– basic	121.0	193.3	30,845	49,297

The basic net asset value per ordinary share is based on net assets at the year end and on 25,500,000 (2007: 25,500,000) ordinary shares in issue (excluding treasury shares).

#### 15. Notes to the cash flow statement

##### (a) Reconciliation of total return to net cash inflow from operating activities

	2008	2007
	£'000	£'000
Net return before finance costs and taxation	(15,906)	1,461
(Gains)/losses on investments	11,046	(2,709)
Exchange differences	7,874	2,612
Increase in prepayments and accrued income	(1,114)	(251)
Increase/(decrease) in accruals and deferred income	425	(579)
Overseas tax on unfranked investment income	(82)	(102)
Net cash inflow from operating activities	2,243	432

##### (b) Analysis of cash flows for headings netted in the cash flow statement

	2008	2007
	£'000	£'000
<b>Servicing of finance</b>		
Interest paid	(147)	(8)
<b>Capital expenditure and financial investment</b>		
Purchase of investments	(42,265)	(31,397)
Sale of investments	40,527	40,145
Net cash (outflow)/inflow for capital expenditure and financial investments	(1,738)	8,748
<b>Financing</b>		
Shares purchased for cancellation	—	(6,129)

##### (c) Analysis of net funds

	1 JANUARY	CASH	EXCHANGE	31 DECEMBER
	2008	FLOW	MOVEMENT	2008
	£'000	£'000	£'000	£'000
Cash at bank	3,723	(3,723)	—	—
Overdraft	—	2,589	(5,911)	(3,322)
Net funds/(debt)	3,723	(1,134)	(5,911)	(3,322)

#### 16. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company at the year end (2007: £nil).

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 17. Related party transactions

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 Report of the Directors as are full details of Directors' interests. There are no other related party transactions.

### 18. Financial Instruments

The Company's financial instruments comprise its investment portfolio (as shown on pages 8 and 10), cash, borrowings, debtors and creditors 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 and management of borrowings of the Company as more fully described in the Report of the Directors.

As an investment company investments include, but are not restricted to, corporate bonds, government stocks, reference shares, loan stocks and equities for the long-term so as to comply with 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 unchanged for the two years under review.

#### **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. The Company's Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

As described on page 18 in the Report of the Directors, high yield corporate bonds are subject to a variety of risks. A majority of the Company's investments are in non-investment grade securities and so adverse changes in the financial position of an issuer or in the general economy may effect both the principal and the interest.

#### **(a) Currency Risk**

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

#### ***Management of the currency risk***

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board on a regular basis. The Company uses both forward currency contracts and borrowings in foreign currency to mitigate currency movements that would effect the investment portfolio and cash. In addition, non-sterling credit default swaps ('CDS') will either mitigate or increase currency risk depending on whether the Company has sold or bought the CDS as well as exchange rate movements.

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

## 18. Financial Instruments (continued)

### Currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 December 2008 are shown below. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

31 DECEMBER 2008

	EURO £'000	US DOLLAR £'000	SWEDISH KRONA £'000	SWISS FRANC £'000	DANISH KRONA £'000	OTHER £'000
Investments at fair value through profit or loss that are monetary items (bonds)	15,878	1,389	—	—	—	—
Borrowings	(3,388)	—	—	—	—	—
Debtors (due from brokers, dividends receivable and accrued income)	674	48	—	—	—	—
Creditors (due to brokers)	—	—	—	—	—	—
Forward currency sales	(20,245)	(1,426)	(751)	(1,699)	(447)	(123)
Foreign currency exposure on net monetary items	(7,081)	11	(751)	(1,699)	(447)	(123)
Investments at fair value through profit or loss that are equities	7,070	—	764	1,799	470	244
Total net foreign currency exposure	(11)	11	13	100	23	121

