

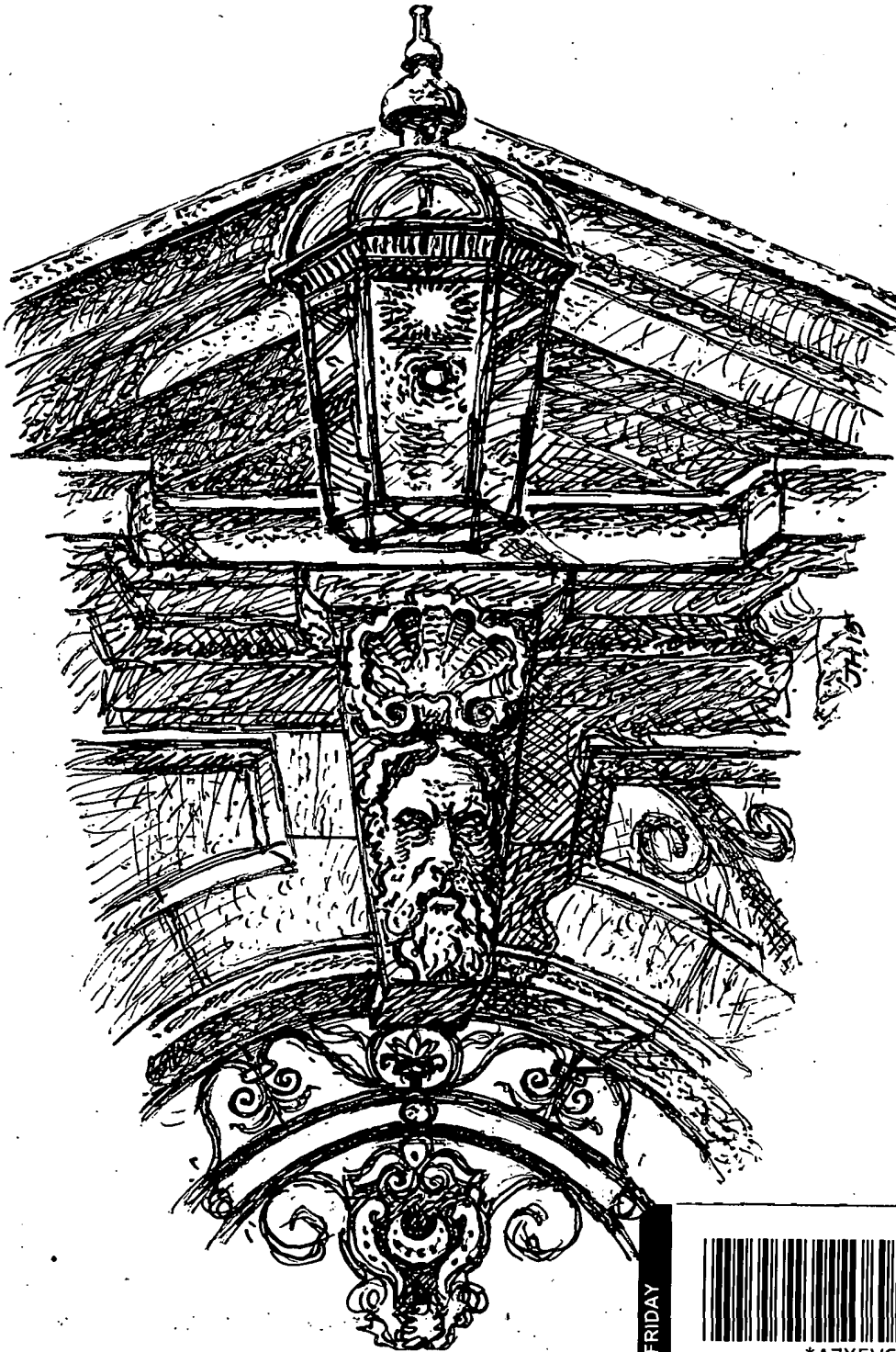


Keystone Investment Trust plc

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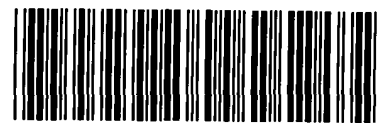
ANNUAL FINANCIAL REPORT

YEAR ENDED 30 SEPTEMBER 2018



Annual Financial Report 2018

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Investment Objective

Keystone Investment Trust plc's objective is to provide shareholders with long-term growth of capital, mainly from UK investments.

Nature of the Company

The Company is a public listed Investment Company whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on page 6), with the aim of spreading investment risk and generating a return for shareholders. The Company has borrowings, the proceeds from which can also be invested with the aim of enhancing returns to shareholders. This additional investment increases the potential risk to shareholders should the value of the investments fall.

The Company has contracted with an external investment manager, Invesco Fund Managers Limited (the 'Manager'), to manage its investments and for the Company's general administration. Other administrative functions are contracted to external service providers. The Company has a Board of non-executive directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment policy is adhered to. The Company has no employees.

Cover Illustration

In traditional architecture, the keystone is an essential feature of arch construction. It locks the other stones of the arch into position, allowing the arch to bear weight, and its central visual position, at the apex of a semi-circle, made it a natural focus for decoration. This elaboration emphasises its role in the arch's construction, showing that the arch is firmly locked, and also makes obvious the keystone's sense of weight, efficiency and reliability.

The historic colleges of Cambridge include many of the UK's finest stone buildings, and our illustrator, Jon Harris – artist, author and historic buildings expert – has drawn a handsomely carved keystone from one of these buildings, to form the centrepiece for this year's annual financial report cover. It depicts a keystone with the bearded face – reputedly a depiction of Father Cam, a river god mentioned in Milton's poetry – which presides over the entrance of Trinity Hall. It belongs to an eighteenth-century refacing of a fourteenth-century range but was repositioned here after a restoration in the 1850s – after a fire – by the architect Anthony Salvin (today best known for his restoration of Alnwick Castle).

Jeremy Musson, Cambridge 2015

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The Company's shares and debenture stocks qualify to be considered as mainstream investment products suitable for promotion to retail investors.

If you have any queries about Keystone Investment Trust plc, or any of the other investment companies managed by Invesco, please contact Invesco's Client Services Team on

☎ 0800 085 8677

🌐 www.invesco.co.uk/investmenttrusts

The Company is a
member of

aic

The Association of
Investment Companies

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

	2018 % CHANGE	2017 % CHANGE	
Total Return⁽¹⁾⁽³⁾ (dividends reinvested)			
Net asset value (NAV) ⁽²⁾	0.0	+7.8	
Share price	+0.8	+3.2	
FTSE All-Share Index ⁽⁴⁾	+5.9	+11.9	
	AT 30 SEPTEMBER 2018	AT 30 SEPTEMBER 2017	% CHANGE
Capital Statistics			
Net assets (£'000)	266,146	275,387	-3.4
NAV ⁽²⁾⁽³⁾ per share	1,921.7p	1,979.9p	-2.9
Share price ⁽¹⁾	1,685.0p	1,730.0p	-2.6
FTSE All-Share Index ⁽¹⁾⁽⁴⁾	4,127.9p	4,049.9	+1.9
Discount ⁽³⁾ of share price to NAV ⁽²⁾ per share	12.3%	12.6%	
Gearing from borrowings ⁽³⁾ – gross	12.0%	11.6%	
– net	11.6%	6.6%	

	FOR THE YEAR TO 30 SEPTEMBER		
	2018	2017	
Revenue Statistics			
Net revenue available for ordinary shareholders (£'000)	7,552	8,316	
Revenue return per ordinary share	55.90p	61.50p	-9.1
Dividends per ordinary share – first interim	18.00p	18.00p	
– second interim	38.00p	37.00p	
	56.00p	55.00p	+1.8
– special	1.75p	4.70p	
– total	57.75p	59.70p	
Ongoing charges ⁽³⁾ :			
Excluding performance fee	0.54%	0.61%	
Performance fee	0.00%	0.00%	

⁽¹⁾ Source: Refinitiv (Thomson Reuters).

⁽²⁾ Figures with debt at fair value.

⁽³⁾ Defined in the Glossary of Terms and Alternative Performance Measures on page 66.

⁽⁴⁾ The benchmark index of the Company.

Ten Year Historical Record

YEAR ENDED 30 SEPTEMBER	REVENUE EARNINGS PER SHARE P	DIVIDENDS PER SHARE P	NET ASSET VALUE PER SHARE		SHARE PRICE P	ONGOING CHARGES ⁽¹⁾ %	NET GEARING FROM BORROWINGS %
			DEBT AT FAIR VALUE P	DEBT AT PAR P			
2009	57.4	56.60 ⁽²⁾	1,102.7	1,123.9	1,008.0	0.89	4.9
2010	40.6	45.50	1,187.5	1,212.9	1,170.0	0.92	7.5
2011	45.5	46.50	1,196.3	1,228.6	1,135.5	0.99	9.0
2012	49.1	48.50	1,310.3	1,367.4	1,318.0	0.95	8.5
2013	57.4	57.00 ⁽³⁾	1,660.1	1,712.3	1,646.0	0.96	9.5
2014	59.3	58.50 ⁽⁴⁾	1,806.2	1,851.3	1,709.0	0.87	5.7
2015	64.1	63.30 ⁽⁵⁾	1,867.1	1,920.5	1,776.0	0.71	4.4
2016	62.0	58.30 ⁽⁶⁾	1,894.9	1,959.8	1,735.5	0.69	6.2
2017	61.5	59.70 ⁽⁷⁾	1,979.9	2,037.1	1,730.0	0.61	6.6
2018	55.9	57.75 ⁽⁸⁾	1,921.7	1,968.7	1,685.0	0.54	11.6

(1) All calculations exclude performance fees.

(2) Includes a special dividend of 11.1p per share.

(3) Includes a special dividend of 7p per share.

(4) Includes a special dividend of 8p per share.

(5) Includes a special dividend of 12.3p per share.

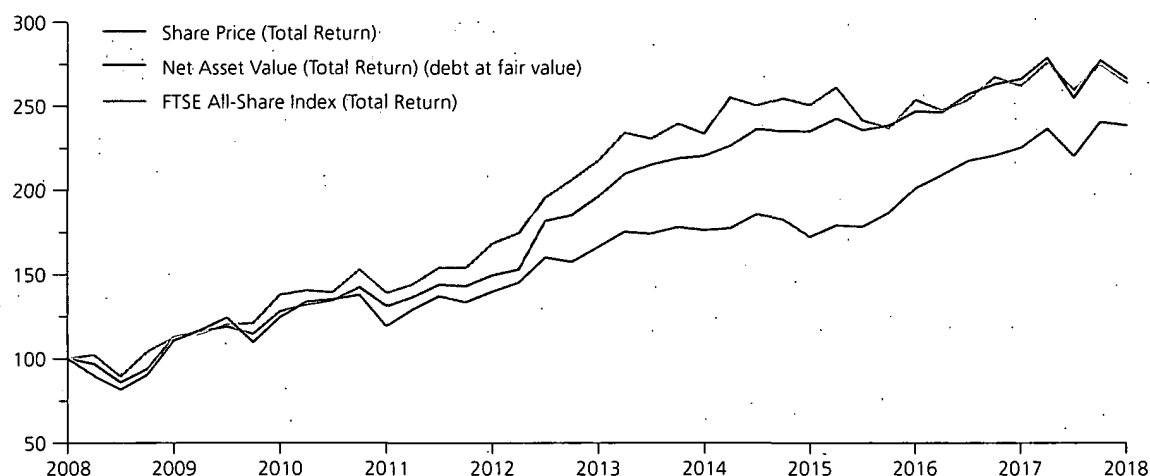
(6) Includes a special dividend of 5.3p per share.

(7) Includes a special dividend of 4.7p per share.

(8) Includes a special dividend of 1.75p per share.