31 DECEMBER 2007

	EURO £'000	US DOLLAR £'000	SWEDISH KRONA £'000	SWISS FRANC £'000	DANISH KRONA £'000	OTHER £'000
Investments at fair value through profit or loss that are monetary items (bonds)	15,341	131	—	—	—	—
Cash	3,675	—	—	—	—	—
Debtors (due from brokers, dividends receivable and accrued income)	529	7	—	—	—	—
Creditors (due to brokers)	(22)	—	—	—	—	—
Forward currency sales	(33,728)	(135)	(1,262)	(3,184)	(742)	(543)
Foreign currency exposure on net monetary items	(14,205)	3	(1,262)	(3,184)	(742)	(543)
Investments at fair value through profit or loss that are equities	14,391	—	1,313	3,205	774	560
Total net foreign currency exposure	186	3	51	21	32	17

## NOTES TO THE FINANCIAL STATEMENTS

continued

**18. Financial Instruments (continued)****Currency sensitivity**

The following table illustrates the sensitivity of the profit after taxation for the year with respect to the Company's monetary financial assets and liabilities and each of the exchange rates for sterling to the currencies shown below.

	2008	2007
£/Euro	±5.0%	±7.3%
£/US Dollar	±9.7%	±0.5%
£/Swedish Krona	±2.8%	±5.0%
£/Swiss Franc	±6.7%	±6.5%
£/Danish Krone	±5.0%	±7.2%

These percentages have been determined based on the market volatility in exchange rates in the previous year. The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of any forward foreign exchange contracts that offset the effects of changes in currency exchange rates. The effect of the strengthening or weakening of sterling against the currencies to which the Company is exposed is calculated by reference to the volatility of exchange rates during the year using the standard deviation of currency fluctuations against the mean, giving the following exchange rate fluctuations.

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

**INCOME STATEMENT**

2008

	EURO £'000	US DOLLAR £'000	SWEDISH KRONA £'000	SWISS FRANC £'000	DANISH KRONA £'000	OTHER £'000
Revenue return	(83)	(11)	—	—	—	—
Capital return	1	(1)	—	(6)	(1)	16
<b>Total return</b>	<b>(82)</b>	<b>(12)</b>	<b>—</b>	<b>(6)</b>	<b>(1)</b>	<b>16</b>

2007

	EURO £'000	US DOLLAR £'000	SWEDISH KRONA £'000	SWISS FRANC £'000	DANISH KRONA £'000	OTHER £'000
Revenue return	(56)	—	1	2	1	2
Capital return	279	—	2	1	2	1
<b>Total return</b>	<b>223</b>	<b>—</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>

**18. Financial Instruments (continued)**

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

**INCOME STATEMENT**

2008

	EURO £'000	US DOLLAR £'000	SWEDISH KRONA £'000	SWISS FRANC £'000	DANISH KRONA £'000	OTHER £'000
Revenue return	83	11	—	—	—	—
Capital return	(1)	1	—	6	1	(16)
<b>Total return</b>	<b>82</b>	<b>12</b>	<b>—</b>	<b>6</b>	<b>1</b>	<b>(16)</b>

2007

	EURO £'000	US DOLLAR £'000	SWEDISH KRONA £'000	SWISS FRANC £'000	DANISH KRONA £'000	OTHER £'000
Revenue return	56	—	(1)	(2)	(1)	(2)
Capital return	(279)	—	(2)	(1)	(2)	(1)
<b>Total return</b>	<b>(223)</b>	<b>—</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>

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

**(b) Interest Rate Risk**

Interest rate movements may affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits; and
- the interest payable on variable rate borrowings.

**Management of interest rate risk**

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowings. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed interest and floating rate securities and gearing levels. 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, Citibank N.A.

## NOTES TO THE FINANCIAL STATEMENTS

continued

**18. Financial Instruments (continued)****Interest rate exposure**

At 31 December the exposure of financial and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates (giving cash flow interest rate risk) – when the interest rate is due to be re-set;
- fixed interest rates (giving fair value interest rate risk) – when the financial instrument is due for repayment.

	WITHIN ONE YEAR £'000	2008 MORE THAN ONE YEAR £'000	TOTAL £'000	MORE WITHIN ONE YEAR £'000	2007 THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates						
Investments at fair value through profit or loss	2,495	3,556	6,051	367	5,351	5,718
(Overdraft)/cash	(3,322)	—	(3,322)	3,723	—	3,723
	(827)	3,556	2,729	4,090	5,351	9,441
Exposure to fixed interest rates						
Investments at fair value through profit or loss	3,126	17,348	20,474	5,424	12,046	17,470
	3,126	17,348	20,474	5,424	12,046	17,470
Total exposure to interest rates	2,299	20,904	23,203	9,514	17,397	26,911

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio statement on pages 8 to 10. The weighted average effective interest rate on these investments is 8.0% (2007: 5.7%).

**Interest rate sensitivity**

The following table illustrates the sensitivity of the profit after taxation for the year to a 1.0% increase or decrease in interest rates in regard to the Company's monetary financial assets and financial liabilities. As interest rate changes have been substantial in the period, future changes cannot be estimated with any degree of certainty. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2008		2007	
	INCREASE IN RATE £'000	DECREASE IN RATE £'000	INCREASE IN RATE £'000	DECREASE IN RATE £'000
Income statement – profit after taxation				
Revenue return	(34)	34	96	(96)
Capital return	(464)	464	(464)	464
Total profit after taxation for the year	(498)	498	(368)	368
Effect on NAV	(1.9)p	1.9p	(1.4)p	1.4p

The above exposure and sensitivity analysis are not representative of the year as a whole, since the level of exposure changes frequently as borrowings are drawn down and repaid throughout the year.

## 18. Financial Instruments (continued)

### (c) 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 portfolio. It is the business of the manager to manage the portfolio and borrowings to achieve the best returns.

#### **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 investment policy and to review investment performance.

The Company can hedge part of its portfolio denominated in foreign currency by borrowings in the same foreign currency. It can also hold derivative positions in options and futures to hedge movements in the stocks in which the Company portfolio has an exposure.

#### **Concentration of exposure to other price risks**

The Company's investment portfolio on pages 8 to 10 is not concentrated to any single country of domicile, however, it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

#### **Other price risk sensitivity**

At the year end, the Company held equity investments of £10,347,000 (2007: £22,992,000). The effect of a 10% (2007: 10%) increase or decrease in the fair values (including equity exposure through derivatives) on the profit after taxation for the year is £1,035,000 (2007: £2,299,000). This level of change is considered to be reasonably possible based on the observation of current market conditions. The sensitivity analysis is based on the Company's equities and equity exposure through derivatives at the balance sheet date with all other variables held constant.

#### **Liquidity risk**

This is the risk that the Company will encounter in realising assets or raising financing to meet financial commitments. A lack of liquidity in corporate bonds may make it difficult for the Company to sell its bonds at or near their purported value. At the year end, the Company's portfolio comprised of 28.1% in equities and 71.9% in bonds and derivatives which are quoted on a recognised stock exchange and are readily realisable.

#### **Management of liquidity risk**

The Manager, as part of his ongoing management of the Company, ascertains cash requirements by reviewing future cashflows from purchases and sales of investments, dividends and interest receipts, dividend and expense payments and available overdraft.

## NOTES TO THE FINANCIAL STATEMENTS

continued

**18. Financial Instruments (continued)*****Liquidity risk exposure***

	THREE MONTHS OR LESS £'000	2008 LESS THAN 1 YEAR £'000	TOTAL £'000	THREE MONTHS OR LESS £'000	2007 LESS THAN 1 YEAR £'000	TOTAL £'000
Current liabilities						
Other creditors	140	1,486	1,626	179	232	411
Unrealised losses on forward currency contract	2,875	—	2,875	912	—	912
Overdraft	3,322	—	3,322	—	—	—
	6,337	1,486	7,823	1,091	232	1,323

***Credit risk***

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or failure to remit monies for securities which the Company has delivered. This risk is mitigated by using only approved counterparties.

The Company has also entered into CDSs which enable the buyers of the CDS to receive credit protection, whereas the seller of the CDS guarantees the credit worthiness of the product. The risk of default is transferred from the holder of the security, to the seller of the CDS.