Ten Year Total Return Performance

Figures have been rebased to 100 at 30 September 2008



Source: Refinitiv (Thomson Reuters).

Total Return per Ordinary Share to 30 September

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	THREE YEARS	FIVE YEARS	TEN YEARS
Keystone NAV (debt at fair value) %	+11.1	+16.0	+2.7	+14.1	+31.2	+12.6	+6.4	+5.4	+7.8	0.0	+13.3	+35.9	+166.2
Keystone Share Price %	+12.5	+22.6	+0.8	+21.0	+29.3	+7.4	+7.3	+1.3	+3.2	+0.8	+5.4	+21.4	+163.9
FTSE All-Share Index %	+10.8	+12.5	-4.4	+17.2	+18.9	+6.1	-2.3	+16.8	+11.9	+5.9	+38.4	+43.5	+138.5

Source: Refinitiv (Thomson Reuters).

CHAIRMAN'S STATEMENT

Performance

The total return to shareholders over the year to 30 September 2018 was 0.8%, based on the share price. It is disappointing that this was again behind our benchmark, the FTSE All-Share Index, which posted a total return of 5.9%. The total return on the underlying net asset value (NAV) per share was 0.0% with debt at fair value.

The three year performance now lags significantly behind our benchmark, with NAV total return performance of 13.3% compared with 38.4% for the FTSE All-Share Index, and the Board recognises that this will be very disappointing for shareholders.

The Manager's Report section of the Strategic Report provides a review of market and portfolio performance during the year and the portfolio manager's view of the outlook. Overall, market conditions have been challenging and have not favoured the Company's UK focus and the portfolio manager's valuation driven approach. Although there were some strong performances from holdings in the portfolio, these were offset by others where stock specific factors had a significant negative impact, such as N Brown, TP ICAP, McBride and Barclays. In addition, being underweight in commodity stocks adversely affected the Company's performance relative to the benchmark. However, the Board continues to support the portfolio manager's convictions about investing in well-positioned and attractively valued companies and the portfolio's tilt towards UK domestic cyclical in anticipation of a change in market sentiment post Brexit.

The weighted average discount of the investment companies in the UK All Companies sector narrowed marginally but remained wide through the year. It was 9.5% at 30 September 2018 compared with 9.7% at 30 September 2017 (source: JP Morgan Cazenove). The average discount at which the Company's ordinary shares traded relative to their underlying NAV (with debt at fair value) over the past year widened to 11.4%, from 10.6% last year. At the year end the share price stood at a discount of 12.3% to the NAV (debt at fair value), a slight improvement from 30 September 2017.

Revenue and Dividends

The revenue return after tax for the year was 55.9p per ordinary share, down from last year's 61.5p per share. The portfolio's overall yield has moderated a little following its realignment last year, with a few of the higher yielding stocks having been sold or reduced. The more significant changes in this respect included the sales of pharmaceuticals Roche and Novartis and the reduction in tobacco holdings following the merger of British American Tobacco and Reynolds American. This was compounded by a significant reduction this year in special dividends received. Market expectations for future revenue returns from companies in the portfolio are positive.

The Board has declared a second interim dividend, in lieu of a final, of 38p per share (2017: 37p), with a small element funded from revenue reserve, giving a total dividend for the year of 56p per share (2017: 55p). This equates to a yield of 3.3% at 30 September 2018, which compares favourably with the UK All Companies sector average of 2.0% (source: JP Morgan Cazenove), and also extends the Company's record of either increasing or maintaining the level of ordinary dividends each year since 1976. The dividend will be paid on 21 December 2018 to shareholders on the register on 30 November 2018.

Special dividends received from investee companies have continued to decline, as I have cautioned in my statements in the past few years. These dividends totalled £236,000, the equivalent of 1.75p per share, this year (2017: £643,000; 4.7p). Although the amount is modest, the Board has decided again to pass this on to shareholders as a special dividend of 1.75p (2017: 4.7p). The special dividend will be paid at the same time as the second interim dividend.

The Board

After serving on the Board for over 15 years, eight of these as Chairman, I will retire at the conclusion of the forthcoming annual general meeting. After due consideration of the composition of the Board and the Company's ongoing succession plan, the Directors agreed that Karen Brade, who was appointed to the Board on 18 January 2018, should be appointed as the Company's new Chairman. The Board believes that her broad investment experience in a range of sectors and markets and as a non-executive director provide her with the appropriate skills to lead the Company. I wish her, the Board and the Company every success for the future.

Gearing

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. The Board reviews the limit to which the Manager may gear the portfolio at every Board meeting. During the course of the year the Board granted the Manager greater latitude, increasing, in stages, the level of net gearing that can be used from 7.5% to 15% of net assets. The Manager has discretion on where to set the portfolio's exposure subject to the limits set by the Board. At the year-end net gearing stood at 11.6% compared with 6.6% a year ago. The Company has fixed borrowing in the form of long-term debentures that amount to £32 million, and has also arranged with The Bank of New York Mellon an overdraft facility of up to £15 million that can be used for investment purposes. The net gearing of the Company is determined by the extent to which borrowings are invested.

Fraud Warning

As mentioned in the Company's 2018 half year report, the Board reiterates its message to investors to remain vigilant of unsolicited telephone calls and correspondence from people purporting to be connected to the Company and offering services not related to the Company's actual business. These people do not work for either the Company or Invesco, and are seeking fraudulently to extract payments. The Company and Invesco would never contact shareholders or members of the public in this way, or require any type of upfront payment. If you suspect you have been approached by fraudsters, please contact the FCA Consumer Helpline on 0800 111 6768 and Action Fraud on 0300 123 2040. Further details on reporting frauds, or attempted frauds, can be found on page 64.

Outlook

As it has throughout the year, the Board continues to monitor investment performance closely and, with advice and guidance from the Company's corporate broker, Numis, to consider distribution and other initiatives that could help to improve the demand for and liquidity of the shares, and hence the discount at which they trade. Although the outlook for the UK remains uncertain, not least because of Brexit, the Board is confident that James Goldstone, employing his differentiated investment approach anchored in value, has positioned the portfolio to generate worthwhile returns over time and enable the Company to fulfil its investment objective to provide shareholders with long-term growth of capital.

AGM

The Notice of the AGM of the Company is on pages 60 to 63 and a summary of the resolutions is set out in the Directors' Report on pages 58 and 59. The AGM will be held on 22 January 2019 at 43-45 Portman Square, London W1H 6LY at 11.00am and shareholders are cordially invited to attend.

The Board has carefully considered all the resolutions proposed in the Notice and, in their opinion, consider them to be in the interests of the shareholders as a whole. The Directors and the portfolio manager, James Goldstone, will be available at the meeting to answer shareholders' questions.

Beatrice Hollond
Chairman

26 November 2018

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

BUSINESS REVIEW

Keystone Investment Trust plc is an investment company holding investments with a market value in excess of £290 million and its investment objective is set out below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are also set out below.

The business model adopted by the Company to achieve its objective has been to contract the services of Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. The Manager also provides company secretarial, marketing and general administration services. The portfolio manager responsible for the day-to-day management of the portfolio is James Goldstone.

All administrative support is provided by third parties under the oversight of the Board. In addition to the management and administrative functions of the Manager, the Company has contractual arrangements with Link Asset Services as registrar and The Bank of New York Mellon (International) Limited (BNYMIL) as depositary and custodian. BNYMIL became the depositary following novation of the depositary agreement from BNY Mellon Trust & Depositary (UK) Limited on 1 December 2017. The transfer has had no substantive effect on the services received by the Company. BNYMIL is also the Company's bank.

Investment Objective and Policy

Investment Objective

The Company's objective is to provide shareholders with long-term growth of capital, mainly from UK investments.

Investment Policy and Risk

The portfolio is invested by the Manager so as to maximise exposure to the most attractive sectors and stocks within the UK stock market and, within the limits set out below, internationally. The Manager does not set out to manage the risk characteristics of the portfolio relative to the benchmark index and the investment process will result in potentially very significant over or underweight positions in individual sectors versus the benchmark.

The Manager controls stock-specific and sector risk by ensuring that the portfolio is always appropriately diversified. In depth, continual analysis of the fundamentals of investee companies allows the portfolio manager to assess the financial risks associated with any particular stock. The portfolio is typically made up of 50 to 80 stocks. If a stock is not considered to be a good investment, then the Company will not own it, irrespective of its weight in the index.

Investment Limits

The Board has prescribed the following limits on the investment policy, all of which are at time of investment unless otherwise stated:

- no single equity investment in a UK listed company may exceed 12.5% of gross assets;
- the Company will not invest more than 15% of its assets in other listed investment companies;
- the Company will not invest more than £12 million in bonds, with a maximum of £1.5 million in any issue;
- the Company will normally not invest more than 5% of gross assets in unquoted investments;
- the Company will not normally invest more than 15% of its equity investments in companies that are not UK listed and incorporated; and
- borrowing may be used by the Company to create gearing within limits determined by the Board.

Gearing Policy

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. The Company has fixed borrowing, in the form of long-term debentures that amount to £32 million, and also has an uncommitted overdraft facility from BNYMIL of up to £15 million that can be used for investment purposes. The net gearing of the Company is determined by the extent to which borrowings are invested. The Board reviews the limit to which the Manager

may gear the portfolio at every Board meeting. During the course of the year the Board granted the Manager greater latitude on gearing, increasing, in stages, the level of net gearing that can be used from 7.5% to 15% of net assets. The Manager has discretion as to how much borrowing is utilised within the limits set by the Board. At the year end net gearing stood at 11.6%.

Foreign Exchange

The Company has some non-sterling denominated investments and is therefore subject to foreign exchange risk. The Board monitors foreign currency exposure and takes a view, from time to time, on whether foreign currency exposure should be hedged. During the year, the Board had prescribed that all currency exposure should be hedged other than US dollar and Swiss franc. Since the year end the Board has determined that Canadian dollars will also not be hedged.

Performance

Delivery of shareholder value is achieved through outperformance of the relevant benchmark.

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

- net asset value (NAV) and share price total return compared with benchmark and peer group performance;
- share price premium/discount relative to the net asset value;
- dividends; and
- ongoing charges.

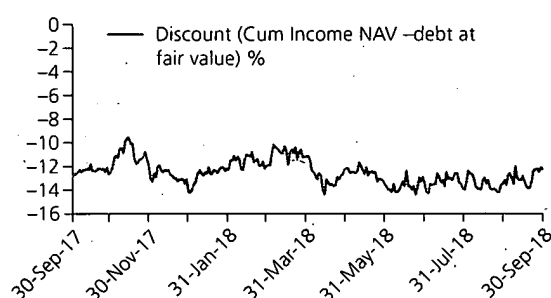
The Company's **NAV** and **share price** total returns for the year to 30 September 2018 were 0.0% and 0.8% respectively, both of which were less than the total return of the Company's benchmark, the FTSE All-Share Index, of 5.9%. The Manager's Report on pages 12 to 15 provides commentary on the reasons for the performance.

As a result of the Company's NAV total return underperformance against the benchmark, no performance fee has been earned for the year.

A table of the returns for the last ten years, together with a graph, can be found on page 3.

Peer group performance is monitored by comparing the Company with the 14 investment companies making up the UK All Companies sector. As at 30 September 2018, in NAV total return terms, the Company was ranked 12th in its sector over one year, 12th over three years and 8th over five years (source: JPMorgan Cazenove). The Board also compares the Company to a bespoke list of investment companies which the Board considers to be its nearest peers.

The Company's shares traded at a **discount** relative to NAV (with debt at fair value) through the year, as shown in the following graph. The discount at the year end was 12.3%.



Source: Refinitiv (Thomson Reuters).