***Management of and exposure to credit risk***

CDSs are entered into only with investment banks, the credit rating of which is taken into account to minimise default risk. Details of the Company's CDSs, including their credit ratings, are shown on page 10.

***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 and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals, cash and cash equivalents and securities sold under agreements to repurchase). The carrying value of investments, and total gains and losses on investments, represent the total carrying amount of gains and losses on financial assets designated by the Company as financial assets at fair value through profit or loss. As at 31 December 2008, the nominal exposure to CDSs was sterling equivalent of £2,852,000 (2007: £1,285,000) and the fair value was a negative £193,000 (2007: positive £22,000).

THIS DOCUMENT 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 European Absolute Return 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 of Invesco Perpetual European Absolute Return Trust plc will be held at 30 Finsbury Square, London EC2A 1AG at 2.30 pm on Thursday, 18 June 2009 for the following purposes:

### Ordinary Business

1. To receive the Directors' Report and Accounts for the year ended 31 December 2008.
2. To declare a final dividend as recommended.
3. To approve the Directors' Remuneration Report.
4. To re-elect Mr Jonathan Bradley a Director of the Company.
5. To re-elect Mr David Bentata a Director of the Company.
6. To re-elect Mr Tim Knowles a Director of the Company.
7. To re-elect Mr Mark Searle a Director of the Company.
8. To re-appoint the Auditors and authorise the Directors to determine their remuneration.

### Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

9. THAT the Company continues in being as an investment trust, subject to review by shareholders at the Annual General Meeting to be held in 2012.
10. THAT:

the Directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 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 relevant securities (as defined in that Section) up to an aggregate nominal amount of £850,000, this being one third of the Company's issued ordinary share capital, such authority to expire at the conclusion of the next AGM of the Company or the date 15 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 relevant securities to be allotted after such expiry as if the authority conferred by this Resolution had not expired.

To consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions:

11. THAT:

The Directors be and they are hereby empowered, in accordance with Section 95 of the Companies Act 1995 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 10 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 89(1) 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); and
- (b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £255,000, this being 10% of the Company's issued share capital

and this power shall expire at the conclusion of the next AGM of the Company or the date 15 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 IV of the Act shall bear the same meanings in this Resolution.

## NOTICE OF ANNUAL GENERAL MEETING

continued

### 12. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued Shares of 10p each in the capital of the Company ('Shares')

PROVIDED ALWAYS THAT

- (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued shares, this being 3,822,450 at 30 April 2009;
- (b) the minimum price which may be paid for a Share shall be 10p;
- (c) the maximum price which may be paid for a Share shall be an amount equal to 105% 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;
- (d) 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);
- (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company;
- (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and
- (g) any Shares so purchased shall be cancelled or if the Directors so determine and subject to the provisions of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended) and any applicable regulations of the United Kingdom Listing Authority, be held (or otherwise dealt with in accordance with Section 162D of the Companies Act 1985) as treasury shares.

### 13. THAT:

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

#### **Explanatory Note to Resolution 13**

This resolution will be decided on a poll (unless passed earlier on a show of hands without any vote being cast against). This resolution is required in contemplation of the EU Shareholder Rights Directive. It is expected that when this directive is brought into force, it will increase the notice period for general meetings of companies to 21 days unless certain conditions are met in which case it may be 14 days' notice. To ensure that the Company's general meetings (other than AGMs) may be held on 14 days' notice, a shareholder resolution reducing the period of notice to not less than 14 days must have been passed at the immediately preceding AGM.

Since at the time of printing this notice, it is not known whether any alleviating transitional provision will be included in the legislation implementing the EU Shareholder Rights Directive, it is prudent to include this resolution in this year's AGM.

All Resolutions proposed under Special Business are explained further in the Chairman's Statement on pages 4 and 5 and in the Report of the Directors on pages 20 and 21.

Dated this 30th April 2009  
By order of the Board

**Invesco Asset Management Limited**  
Secretary

**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 Registrars' website [www.capitashareportal.com](http://www.capitashareportal.com);
  - In hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR; 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 CRESTCo'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. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo 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 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 notarially certified copy thereof) must be lodged at the office of the Company's registrars, Capita Registrars, Proxy Department, PO Box 25, 34 Beckenham Road, Beckenham, Kent, BR3 4BR, by not later than 2.30 pm on 16 June 2009.
4. A person entered on the Register of Members at close of business 48 hours before the meeting ('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 Register of Directors' interests, 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 current Articles of Association is available for inspection at the Registered Office of the Company during normal business hours 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. In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – <http://www.icsa.org.uk> – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
8. 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 member 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 member as to the exercise of voting rights.
 

The statement of the above rights of the members in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.
9. 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.
10. As at 30 April 2009 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 26,100,000 ordinary shares of 10p each carrying one vote each, of which 600,000 ordinary shares were held in Treasury. Therefore, the total voting rights in the Company as at that date are 25,500,000.

## GLOSSARY OF TERMS

### Discount

A description of the situation when the share price is lower than the net asset value per share. The size of the discount is calculated by subtracting the share price from the net asset value per share and is usually expressed as a percentage (%) of the net asset value per share. If the share price is higher than the net asset value per share, this situation is called a premium and the percentage is commonly shown prefixed with a minus sign.

### Gearing

The term applied to the effect of borrowings and prior charge share capital on assets that will increase the return on investment when the value of the Company's investments is rising but reduce the return when values are declining. A gearing level of 100 or 0% indicates there is no gearing.

**Asset Gearing** Asset gearing reflects the amount of loans actively invested in assets and not held in cash. It is calculated by dividing fixed asset investments by Shareholders' funds.

**Actual Gearing** Actual gearing reflects the amount of loans already arranged and in use by the Company. This is the gearing figure published by the Association of Investment Companies. It is calculated by dividing the aggregate of Shareholders' funds and all net drawdown loans by Shareholders' funds.

### Gross Assets

The gross worth of the Company's assets. It is arrived at by totalling the value of the Company's listed investments at bid-market prices, unlisted investments at director's valuation, cash and other net current assets.

### 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 (NAV)

The value of the Company's assets, principally investments made in other companies and cash held, minus any liabilities for which the Company is responsible eg money owed to other people. The NAV is also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares in issue, excluding shares held in treasury. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply for the shares.

### Return

The return generated in the period from the investments.

**Capital Return** reflects the return on capital, excluding any income returns.

**Total Return** reflects the aggregate of capital and income returns in the period. The NAV total return reflect capital changes in the NAV together with dividends reinvested on the ex-dividend date.

### Total Expense Ratio

The total expenses, excluding interest, recoverable VAT on management fees and liquidation expenses and incurred by the Company, including those charged to capital, as a percentage of average net assets (Shareholders' funds).

## Credit ratings

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

### Standard & Poor Ratings

#### *Investment Grade*

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

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

**A:** economic situation can affect finance

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

#### *Non-Investment Grade*

**BB:** more prone to changes in the economy

**B:** financial situation varies noticeably

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

**CC:** highly vulnerable, very speculative bonds

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

**CI:** past due on interest

**R:** under regulatory supervision due to its financial situation

**SD:** has selectively defaulted on some obligations

**D:** has defaulted on obligations and S&P believes that it will generally default on most or all obligations

**NR:** not rated

### Moody's ratings

#### *Investment grade*

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

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

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

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

#### *Speculative grade* (Non-investment grade)

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

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

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

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

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

**WR** – withdrawn rating

**P** – provisional



The Manager of Invesco Perpetual European Absolute Return 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 Services Authority.

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

Invesco is one of the world's largest independent global investment management firms, with funds under management in excess of \$348 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 2009*

## SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

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

**City Merchants High Yield Trust plc**

Aims to generate a high level of income from a variety of fixed income instruments combined with a high degree of security. The Trust is geared by bank debt.

**Invesco Income Growth Trust plc**

Aims to provide shareholders with long-term growth in capital and real, long-term growth in dividends from an above-average yielding portfolio comprising mainly UK equities and equity-related securities. Seeks to achieve a total return in excess of the FTSE All-Share Index. The Trust is geared by bank debt.