Although the board has the authority to buy back shares, it has preferred not to do so. The Board believes that there is mixed evidence on whether buybacks will actually close the discount if an investment style is out of favour. The Board is cognisant that the Company's shares are likely to trade on a relatively wide discount until there is more certainty around the macro backdrop and in particular the UK's exit from the European Union.

With advice and guidance from the Company's corporate broker, Numis, the Board continues to consider distribution and other initiatives that could help to improve the demand for and liquidity of the shares, and hence the discount at which they trade.

STRATEGIC REPORT BUSINESS REVIEW

continued

Dividends form a key component of the total return to shareholders. The income from the portfolio and potential level of dividend payable is reviewed at every board meeting. The Board's Dividend Payment Policy is for the Directors to declare two dividends in respect of each accounting year, with a payment in each of the second and fourth calendar quarters. Additional special dividends may be declared, at the discretion of the Directors.

A first interim dividend of 18p (2017: 18p) per share was paid on 15 June 2018 and a second interim dividend of 38p (2017: 37p) per share has been declared, which is payable on 21 December 2018 to shareholders on the register at 30 November 2018. These give a total ordinary dividend for the year of 56p compared with 55p for the previous year. The Board has also declared a special dividend of 1.75p (2017: 4.7p) to be paid at the same time as the second interim dividend. The dividend history of the Company over the last ten years is shown in the table on page 3.

The ongoing charge is the industry measure of the Company's operating costs as a percentage of net asset value. The expenses of the Company are reviewed at every board meeting, with the aim of managing costs incurred and their impact on performance. The ongoing charges figure for the past year was 0.54%, compared with 0.61% for the year to 30 September 2017. No performance fee was payable in respect of either year. The ten year record of ongoing charges is shown on page 3.

Financial Position

At 30 September 2018, the Company's net assets were valued at £266 million (2017: £275 million). These comprised a portfolio of mainly equity investments and net current assets.

At this and the previous year end, the Company's ordinary shares were geared by borrowings in the form of two issues of long-term debentures, totalling £32 million nominal. Their weighted average interest rate was 6.77% for both years. The Company also had £0.25 million of 5% cumulative preference shares in issue.

In addition, the Company has an uncommitted overdraft facility of up to £15 million with an interest rate of 0.75% over base rate. No amounts were drawn down at the year end (2017: none).

Outlook and Future Trends

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

Principal Risks and Uncertainties

The Audit Committee regularly undertakes a robust assessment of the risks the Company faces, on behalf of the Board (see Audit Committee Report on pages 21 to 23).

The following are considered to be the most significant risks to the Company and to shareholders in relation to their investment in the Company. Further details of risks and risk management policies as they relate to the financial assets and liabilities of the Company are detailed in note 16 to the financial statements.

Investment Objective

There is no guarantee that the Company's strategy and business model will be successful in achieving its investment objective.

The Board monitors the performance of the Company and has established guidelines to ensure that the approved investment policy is pursued by the Manager.

Market Risk

The majority of the Company's investments are traded on the London Stock Exchange. The principal risk for investors in the Company is of a significant fall in stock markets and/or a prolonged period of decline in the markets relative to other forms of investment. The value of investments held within the portfolio is influenced by many factors including the general health of the UK economy, interest rates, inflation, government policies, industry conditions, political events, tax laws, environmental laws and investor sentiment. The portfolio manager has summarised in the Manager's Report section

of this Strategic Report particular factors affecting the performance of markets in the year and his view of those most pertinent to the outlook for the portfolio. Such factors are out of the control of the Board and the Manager and may give rise to high levels of volatility in the prices of investments held by the Company, although the use or elimination of gearing may modify the impact on shareholder return.

Investment Risk

An inherent risk of investment is that the stocks selected for the portfolio do not perform well.

The investment process employed by the 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 it trades in the market. Overall, the investment process aims to achieve absolute returns through a genuinely active stock selection approach. This can therefore result in a portfolio which looks substantially different from the benchmark index.

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. Continual analysis of all holdings gives the Manager a thorough understanding of financial risks associated with them.

The portfolio of investments held at 30 September 2018 is set out on pages 16 and 17.

Past performance of the Company is not necessarily indicative of future performance.

Shares

Shareholders are exposed to certain risks in addition to risks applying to the Company itself.

The ordinary shares of the Company may trade at a premium or discount to its NAV. The Board monitors the price of the Company's shares in relation to their NAV and the premium/discount at which they trade.

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

While it is the intention of the Directors to pay dividends to ordinary shareholders twice a year, the ability to do so will depend upon the level of income received from securities and the timing of receipt of such income by the Company. Accordingly, the amount of the dividends paid to ordinary shareholders may fluctuate. Any change in the tax or accounting treatment of dividends or other investment income received by the Company may also affect the level of dividend paid.

The Directors seek powers to issue and buy back the Company's shares each year, which can be used to help manage the level of discount. The Board also monitors the level of revenue available for distribution at each Board meeting.

Gearing

Gearing levels may change from time to time in accordance with the Manager's and the Board's assessment of risk and reward. Whilst the use of borrowings by the Company should enhance total return where the return on the Company's underlying securities is rising and exceeds the cost of borrowing, it will have the opposite effect where the underlying return is falling. The Board and the Manager regularly review gearing and will continue to monitor the level closely over the year ahead. The maximum gearing limit currently authorised by the Board is 15% of net assets. As at 30 September 2018, net gearing from borrowings stood at 11.6% (2017: 6.6%).

Reliance on the Manager and Other Service Providers

The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company is therefore reliant upon the performance of third party service providers for its executive function. In particular, the Manager performs services that are integral to the operation of the Company and the custodian appointed by the depositary holds assets on its behalf. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its

STRATEGIC REPORT

BUSINESS REVIEW

continued

appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to pursue its investment policy successfully.

The Company has limited direct exposure to cyber risk. However, the Company's operations or reputation could be affected if any of its service providers suffered a major cyber security breach. The Board monitors the preparedness of its service providers in this regard and is satisfied that the risk is given due priority.

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

The Company's main service providers are listed on page 65. The Board monitors the services provided to the Company, informally at every Board meeting and formally at least annually.

Regulatory

The Company is subject to various laws and regulations by virtue of its status as a public limited company, as an investment trust and as an alternative investment fund. A loss of investment trust status could lead to the Company being subject to capital gains tax on the profits arising from the sale of its investments. A serious breach of other regulatory rules might lead to suspension from the Stock Exchange. Other control failures, either by the Manager or another of the Company's service providers, might result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews the level of compliance with tax and other regulatory financial requirements on a daily basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Board ensures that satisfactory assurances are received from service providers. The Manager's Compliance Officer produces regular reports for review by the Company's Audit Committee.

Viability Statement

The Company is a collective investment vehicle rather than a commercial business venture and is designed and managed for long term investment. The Company's investment objective clearly sets this out. Long term for this purpose is considered by the Directors to be at least five years and accordingly they have assessed the Company's viability over that period. However, the life of the Company is not intended to be limited to that or any other period.

In assessing the viability of the Company the Directors considered the Company's current position, the principal risks to which it is exposed and their potential impact on its future development and prospects. The most significant of these are shareholder dissatisfaction arising from failure to meet the Company's investment objective, through poor investment performance or because the investment policy is no longer appropriate to the prevailing market conditions, and contributory market and investment risks. The Board also took into account the capabilities of the Manager and the varying market conditions experienced, which have effectively stress tested the Company over many years through different and difficult market cycles.

In terms of financial risks to viability, save for the limited value ascribed to unquoted investments, the Company's portfolio is readily realisable and many times the value of its short term liabilities and annual operating costs. The Company also has long term debt obligations comprising two debentures. The smaller debenture, £7 million, falls due in 2020 and the larger, £25 million, in 2023. In aggregate this long term debt amounts to 10.7% of total assets less current liabilities, so the principal is more than nine times covered and the risk that interest obligations will not be met is negligible.

Based on the above, and assuming there is no significant adverse change to the regulatory environment and tax treatment of UK investment trusts, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

Board Responsibilities

As set out in the Directors' Report on page 53 the Directors have a statutory duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and to have regard to their interests (s172 Companies Act 2006). However, the Company has no employees and no customers in the traditional sense. In accordance with the Company's nature as an investment trust the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager at every Board meeting, reviews its relationships with other service providers at least annually and monitors compliance with the Company's obligations to debt holders.

Board Diversity

The Company's policy on diversity is set out on page 52. The Nomination Committee considers diversity, including the balance of skills, knowledge, gender and experience, amongst other factors, when reviewing the composition of the Board and appointing new directors but does not consider it appropriate to establish targets or quotas in this regard. At the date of this report, the Board comprises six non-executive directors of whom three, including the Chairman, are women thereby constituting 50% female representation. The Chairman will retire at the forthcoming AGM, after which this ratio will decrease to 40%. Summary biographical details of the Directors are set out on page 18. The Company has no employees.

Social and Environmental Matters

As an investment company operating as an investment trust, with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. A company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio. The Manager applies the United Nations Principles for Responsible Investment.

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

Stewardship

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of corporate governance are maintained by the companies in which it invests. The Company's stewardship functions have been delegated to the Manager, who exercises the Company's voting rights and reports back to the Board. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. A copy of the Manager's Policy on Corporate Governance and Stewardship can be found at www.invesco.co.uk.

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

MANAGER'S REPORT

Market Review

In the 12 month period to 30 September 2018 the FTSE All-Share Index provided a single-digit total return of 5.9%. However, headline data masks underlying periods of volatility, most notably in the central six months of the period.

In November 2017 the Bank of England's Monetary Policy Committee (MPC) voted to implement the UK's first interest rate rise in a decade, raising the central bank's base rate to 0.5%. Economic data continued to provide mixed signals around the outlook for UK GDP growth, leading to speculation around if, and when, a further rate rise would be implemented; this would ultimately come later in 2018.

UK equity markets rallied through December 2017 and into the new year, against a backdrop of rising commodity prices, strengthening global economic growth and a raft of new US tax legislation, headlined by a major cut in corporation tax from the Trump administration. Oil and industrial metal prices rallied, particularly copper, supporting outperformance in the oil & gas and mining sectors. However, performance faltered in mid January with UK equity markets selling off sharply in response to upward revisions to US interest rate expectations and a corresponding increase in government bond yields.

Renewed sterling strength in the first quarter of 2018 weighed on the returns of the UK equity market's many international constituents. Additionally, the unseasonable storms and snow brought by the "Beast from the East" at the end of the first quarter of 2018 resulted in lower than expected economic growth for the period, as consumers and construction workers remained at home. As a result, the Bank of England decided against implementing a very widely expected second 0.25% increase in base rates.

UK equity markets reached a high in late May before drifting downwards for the latter months of the period under review. Market sentiment was driven by the threat and reality of global trade tensions, as well as the ongoing political uncertainty at home. Sterling continued to act as a barometer for the perceived success of the UK and European Union's (EU) Brexit negotiations, as the likelihood of a deal or no deal scenario continued to dominate headlines. Sterling peaked in mid April at US\$1.43 before weakening to US\$1.26 in August.

Growth in real incomes, allied to the extended hot summer, the football World Cup and a Royal Wedding provided a boost to consumer spending in the second quarter. Data showed that unemployment fell to less than 4% during the period, the lowest figures on record, whilst job vacancies reached an all time high. Meanwhile the UK government granted the largest public sector pay rise in more than a decade, as the 1% cap on pay increases was lifted for teachers, soldiers, police and prison officers, as well as for NHS doctors and dentists.

The MPC voted unanimously in August 2018 to raise interest rates by a further 0.25% to 0.75%. The increase was widely anticipated as higher energy prices and weaker sterling had kept CPI inflation above the 2% target for some time and wage growth had built steadily and exceeded economists' expectations. The weakness in growth during the second quarter of 2018 had become recognised as temporary and weather induced, and the Committee appeared keen to build some additional flexibility to pare back interest rates should it be deemed necessary once the terms of the UK's exit from the European Union are known.

Towards the end of the 12 month review period the EU's rejection of the UK Government's Chequers plan led to further volatility in the value of Sterling as fears heightened around a no-deal outcome. Sterling ended the period at US\$1.30.

Oil prices rose over the 12 month period from US\$56 per barrel in October 2017 to more than US\$82 per barrel in September 2018 on concerns around lower OPEC⁽¹⁾ production and looming US sanctions on Iran, which were compounded by production shortfalls in Venezuela.

Portfolio Activity

During the 12 month period new investments were made in Tesco, Royal Bank of Scotland, Amigo, Rolls-Royce, Phoenix Spree Deutschland, MJ Gleeson, Bushveld Minerals, CVS, Endeavour Mining, On the Beach, Capita, Future and Dairy Crest. Meanwhile the portfolio's holdings in Lloyds, Shire, BTG, SAGA, Rentokil, Hiscox, BAE Systems, Electra Private Equity and Real Estate Investors were sold.

⁽¹⁾ The Organization of the Petroleum Exporting Countries.

Portfolio Performance Review

The period covered by this report has been a challenging one. The Company's net asset value, including reinvested dividends, was flat over the year, returning neither gain nor loss, compared with a total return of 5.9% by the FTSE All-Share Index.

The underperformance has two main sources. The first is an increasingly difficult market backdrop for a valuation-driven approach. Recent years have seen an ever-greater premium attached to companies globally that are perceived to be capable of delivering growth and reliability of earnings such that the relative valuation of growth stocks to value stocks has widened to historically extreme levels. In a UK market context this phenomenon has been compounded by anxiety around Brexit that has resulted in the valuation of domestically focused businesses (and especially financials), the potential losers in a bad Brexit outcome, compressing to unusually low levels for a non-recessionary environment. In the light of such relative valuations, the portfolio is overweight domestic value and underweight international growth and resources, and this has hurt performance.

The second source of underperformance is a series of sharp share price corrections following operational disappointments from a handful of companies in which the portfolio is invested.

The largest detractor over the twelve-month period, in both relative and absolute terms, was N Brown. Shares in the online outsize clothing retailer were weak throughout the period, against what has proven to be a particularly difficult environment for the retail sector. The company issued a trading update in January 2018, provoking fears that reduced margins would impact full year results and when those results were released in April they were below analyst estimates. These challenges, coupled with disappointing footfall and a steady decline in the value of the shares led to action by the new Chairman, first announcing the closure of their high street stores and then taking the decision to change the Chief Executive. This renewed focus on the company's online operation is being supported and the stock is still held.

The share price of TP ICAP, an inter-dealer financial derivatives broker, weakened after a disappointing trading update in March 2018. The share price then fell very sharply at the beginning of July as the company cut its cost savings target for the year and parted company with its Chief Executive. Whilst the outlook has certainly deteriorated, the dramatic decline in the share price looks overstated and so the position has been maintained.

Shares in consumer goods company McBride fell sharply in January on the release of a disappointing trading update. The update cited cost challenges, including raw materials, labour market pressures and transportation costs, which had impacted the Group's first half profit performance and saw analysts cut their forecasts for future profits. Notwithstanding the share price performance, this business has been significantly improved by the current management team and its dominant market position remains attractive. Whilst it operates in a competitive sector, many of the issues impacting recent performance are likely to prove transitory. Shares were added to the position opportunistically at lower price levels.

Barclays, the portfolio's largest holding, also detracted from returns. The share price posted a positive return for the first half of the period but traded lower in the second quarter of 2018 as falling bond yields and fears of fallout from political turmoil in Italy weighed on sentiment towards the global banking sector and fears around Brexit weighed on the UK banks in particular. The shares fell further in the third quarter, despite the bank reporting higher-than-expected net operating income for the first half of 2018. The portfolio's significant weighting reflects conviction that the stock market's low valuation of Barclays implies an overly pessimistic assessment of the company's earnings outlook and capital generation – and therefore of the potential for the company to return capital to shareholders.

The portfolio has two holdings in the oil & gas sector, namely BP and Royal Dutch Shell, and together they provided the largest absolute positive contributions to the year's return. The oil majors' shares rose throughout the period, helped by the higher oil price environment. Whilst the portfolio has a significant exposure to the sector, it is still underweight relative to the FTSE All-Share Index, and correspondingly failed to benefit to the same extent as the index.

Performance was also supported by a number of holdings in the financial sector, including AJ Bell and Sigma Capital. Unquoted investment platform AJ Bell provided a positive contribution and confirmed its intention to IPO by the end of 2018. Specialist fund manager Sigma Capital's share price performed

STRATEGIC REPORT MANAGER'S REPORT

continued

strongly throughout the period. In particular, the market responded positively to a statement released in February that PRS REIT, the residential real estate investment trust that Sigma manages, had successfully raised an additional £250 million via a placing. This additional capital increases the revenue that Sigma earns for developing and managing the assets. There is significant growth potential for PRS REIT, which is also held in the portfolio. With this dual exposure the portfolio can benefit from PRS REIT's future income generation potential together with the long-term capital growth opportunities presented by Sigma Capital as the investment manager.

The portfolio's holdings in Bushveld Minerals and Gamma Communications also provided notable contributions to returns. Shares in Gamma, a telecommunications services provider, traded strongly throughout the period, making gains on the release of results for the first half of 2018, which showed an improved growth outlook buoyed by contract wins and an expanded pipeline.

Meanwhile AIM-listed vanadium producer Bushveld Minerals was bolstered in the latter half of the period by news that the company had acquired a further 21.22% stake in Strategic Minerals Corporation (SMC). SMC is the majority owner of Vametco, Bushveld's South African vanadium mine, of which the company now owns 76% (the residual having been transferred under South Africa's Black empowerment rules). With vanadium showing the strongest performance of all industrial metals this year to date and the supply demand outlook still compelling, the position has been maintained.

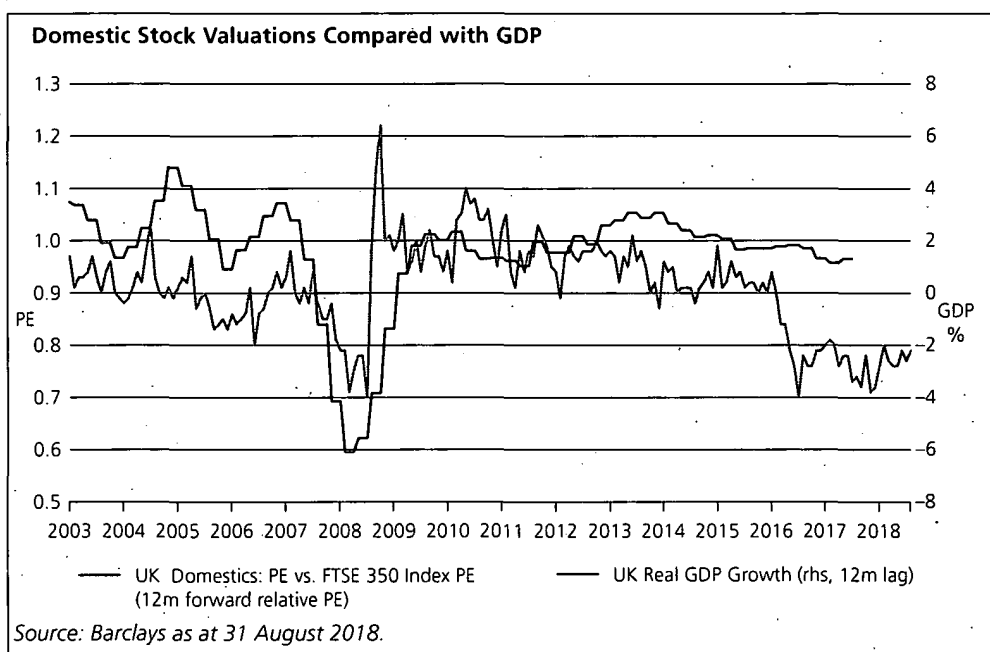
However, the portfolio's exposure to the mining sector was not positive overall. Whilst the sector as a whole provided a positive return to the market, this portfolio has no exposure to large-cap diversified miners, only to gold miners. Two of those names, Acacia Mining and Randgold Resources were a drag on the portfolio's return. Shares in the Tanzania-based gold miner Acacia Mining had already fallen substantially in early 2017 following a tax dispute with the Tanzanian government that prevented the export of gold in concentrate from the country. Barrick Gold, which owns 64% of the company, is negotiating on Acacia's behalf but the outcome remains uncertain and the shares have remained weak accordingly. Meanwhile, the share price of Randgold Resources also performed poorly throughout the period, driven by concerns around tax hikes affecting operations in the Democratic Republic of Congo. The share price of both Acacia Mining and Randgold Resources rallied into the period end on news of a proposed merger between Barrick Gold and Randgold Resources. However, gains were insufficient to offset the losses incurred earlier in the period.

Outlook

As I have written in the past, my investment process is very bottom-up. I have assembled a portfolio of shares, chosen on their own merits but against the backdrop of some broad top-down assumptions. The assumptions I made and wrote about a year ago were that:

- UK disposable income would move into growth territory as CPI fell and wage inflation accelerated. That would be a tailwind for domestic consumption. This has now happened and provides a powerful impetus to UK consumption growth.
- The risk to UK base rates and market rates of interest was clearly to the upside. The MPC has since raised rates twice and the 10 year gilt yield is 0.3% higher than a year ago.
- Geopolitical uncertainty was at an uncomfortable level and presented risks both to global markets and to the global economy. This has certainly worsened as trade relations have deteriorated. In theory this provides a headwind to exports and to the earnings of businesses in export or trade-dependent sectors.
- Valuation disparities were at extreme levels with US technology company shares looking particularly over-valued. Should those valuations compress, there was a risk of contagion into elevated share prices of growth companies in unrelated sectors in all regions. A number of these US shares have now de-rated and at the time of writing some of the most highly valued UK listed growth stocks are also coming under pressure.
- After years of monetary largesse, the withdrawal of stimulus via interest rate rises and quantitative tightening (QT) posed risks to the global economy and to stock markets. With the US Federal Reserve still pushing rates higher and global central banks now implementing a net reversal of quantitative easing, there is an increasing sense of unease that monetary policy may now pose a risk to global growth and therefore to stock market valuations.
- Brexit negotiations would bring volatility to UK equities, but in time this would be seen to have presented unusually attractive investment opportunities.

The global and domestic macro environment therefore looks broadly in line with my expectations. Unfortunately, the wild card that Brexit represents has become the dominant factor in the UK stock market and with negotiations heading for a perhaps predictably late and fraught conclusion, this has weighed heavily on domestically focused shares, as illustrated in the chart below. Many of the stocks I had already considered to be attractively valued, especially financials, have therefore remained under pressure, shunned by international and domestic investors alike despite a constructive if unspectacular economy. In this process of falling out of favour, these shares have exhibited the negative price momentum that sees them excluded from or shorted by quantitative strategies whose flows have increasingly defined the shape of markets in recent years. This somewhat circular phenomenon is still in full effect.



At the time of writing (in November) in advance of the supposed late November deadline for a Brexit deal to have been settled, and four months before Brexit itself, it is too early to judge whether this volatility brought about by Brexit has indeed presented "unusually attractive investment opportunities".

The fundamentals of the vast majority of domestic holdings remain intact. For now at least the UK consumer still appears robust and on the basis that Brexit does not bring about the recession that is widely priced in, the opportunity to own these companies at or close to post-financial crisis valuation lows still looks extremely attractive. In a number of cases I have therefore taken the opportunity of share price weakness to add to positions. At the same time, to reflect the totality of the risks the wider market and the portfolio faces (trade frictions escalating, Italy, Iran, US fiscal weakness, risk to the US dollar's reserve currency status, Chinese credit to name but a few), I have increased the weighting in gold equities. I am hopeful that the modest average valuation of the bulk of the holdings and the defensive characteristics of gold will combine to produce a portfolio with compelling risk/reward characteristics in the forthcoming period.