**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 Trust is highly geared.

**Invesco Perpetual Recovery Trust 2011 plc**

A split-capital investment trust with ordinary income shares, zero dividend preference shares and units (a combination of the two). Aims to meet the capital entitlements of the zero dividend preference shares and to maximise the capital and income returns of the ordinary income shares by investing primarily in equities but also debt securities which are considered to offer recovery prospects. Returns to ordinary income shareholders are geared by the prior charge of the zero shares. The Trust has an initial life projected to end in 2011.

**Invesco Perpetual Select Trust plc – Managed Liquidity Share Portfolio**

Aims to generate a high level of income from a variety of fixed income instruments combined with a high degree of security.

**Invesco Perpetual Select Trust plc – UK Equity Share 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 is geared by bank debt.

**Invesco Property Income Trust Limited**

The Company is a closed-ended investment company with limited liability incorporated in Jersey. The objective is to provide ordinary shareholders with an attractive level of income together with the prospect of income and capital growth from investing in commercial properties in the UK and Continental Europe. The Trust is geared by bank debt.

**Keystone Investment Trust plc**

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Trust is geared by way of debenture stocks.

**Perpetual Income and Growth Investment Trust plc**

Aims to generate capital growth with a higher than average income from investment, primarily, in the UK equity market. It is intended that the Company will provide shareholders with real dividend growth over the medium-term by investing mainly in above-average yielding equities. However, investments are also made in companies with lower initial yields which are considered to have good potential for income growth. The company is geared by a debenture stock and bank debt.

**The Edinburgh Investment Trust plc**

Invests in UK securities with long term objective of achieving:

1. an increase in 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 portfolio is geared by way of two debenture stocks.

## Investing in Smaller Companies

**Invesco English and International Trust plc**

Invests mainly in UK-quoted and unquoted smaller companies, AIM stocks and in US smaller companies. It pursues a relatively risk-averse stock selection strategy holding a well-diversified portfolio and seeks to invest in companies offering particular value. The Trust has adopted a flexible gearing policy and a quarterly redemption/creation mechanism.

**Invesco Perpetual UK Smaller Companies Investment Trust plc**

Aims to achieve long-term total return for the company's shareholders from investment in a broad cross-section of small to medium size UK-quoted companies. The company may gear by bank debt.

## 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 Morgan Stanley Capital International (All Country) Far East Free (ex Japan) Index, measured in Sterling. The company is geared by bank debt.

**Invesco Perpetual Select Trust plc – Global Equity Share Portfolio**

Aims to produce long-term capital growth from a sensibly diversified portfolio of international equities (including the UK). The portfolio comprises the 'best ideas' of a number of Invesco Perpetual's investment managers. The portfolio is geared by bank debt.

## Investing for Absolute Returns

**Invesco Perpetual European Absolute Return Trust plc**

Aims to achieve absolute total returns through investment principally in equity, fixed interest and cash securities within continental Europe (ex. UK). Seeks to achieve returns in excess of Sterling LIBOR.

**Invesco Perpetual Select Trust plc – Hedge Fund Share Portfolio**

Aims to achieve an absolute return of 3-month Sterling LIBOR plus 6% per annum over a rolling 5-year period, coupled with low volatility. Capital preservation is a priority

## Investing in Multiple Asset Classes

**Invesco Perpetual Select Trust plc**

- UK Equity Share Portfolio
- Global Equity Share Portfolio
- Managed Liquidity Share Portfolio
- Hedge Fund Share Portfolio

A choice of asset classes within one investment trust with the freedom to switch between them, twice a year, free from capital gains tax liability.

## Other

**Invesco Perpetual AIM VCT plc**

The Company was launched in August 2004. Its objective is to provide a tax-free dividend return to shareholders invested at launch

primarily through the realisation of capital gains from a portfolio of investments in AIM Qualifying Companies while maintaining the capital value of shares.

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](http://www.invescoperpetual.co.uk/investmenttrusts)