James Goldstone, Portfolio Manager

The Strategic Report was approved by the Board of Directors on 26 November 2018.

Invesco Asset Management Limited

Company Secretary

Spindonia

STRATEGIC REPORT

INVESTMENTS IN ORDER OF VALUATION

AT 30 SEPTEMBER 2018

UK listed ordinary shares unless stated otherwise

Investments		MARKET VALUE	% OF PORTFOLIO
ISSUER	SECTOR	£'000	
Barclays	Banks	13,160	4.4
BP	Oil & Gas Producers	12,915	4.4
Coats	General Industrials	9,160	3.1
Tesco	Food & Drug Retailers	9,055	3.1
Royal Dutch Shell – B shares	Oil & Gas Producers	8,967	3.0
Next	General Retailers	8,949	3.0
British American Tobacco	Tobacco	7,755	2.6
Royal Bank of Scotland	Banks	7,606	2.6
Babcock International	Support Services	7,510	2.5
A J Bell ^{UQ}	Financial Services	7,068	2.4
Top Ten Investments		92,145	31.1
RELX	Media	5,413	1.8
Rolls-Royce	Aerospace & Defence	5,376	1.8
BT	Fixed Line Telecommunications	5,355	1.8
Legal & General	Life Insurance	5,257	1.8
Melrose Industries	Construction & Materials	5,032	1.7
Aviva	Life Insurance	4,955	1.7
Amigo	Financial Services	4,928	1.7
JD Sports Fashion	General Retailers	4,892	1.6
Sigma Capital	Financial Services	4,814	1.6
McBride	Household Goods & Home Construction	4,718	1.6
Top Twenty Investments		142,885	48.2
Summit Germany	Real Estate Investment & Services	4,559	1.5
XPS Pensions	Financial Services	4,385	1.5
Phoenix Spree Deutschland	Real Estate Investment & Services	4,313	1.5
BCA Marketplace	Financial Services	4,236	1.4
Victoria	Household Goods & Home Construction	4,213	1.4
Hollywood Bowl	Travel & Leisure	4,190	1.4
Imperial Brands	Tobacco	3,755	1.3
Oxford Sciences Innovation ^{UQ}	Financial Services	3,746	1.3
Derwent London	Real Estate Investment Trusts	3,716	1.3
Motif Bio	Pharmaceuticals & Biotechnology	2,330	1.2
– ADR		1,202	
– ADR warrants 9 Nov 2021		174	
Top Thirty Investments		183,704	62.0
MJ Gleeson	Household Goods & Home Construction	3,528	1.2
PRS REIT	Real Estate Investment Trusts	3,340	1.1
Bushveld Minerals	Mining	3,308	1.1
Chesnara	Life Insurance	3,288	1.1
Endeavour Mining	Mining	3,258	1.1
CVS	General Retailers	3,206	1.1
Harworth	Real Estate Investment & Services	3,160	1.1
PureTech Health	Pharmaceuticals & Biotechnology	2,987	1.0
On the Beach	Travel & Leisure	2,983	1.0
easyJet	Travel & Leisure	2,973	1.0
Top Forty Investments		215,735	72.8
Secure Trust Bank	Banks	2,944	1.0
Capita	Support Services	2,908	1.0
N Brown	General Retailers	2,889	1.0
HomeServe	Support Services	2,781	0.9
P2P Global Investments	Equity Investment Instruments	2,777	0.9
Future	Media	2,777	0.9
Dairy Crest	Food Producers	2,766	0.9
Inmarsat	Mobile Telecommunications	2,742	0.9
Drax	Electricity	2,733	0.9
Ultra Electronics	Aerospace & Defence	2,653	0.9
Top Fifty Investments		243,705	82.1

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
Randgold Resources	Mining	2,634	0.9
Micro Focus	Software & Computer Services	2,622	0.9
Plus500	Financial Services	2,592	0.9
Balfour Beatty	Construction & Materials	2,545	0.9
Cairn Homes	Household Goods & Home Construction	2,484	0.8
Agnico Eagle Mines	Mining		
– Canadian common stock		2,482	0.8
Newmont Mining	Mining		
– US Common Stock		2,445	0.8
Provident Financial	Financial Services	2,440	0.8
Horizon Discovery	Pharmaceuticals & Biotechnology	2,338	0.8
Hadrian's Wall Secured Investments	Equity Investment Instruments	2,240	0.8
Top Sixty Investments		268,527	90.5
Mears	Support Services	2,164	0.7
Standard Life Aberdeen	Financial Services	2,134	0.7
TP ICAP	Financial Services	2,112	0.7
Ashtead	Support Services	2,107	0.7
Cranswick	Food Producers	2,023	0.7
Sherborne	Financial Services	1,933	0.7
Acacia Mining	Mining	1,926	0.7
TruFin	Financial Services	1,893	0.6
Alpha Financial Software	Software & Computer Services	1,738	0.6
Tungsten	Financial Services	1,457	0.5
Top Seventy Investments		288,014	97.1
Marwyn Value Investors	Equity Investment Instruments	1,390	0.5
Diurnal	Pharmaceuticals & Biotechnology	1,323	0.4
Hibernia REIT	Real Estate Investment Trusts	1,296	0.4
IP Group	Financial Services	981	0.3
Silence Therapeutics	Pharmaceuticals & Biotechnology	969	0.3
Safestyle UK	General Retailers	795	0.3
Debenhams	General Retailers	630	0.2
Gamma Communications	Mobile Telecommunications	618	0.2
Realm Therapeutics	Health Care Equipment & Services	218	0.1
Nexxon ^{UQ}	Electronic & Electrical Equipment	165	0.1
Top Eighty Investments		296,399	99.9
The Local Shopping REIT	Real Estate Investment Trusts	105	0.1
Barclays Bank			
– Nuclear Power Notes	Non-Equity Investment Instruments		
28 Feb 2019 ^{NR}		98	—
Eurovestech ^{UQ}	Financial Services	47	—
HaloSource	Chemicals	10	—
– Regulation S		9	—
Jaguar Health	Pharmaceuticals & Biotechnology		
– US indemnity shares ^{UQ}		12	—
XTL Biopharmaceuticals – ADR	Pharmaceuticals & Biotechnology	8	—
Lombard Medical	Health Care Equipment & Services		
– US Common Stock		4	—
Total Investments (87)		296,692	100.0

NR: Non-rated.

UQ: Unquoted investment.

ADR: American Depositary Receipt.

DIRECTORS

Beatrice Hollond

Mrs Hollond was appointed to the Board in September 2003 and became Chairman of the Board and the Nomination Committee on 14 December 2010. She is chairman of Millbank Financial Services Limited, an independent family office. She is also a non-executive director of Foreign & Colonial Investment Trust plc and senior independent director and chairman of the audit committee of Henderson Smaller Companies Investment Trust plc. Mrs Hollond is non-executive director of M&G Group Limited, Telecom Plus plc and senior independent director of Templeton Emerging Markets Investment Trust plc. Mrs Hollond is a main board director (US) and chairman of the International Advisory Board (UK) of Brown Advisory. Mrs Hollond will be Chairman of the Remuneration Committee for the main board (US) from January 2019. She was previously managing director of Credit Suisse Asset Management, where she worked for 16 years, with a particular focus on global fixed income and currency investing. Mrs Hollond will retire from the Board at the conclusion of the annual general meeting on 22 January 2019.

John Wood

Mr Wood was appointed to the Board on 8 March 2011. He was a fund manager at Artemis Investment Management until August 2009, where he primarily managed institutional and hedge fund portfolios invested in UK and Continental European securities. Prior to this he was Head of UK Equities at Deutsche Asset Management.

Katrina Hart

Mrs Hart was appointed to the Board on 18 January 2018. Mrs Hart spent her executive career in investment banking, advising, analysing and commenting on a broad range of businesses. Initially working in corporate finance at ING Barings and Hawkpoint Partners, Mrs Hart then moved into equities research at HSBC, covering the General Financials sector. Latterly, she headed up the Financials research teams at Bridgewell Group plc and Canaccord Genuity, specialising in fund and asset managers. Mrs Hart has been a non-executive director of Miton Group plc, an AIM-listed fund manager, since 2011. She is also a non-executive director of Polar Capital Global Financials Trust plc and of AEW UK REIT plc, a real estate investment company listed on the main market.

Karen Brade

Mrs Brade was appointed to the Board on 18 January 2018. She began her career at Citibank working on multi-national project finance transactions. She was a director at the Commonwealth Development Corporation and Actis, a leading emerging markets private equity firm, where she worked with the investment and portfolio management teams, and subsequently on fund raising and investor development in South Asia and China. Since 2005 she has been an adviser to hedge funds, family offices and private equity houses. Mrs Brade is currently chairman of Aberdeen Japan Investment Trust plc, a UK listed fund investing in Japanese mid cap and large cap stocks, non-executive director of Augmentum Fintech plc, and a non-executive director of Crown Place VCT. She is also an external member of Albion Capital's Investment Committee.

She will be appointed Chairman of the Board and the Nomination Committee following Beatrice Hollond's retirement at the conclusion of the forthcoming annual general meeting.

William Kendall

Mr Kendall was appointed to the Board in April 2002. He is a trustee of the Grosvenor Estate and a director of Wheatsheaf Investments Limited which is owned by the Grosvenor Estate, of Samworth Brothers, a founder director of Nemadi Advisors Limited, which advises on investments in the smaller companies sector and Chairman of Cawston Press, a premium soft drink manufacturer. He was previously chief executive of Green & Black's Limited, a premium organic chocolate brand in the UK, and chief executive of The New Covent Garden Soup Company Limited.

Ian Armfield

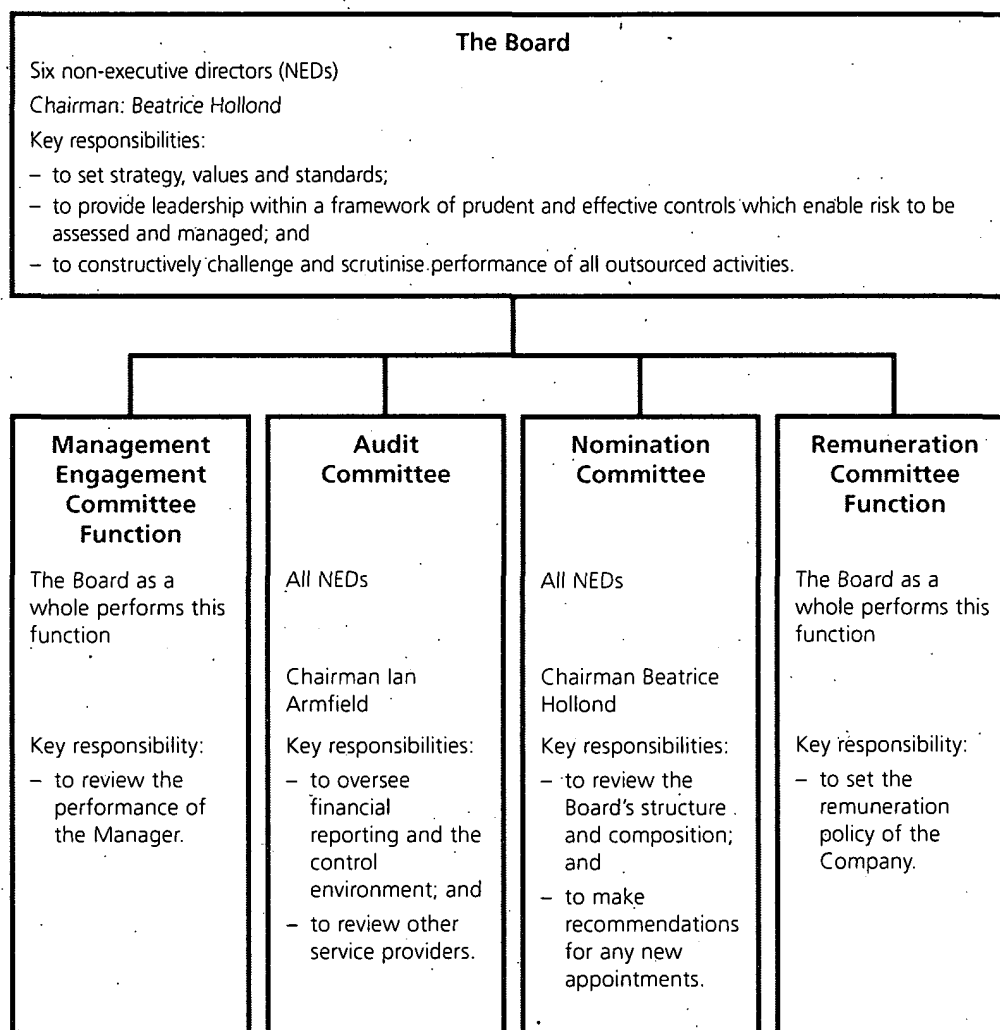
Mr Armfield was appointed to the Board on 1 November 2012 and became the Chairman of the Audit Committee on 22 January 2013. He is a director of Managed Pension Funds Limited. He is also a trustee member of the National Employment Savings Trust Corporation and chairman of the Audit and Risk Committee for The Pearson Pension Plan. He was previously an audit and risk assurance partner at PricewaterhouseCoopers for 20 years, where he specialised in the asset management and pensions sectors.

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

THE COMPANY'S GOVERNANCE FRAMEWORK

The Board and Committees

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that as an Investment Company it has no employees and outsources investment management to the Manager and administration to the Manager and other external service providers.



The Portfolio Manager

The portfolio manager, James Goldstone, is based in Henley-on-Thames. James also manages a UK equity pension fund, the UK portion of a pan-European equity fund and the UK Equity portfolio of Invesco Perpetual Select Trust plc. Prior to joining Invesco in August 2012, James was Co-Head of Pan-European Sales at Banco Espirito Santo in London. He began his career in equity sales at Credit Lyonnais in 2001 and went on, via HSBC and Dresdner Kleinwort, to specialise in UK equity sales. James graduated with a First Class Honours Degree in French from Manchester University.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

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

The Directors have considered the principles and recommendations of the 2016 AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2016 UK Corporate Governance Code ('UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

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

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

- the role of the chief executive;
- executive directors' remuneration;
- the need for an internal audit function; and
- nomination of a senior independent director (explained further on page 51).

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of Keystone Investment Trust plc, being an externally managed investment company with no executive employees and, in relation to the third, in view of the Manager having an internal audit function.

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

- the composition and operation of the Board and its committees are summarised on page 19, pages 52 to 54, and pages 21 to 23 in respect of the Audit Committee;
- the Company's approach to internal control and risk management is summarised on page 23;
- the contractual arrangements with, and assessment of, the Manager are summarised on pages 55 and 56;
- the Company's capital structure and voting rights are summarised on pages 56 and 57;
- the most substantial shareholders in the Company are listed on page 57;
- the rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 51. There are no agreements between the Company and its directors concerning compensation for loss of office; and
- powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require appropriate resolutions to be passed by shareholders.

By order of the Board



Invesco Asset Management Limited
Company Secretary

26 November 2018

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

The Audit Committee reviews and reports to the Board on the Company's financial reporting, risk management and internal control systems and the independence and effectiveness of the external auditor. It is chaired by Ian Armfield and the other members during the year under review were Beatrice Hollond, William Kendall, John Wood, Karen Brade and Katrina Hart. In compliance with the 2018 Corporate Governance Code, Mrs Brade will step down as a member of the Audit Committee on 22 January 2019. At the discretion of the Audit Committee Chairman, Mrs Brade may be invited to attend Audit Committee meetings as a guest.

The Audit Committee's Activities

The Audit Committee's activities are governed by detailed terms of reference which are reviewed on an annual basis, the last review being in July 2018. A copy of the terms of reference will be available for inspection at the Annual General Meeting and can be inspected at the registered office of the Company or on the Company's section of the Manager's website at www.invesco.co.uk/keystone.

The Committee is responsible for a range of matters including:

- consideration of the half-year and annual financial statements prepared by the Manager, the appropriateness of the accounting policies applied and any financial reporting judgements and key assumptions therein;
- monitoring developments in accounting and reporting requirements that impact on the Company's compliance with relevant statutory and listing requirements;
- consideration of the narrative elements of the annual financial report, including (on behalf of the Board) whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders;
- evaluation of reports received from the auditor with respect to the annual financial statements and reports received from the Manager's internal audit and compliance departments with respect to internal controls and risk;
- management of the relationship with the external auditor, including their appointment, remuneration and evaluation of the scope, effectiveness, independence and objectivity of the audit; and
- evaluation of the effectiveness of the internal control and risk management systems including reports received on the operational controls of the Company's service providers.

The Committee met three times during the year to review the half-year and annual financial reports and the internal financial and non-financial controls and risk management framework.

Two of the meetings were attended by representatives of the external auditor, PricewaterhouseCoopers LLP. They presented their audit plan at a meeting preceding the financial year end, during which items of audit focus were discussed and agreed. Subsequently, prior to approval of the annual financial report, they presented a report to the Committee on the nature, scope and results of their audit and discussed, amongst other things, the items for audit focus that had been identified in the audit plan. The representatives of the auditor were also given the opportunity to speak to the Committee without the presence of the Manager.

Representatives of the Manager's company secretarial and administration teams attended all meetings. Representatives of the Manager's internal audit and compliance departments also attended the Committee meetings at which the half-year and annual financial reports were considered in order to suitably inform the Committee on internal control, risk and regulatory matters that might have a bearing on the Company's business.

The Committee considered the effectiveness of the company secretarial and administration services provided by the Manager in connection with the production of the half year and annual financial reports and the year end audit process. With respect to the latter this included the drafting of the financial statements, timely identification and resolution of areas of accounting judgement, the implementation of new regulatory requirements and the timely provision of drafts of the annual financial report for review by the auditor and the Committee. In this regard the Committee assessed the Manager's services to be good.

AUDIT COMMITTEE REPORT

continued

Accounting Matters and Significant Areas

The Audit Committee considered the appropriateness of its accounting policies at the meeting when it reviewed the half-year results and agreed with the auditor when discussing the audit plan the more significant accounting matters in relation to the Company's annual financial statements. For the year end the accounting matters that were subject to specific consideration by the Committee and consultation with the auditor where necessary were as follows:

SIGNIFICANT AREA	HOW ADDRESSED
Accuracy of the portfolio valuation, with emphasis on unquoted investments	Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors. Investments that are unlisted or not actively traded are valued using a variety of techniques to determine a fair value, as set out in the accounting policies note on page 37, and all such valuations are carefully reviewed by the Manager's Unquoted Pricing Committee and the Committee.
The allocation of management fees and finance costs between revenue and capital	The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historic and projected; the objective of the Company; yields; and the latest market practice of peers.

All the above were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor. Following a thorough review process, the Audit Committee advised the Board that the 2018 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the financial statements.

The External Audit, Review of its Effectiveness and Auditor Reappointment

The Audit Committee advises the Board on the appointment of the external auditor, sets their remuneration for audit and non-audit work and assesses their effectiveness, independence and objectivity.

The Company's current auditor, PricewaterhouseCoopers LLP, was appointed following a competitive tender process in March 2014 and this year's audit is the fifth they have undertaken for the Company.

At the completion of the audit the Committee undertook a review of the quality and effectiveness of the audit process. A formal evaluation process incorporating views from the members of the Committee and relevant personnel at the Manager was followed and feedback was provided to the auditor. Areas covered by this review included:

- the calibre of the audit firm, including reputation and industry presence;
- the extent of quality controls including review processes, partner oversight, and annual reports from their regulator;
- the performance of the audit team including skills of individuals, specialist knowledge, partner involvement, team member continuity, and quality and timeliness of audit planning and execution;
- audit communication including planning, relevant accounting and regulatory developments, approach to significant accounting risks, communication of audit results and recommendations on corporate reporting;
- ethical standards including independence and integrity of the audit team, lines of communication to the Committee and partner rotation; and
- reasonableness of the audit fees.

No other services are provided by the auditor and it is the Company's policy not to seek substantial non-audit services from its auditor. Were the provision of significant non-audit services being considered, the Committee would assess whether the particular skills of the audit firm made them a suitable supplier of those services and that there was no threat to the objectivity and independence of the audit.

For the 2018 financial year, the Committee was satisfied with the auditors' effectiveness, independence and the objectivity of the audit process. Accordingly, the Committee is satisfied that PricewaterhouseCoopers LLP has fulfilled its obligations to shareholders and as independent auditor to the Company.

A resolution proposing the reappointment of PricewaterhouseCoopers LLP as the Company's auditor for the year to 30 September 2019 and authorising the Audit Committee to determine their remuneration will be put to the shareholders at the forthcoming AGM.

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Internal Controls and Risk Management

The Company's risk assessment and the way in which significant risks are managed is a key area of focus for the Committee. The Committee has undertaken a robust assessment of the risks to the Company, both in respect of its operations and longer term viability. The Committee's assessment took into account the controls exercised by the Board and its delegates, the Manager and other service providers, utilising a risk matrix. This matrix continues to serve as an effective tool to highlight and monitor the principal risks to the Company, which are summarised in the Strategic Report.

The Committee, on behalf of the Board is responsible for ensuring that the Company maintains a sound system of internal control to mitigate risk and safeguard shareholders' investments and the Company's assets. The effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems is reviewed at least annually. The Company's system of internal control is designed to manage rather than eliminate risk, including that of failure to adhere to the Company's Investment Policy. Appropriate action is taken to remedy any significant failings or weaknesses identified from these reviews. No significant items were identified in the year.

The Manager and custodian maintain their own systems of internal controls. The Committee received and considered, together with representatives of the Manager, reports in relation to the operational controls of the investment manager, accounting administrator, custodian and share registrar. The Committee also receives regular reports from the Manager's internal audit and compliance departments and has direct access to the depositary, which reports to the Committee at least annually.

The Committee has reviewed and accepted the Manager's 'Whistleblowing' policy under which staff of Invesco Fund Managers Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Internal Audit

Due to the nature of the Company, being an externally managed investment company with no employees, and in view of the Manager having an internal audit function, the Company does not have its own internal audit function.

Committee Evaluation

The Committee's activities formed part of the review of Board effectiveness performed in the year. Details of this process can be found under 'Board, Committee and Directors' Performance Appraisal' on page 52.

Ian Armfield

Chairman of the Audit Committee

26 November 2018

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

The Board presents this Remuneration Report which has been prepared under the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and in accordance with the Listing Rules of the Financial Conduct Authority. An advisory resolution for the approval of the Annual Statement and Report on Remuneration will be put to shareholders at the Annual General Meeting (AGM).

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditors' opinion is included on pages 28 to 33.

Remuneration Responsibilities

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

Directors' Remuneration Policy

The Directors' Remuneration Policy was last approved by shareholders at the AGM on 24 January 2017 and became effective on that date.

The Board's policy is that the remuneration of Directors should be fair and reasonable in relation to that of other comparable investment companies and be sufficient to retain and motivate appointees, as well as ensure that candidates of a high calibre are recruited to the Board. Remuneration levels should properly reflect time incurred and responsibility undertaken. Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum currently dictated by the Company's Articles of Association is £150,000 in aggregate per annum. Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at board and general meetings and committees. Also, the Directors may, in the furtherance of their duties, take legal advice at the Company's expense up to an initial cost of £10,000, having first consulted with the Chairman. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office. The same principles will apply to any new appointments.

The Directors' fees are subject to regular review by the Board having regard to the above factors. The Company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director.

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

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

Annual Statement on Directors' Remuneration

Throughout the year to 30 September 2018 fees paid to Directors were as follows: Chairman £27,000; Audit Committee Chairman £24,000; other Directors £20,000. No additional discretionary payments were made in the year, or in the previous year, and no Director took legal advice at the Company's expense.

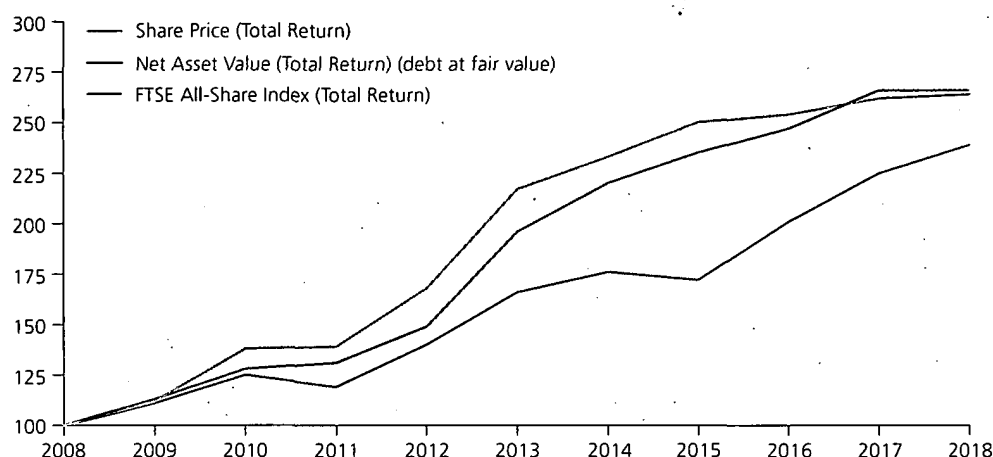
During the year the Board undertook its regular remuneration review and decided that fees should increase to the following from 1 February 2019: Chairman £30,000; Audit Committee Chairman £25,000; other Directors £21,000. It is four years since any of the fees were last increased, during which period the level of regulatory and corporate governance obligations of directors have inexorably increased.

Report on Remuneration for the Year Ended 30 September 2018

The Company's Performance

The graph below plots, in annual increments, the net asset value total return and share price total return to ordinary shareholders compared to the total return of the FTSE All-Share Index over the ten years to 30 September 2018. This index is the benchmark adopted by the Company for comparison purposes.

Figures have been rebased to 100 at 30 September 2008. A graph showing the performance over the last ten years plotted daily is shown on page 3.



Source: Refinitiv (Thomson Reuters).

Directors' Emoluments for the Year (Audited)

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

	2018 £	2017 £
Beatrice Hollond (Chairman)	27,000	27,000
Ian Armfield	24,000	24,000
William Kendall	20,000	20,000
Peter Readman (retired 18 January 2018)	6,027	20,000
John Wood	20,000	20,000
Karen Brade (appointed 18 January 2018)	13,973	—
Katrina Hart (appointed 18 January 2018)	13,973	—
Total	124,973	111,000

Directors' Shareholdings and Share Interests (Audited)

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

	2018	2017
Beatrice Hollond	1,250	1,250
Ian Armfield	—	—
William Kendall	6,250	6,250
John Wood	1,000	1,000
Karen Brade	500	—
Katrina Hart	1,091	—

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the ordinary shares, preference shares or debenture stock of the Company during the year. No changes to these holdings have been notified since the year end. No connected person interests have been notified.

DIRECTORS' REMUNERATION REPORT

continued

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

Relative Importance of Spend on Pay

The following table compares the remuneration paid to the Directors with aggregate distributions to shareholders in the year to 30 September 2018 and the prior year. This disclosure is a statutory requirement, however, the Directors consider that comparison of Directors' remuneration with annual dividends does not provide a meaningful measure relative to the Company's overall performance as an investment trust with an objective of providing shareholders with long-term capital growth.

	2018 £'000	2017 £'000	CHANGE £'000
Aggregate Directors' Emoluments	125	111	+14
Aggregate Shareholder Distributions	7,807	8,070	-263

Voting at Last Annual General Meeting

At the Annual General Meeting of the Company held on 18 January 2018 an advisory resolution was put to shareholders to approve the Annual Statement and Report on Remuneration. This was passed by a show of hands. The proxy votes registered in respect of this resolution were as follows:

	VOTES FOR	%	VOTES AGAINST	%	VOTES WITHHELD
Annual Statement and Report on Remuneration	1,777,662	99.9	1,252	0.1	798,300

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 26 November 2018.



Beatrice Hollond
Chairman

Signed on behalf of the Board of Directors

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

The Directors are responsible for ensuring that the annual financial report is prepared 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 UK Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in UK and Republic of Ireland'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return of the Company for that period.

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

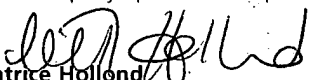
- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;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

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

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

The Directors of the Company, whose names are shown on page 18 of this Report, each confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with United Kingdom accounting standards on a going concern basis, give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the annual financial report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.


Beatrice Holland

Chairman

Signed on behalf of the Board of Directors.

26 November 2018

Electronic Publication

The annual financial report is published on www.invesco.co.uk/keystone which is the Company's section of the Manager's website. The work carried out by the auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the auditor accepts no responsibility for any changes that have occurred to the 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 KEYSTONE INVESTMENT TRUST PLC

Report on the audit of the financial statements

Our opinion

In our opinion, Keystone Investment Trust plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2018 and of its return on ordinary activities and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Financial Report (the "Annual Report"), which comprise: the Balance Sheet as at 30 September 2018; the Income Statement, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

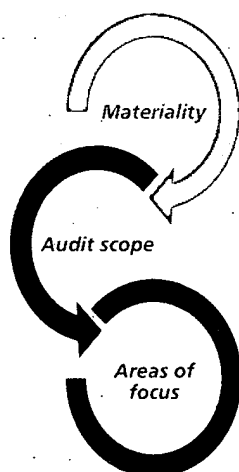
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the Company in the period from 1 October 2017 to 30 September 2018.

Our audit approach

Overview



- Overall materiality: £2.7 million (2017: £2.8 million), based on 1% of net assets.

- The Company is a standalone Investment Trust Company and engages Invesco Fund Managers Limited (the "Manager") to manage its assets.
- We conducted our audit of the financial statements using information from Bank of New York Mellon (International) Limited (the "Administrator") to which the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at both the Manager and the Administrator, and adopted a fully substantive testing approach using information obtained from the Administrator.
- Valuation and existence of investments.
- Accuracy, occurrence and completeness of dividend income.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, the AIC SORP 2014 and section 1158 of the Corporation Tax Act 2010. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence from HM Revenue & Customs, enquiries with management and testing the Company's compliance with section 1158 in the current year. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation and existence of investments <i>Refer to page 22 (Audit Committee Report), page 37 (Accounting Policies) and page 42 (Notes to the financial statements).</i> The investments portfolio at the year-end comprised quoted investments valued at £285.7 million (96.3%) and unquoted investments valued at £11.0 million (3.7%). We focused on the valuation and existence of quoted investments because quoted investments comprise the majority of the investments balance. We also focused on the valuation and existence of unquoted investments as the valuation of these investments is material to the net asset value and requires estimates and significant judgements to be applied by the Manager. Changes to the estimates and/or judgements can result, either on an individual or aggregate basis, in a material change to the valuation of unquoted investments.	We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation. No differences were identified by our testing which required reporting to those charged with governance. Quoted investments We tested the valuation of the quoted equity investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. Unquoted investments We understood and evaluated the controls around the pricing of unquoted investments including the final approval of the valuation by the Invesco European Unquoted Pricing Committee and the Board. We understood and reviewed the reasonableness of the valuation methodology and assumptions applied by the Manager in determining the fair value of unquoted investments. Our work included assessing for reasonableness the inputs to the valuation methodology including, where applicable, comparable quoted company earnings multiples and future cash flows discounted to reflect the illiquidity of the investment. We also read the Invesco European Unquoted Pricing Committee papers, valuation reports and meeting minutes where the valuations of the unquoted investments were discussed and agreed. This, together with the work outlined above and our knowledge of the investee entities and the International Private Equity and Venture Capital Valuation guidelines, enabled us to discuss with and challenge the Manager and Directors as to the appropriateness of the methodology and key inputs used, and the valuations themselves. No differences were identified by our testing which required reporting to those charged with governance.

INDEPENDENT AUDITORS' REPORT

continued

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Accuracy, occurrence and completeness of dividend income <i>Refer to page 38 (Accounting Policies) and page 39 (Notes to the financial statements).</i> We focused on the accuracy, occurrence and completeness of dividend income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. We also focused on the accounting policy for income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP") as incorrect application could indicate a misstatement in income recognition.	We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We tested the accuracy of dividend receipts by agreeing the dividend rates from investments to independent market data. No misstatements were identified which required reporting to those charged with governance. To test for completeness, we tested, for all investment holdings in the portfolio, that all dividends declared in the market by investment holdings had been recorded. We tested occurrence by testing that all dividends recorded in the year had been declared in the market by investment holdings. Our testing did not identify any misstatements which required reporting to those charged with governance. We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions. Our procedures did not identify any misstatements which required reporting to those charged with governance.

How we tailored the audit scope

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

The Company's accounting is delegated to the Administrator who maintains the Company's accounting records and who has implemented controls over those accounting records.

We obtained our audit evidence from substantive tests. However, as part of our risk assessment, we understood and assessed the internal controls in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and analysing the relevant control reports issued by the independent service auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following the assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

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

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

Overall materiality	£2.7 million (2017: £2.8 million).
How we determined it	1% of net assets.
Rationale for the materiality benchmark	We applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £133,000 (2017: £137,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

REPORTING OBLIGATION	OUTCOME
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

INDEPENDENT AUDITORS' REPORT

continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

The Directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 23 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 10 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the company and statement in relation to the longer-term viability of the company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. (*Listing Rules*)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 27, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on page 22 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

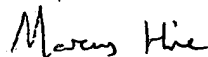
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 2 June 2014 to audit the financial statements for the year ended 30 September 2014 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 30 September 2014 to 30 September 2018.



Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 November 2018

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	REVENUE £'000	2018 CAPITAL £'000	TOTAL £'000	REVENUE £'000	2017 CAPITAL £'000	TOTAL £'000
(Losses)/gains on investments	9	—	(8,653)	(8,653)	—	10,197	10,197
Foreign exchange losses		—	(166)	(166)	—	(292)	(292)
Income	2	8,806	2,499	11,305	9,703	2,648	12,351
Investment management fees and performance-related fees	3	(261)	(785)	(1,046)	(301)	(901)	(1,202)
Other expenses	4	(408)	—	(408)	(401)	—	(401)
Net return before finance costs and taxation		8,137	(7,105)	1,032	9,001	11,652	20,653
Finance costs	5	(564)	(1,655)	(2,219)	(561)	(1,647)	(2,208)
Return on ordinary activities before taxation		7,573	(8,760)	(1,187)	8,440	10,005	18,445
Tax on ordinary activities	6	(21)	—	(21)	(124)	—	(124)
Return on ordinary activities after taxation for the financial year		7,552	(8,760)	(1,208)	8,316	10,005	18,321
Return per ordinary share Basic	7	55.9p	(64.8)p	(8.9)p	61.5p	74.0p	135.5p

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The return after taxation is the total comprehensive income and therefore no additional statement of comprehensive income is presented. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations of the Company. No operations were acquired or discontinued in the year.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER

	CALLED UP SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 30 September 2016	6,760	3,449	466	243,643	10,629	264,947
Dividends paid – note 8	—	—	—	—	(7,881)	(7,881)
Net return on ordinary activities	—	—	—	10,005	8,316	18,321
At 30 September 2017	6,760	3,449	466	253,648	11,064	275,387
Dividends paid – note 8	—	—	—	—	(8,033)	(8,033)
Net return on ordinary activities	—	—	—	(8,760)	7,552	(1,208)
At 30 September 2018	6,760	3,449	466	244,888	10,583	266,146

The accompanying notes are an integral part of these statements.

BALANCE SHEET

AT 30 SEPTEMBER

	NOTES	2018 £'000	2017 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	296,692	294,778
Current assets			
Debtors	10	1,663	733
Cash and cash equivalents		1,078	13,755
		2,741	14,488
Creditors: amounts falling due within one year	11	(1,250)	(1,876)
Net current assets		1,491	12,612
Total assets less current liabilities		298,183	307,390
Creditors: amounts falling due after more than one year	12	(32,037)	(32,003)
Net assets		266,146	275,387
Capital and reserves			
Called up share capital	13	6,760	6,760
Share premium	14	3,449	3,449
Capital redemption reserve	14	466	466
Capital reserve	14	244,888	253,648
Revenue reserve	14	10,583	11,064
Shareholders' funds		266,146	275,387
Net asset value per ordinary share – basic			
– debt at par	15	1,968.7p	2,037.1p
– debt at fair value	15	1,921.7p	1,979.9p

The financial statements on pages 34 to 50 were approved and authorised for issue by the Board of Directors on 26 November 2018.

Signed on behalf of the Board of Directors


Beatrice Hollond
 Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2018 £'000	2017 £'000
Cash flow from operating activities			
Net return before finance costs and taxation		1,032	20,653
Tax on overseas income	6	(21)	(124)
Adjustments for:			
Purchase of investments		(111,227)	(157,332)
Sale of investments		99,172	155,617
		(12,055)	(1,715)
Scrip dividends		(114)	(26)
Losses/(gains) on investments		8,653	(10,197)
Net cash movement from derivative instruments			
– currency hedges		87	(157)
Decrease/(increase) in debtors		8	(67)
Decrease in creditors		(12)	(151)
Net cash (outflow)/inflow from operating activities		(2,422)	8,216
Cash flow from financing activities			
Interest paid on overdraft		(8)	-
Interest paid on debenture stocks		(2,165)	(2,165)
Preference dividends paid		(12)	(12)
Net equity dividends paid	8	(8,070)	(7,881)
Net cash outflow from financing activities		(10,255)	(10,058)
Net decrease in cash and cash equivalents		(12,677)	(1,842)
Cash and cash equivalents at start of the year		13,755	15,597
Cash and cash equivalents at the end of the year		1,078	13,755
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:			
Cash at custodian		1,078	1,605
Short-Term Investment Company (Global Series) plc, money market fund		—	12,150
Cash and cash equivalents		1,078	13,755
Cash flow from operating activities includes:			
Interest received		172	176
Dividends received		10,933	9,232

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

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

A summary of the principal accounting policies adopted by the Company 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 applicable law (UK Generally Accepted Accounting Practice (UK GAAP)) and with the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in November 2014 (SORP) and updated in February 2018. The financial statements are issued on a going concern basis.

(ii) *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, as well as a majority of its assets and liabilities, are denominated.

(b) Financial Instruments

The Company has chosen to apply the provisions of sections 11 and 12 of FRS102 in full in respect of the 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 rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

(iii) *Derecognition of financial liabilities*

The Company derecognises financial liabilities when its obligations are discharged, cancelled or expired.

(iv) *Trade date accounting*

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) *Classification and measurement of financial assets and financial liabilities*

Financial assets

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

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

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Where there is no active market, unlisted/illiquid investments are valued by the Directors at fair value based on recommendations from Invesco's European Unquoted Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Valuation Guidelines issued in 2015, using valuation techniques such as earnings multiples, recent arm's length transactions, net assets and milestones attained.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. Accounting Policies (continued)

(v) *Classification and measurement of financial assets and financial liabilities (continued)**Financial liabilities*

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

(c) **Amounts recognised in Capital Reserves**

The following are included in the income statement and recognised in capital: realised gains or losses on sales of investments; realised gains or losses on foreign currency and any forward currency contracts; management fees and finance costs allocated to capital; and other capital charges, and unrealised increases or decreases in the valuation of investments at the year end (including the related foreign exchange gains and losses).

(d) **Cash and cash equivalents**

Cash and cash equivalents may comprise cash (including short term deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value) as well as cash equivalents, including money market funds. Investments are regarded as cash equivalents if they meet all of the following criteria: highly liquid investments held in the Company's base currency that are readily convertible to a known amount of cash, are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three-month high quality government bond.

(e) **Income**

Dividend income arises from equity investments held and is recognised on the date investments are marked '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 the revenue account and any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserve. Special dividends are taken to income unless they arise from a return of capital, when they are allocated to capital in the income statement. Interest income arising from fixed income securities and cash is recognised in the income statement using the effective interest method. Deposit interest and underwriting commission receivable are taken into account on an accruals basis.

(f) **Management and Performance-related fees**

Investment management fees are recognised on an accruals basis and are charged 75% to capital and 25% to revenue. This is 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.

Performance-related fees are calculated as detailed in the Directors' Report and are charged wholly to capital as they arise mainly from capital returns on the investment portfolio.

(g) **Expenses and Finance costs**

Expenses are recognised on an accruals basis and finance costs are recognised using the effective interest method, with the debentures being held at amortised cost. The finance costs of debt are allocated 75% to capital and 25% to revenue for the reasons outlined in (f) above. The 5% cumulative preference shares are classified as a liability and therefore the dividends payable on these shares are classified as finance costs and charged to revenue in the income statement.

(h) **Hedging**

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.

(i) **Foreign Currency Translation**

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 capital or to revenue, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the income statement.

(j) Taxation

Foreign dividends that suffer withholding tax at source are shown gross, with the corresponding tax charge in the income statement.

Deferred taxation 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 tax or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred taxation assets are recognised where, in the opinion of the Directors, it is more likely than not that these amounts will be realised in future periods.

A deferred tax asset has not been recognised in respect of surplus management expenses and losses on loan relationships, as the Company is unlikely to have sufficient future taxable revenue to offset against these.

(k) Dividends Payable

Dividends are not recognised in the financial statements unless there is an obligation to pay at the balance sheet date.

2. Income

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

	2018 £'000	2017 £'000
Income from investments		
UK dividends		
– Ordinary dividends	7,522	7,388
– Special dividends	236	643
Overseas dividends		
– Ordinary dividends	716	1,402
Scrip dividends	114	26
Income from interest distribution	171	194
	8,759	9,653
Other income		
Deposit interest	1	—
Underwriting commission	—	1
Other	46	49
	47	50
Total income	8,806	9,703

Special dividends of £2,499,000 (2017: £2,648,000) have been recognised in capital.

3. Investment Management and Performance-related Fees

This note shows the fees paid to the Manager. These are made up of the management fee payable quarterly and a performance-related fee calculated annually. The latter is only payable when the portfolio outperforms the benchmark index plus its hurdle, which is +1.25% per annum.

	2018			2017		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	261	785	1,046	301	901	1,202
Performance-related fee	—	—	—	—	—	—
	261	785	1,046	301	901	1,202

Details of the management agreement are disclosed in the Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS

continued

3. Investment Management and Performance-related Fees (continued)

The performance-related fee is due if the Company's annualised total return over the previous three years is greater than the annualised return of the FTSE All-Share (Total Return) Index over the same period, plus the hurdle.

At 30 September 2018, an investment management fee of £256,000 (2017: £261,000) has been accrued in respect of the three months to 30 September 2018. There was no performance-related fee provision for the year (2017: £nil).

4. Other Expenses

The other expenses of the Company are presented below.

	2018 £'000	2017 £'000
Directors' fees	125	111
Fees payable to the Company's auditor in relation to:		
– the statutory audit of the financial statements	26	26
Other expenses	257	264
	408	401

The Director's Remuneration Report provides further information on Directors' fees.

Fees payable to the Company's auditor are shown excluding VAT which is included in other expenses. Other expenses includes £7,700 (2017: £6,000) of employer's National Insurance on Directors' fees. As at 30 September 2018, the amount outstanding on Directors' fees and employer's National Insurance was £10,100 (2017: £7,700).

5. Finance Costs

Finance costs arise on any borrowing that the Company has, with the main borrowing being the £32 million of Debenture stocks (see note 12) and an uncommitted bank overdraft facility (see note 11).

	REVENUE £'000	2018 CAPITAL £'000	TOTAL £'000	REVENUE £'000	2017 CAPITAL £'000	TOTAL £'000
Interest payable on borrowings repayable not by instalment:						
Interest payable on bank borrowings	2	6	8	—	—	—
Debenture stock repayable in 2 to 3 years	136	407	543	—	—	—
Debenture stock repayable after 3 years	414	1,242	1,656	549	1,647	2,196
	552	1,655	2,207	549	1,647	2,196
Dividends on 5% cumulative preference shares	12	—	12	12	—	12
	564	1,655	2,219	561	1,647	2,208

6. Tax on ordinary activities

As an investment trust, the Company pays no tax on capital gains and as the Company principally invests in UK assets, it has little overseas tax. This note shows details of the tax charge and why no deferred tax is required to provide for tax that is expected to arise in the future due to differences in accounting and tax bases.

(a) Current Tax Charge

	2018 REVENUE £'000	2017 REVENUE £'000
Overseas tax	21	124

(b) Reconciliation of Current Tax Charge

	2018 £'000	2017 £'000
Total return on ordinary activities before taxation	(1,187)	18,445
UK Corporation Tax effective rate of 19% (2017: 19.5%)	(226)	3,597
Effect of :		
– Losses/(gains) on investments	1,644	(1,988)
– Loss on foreign exchange movements	32	57
– UK dividends which are not taxable	(1,931)	(2,030)
– Overseas dividends which are non-taxable	(141)	(264)
– Overseas tax	21	124
– Non-taxable scrip dividends	(22)	(5)
– Disallowed expenses	2	3
– Excess of management expenses over taxable income	642	630
Current tax charge for the year	21	124

(c) Factors that may Affect Future Tax Changes

The Company has excess expenses of £75,291,000 (2017: £71,913,000) that are available to offset future taxable revenue. A deferred tax asset of £12,800,000 measured at the standard corporation tax rate of 17% (2017: £12,225,000 at 17%), has not been recognised in respect of these expenses since the Directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset.

7. Return per Ordinary Share

Basic return per share is the amount of gain (or loss) generated for the financial year divided by the number of ordinary shares in issue. The calculation is based on the weighted average number of shares in issue during the year.

Basic revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation and on 13,518,799 (2017: 13,518,799) shares being the number of ordinary shares in issue throughout the year.

8. Dividends

Dividends represent the return of income less expenses to shareholders. Dividends are paid as an amount per ordinary share held.

	2018 £'000	2017 £'000
Dividends on equity shares paid and recognised in the year:		
Second interim dividend for 2017 of 37p per ordinary share (2016: 35p)	5,002	4,732
Special dividend for 2017 of 4.7p per ordinary share (2016: 5.3p)	635	716
First interim dividend for 2018 of 18p per ordinary share (2017: 18p)	2,433	2,433
	8,070	7,881
Return of unclaimed dividends from previous years	(37)	—
	8,033	7,881

NOTES TO THE FINANCIAL STATEMENTS

continued

8. Dividends (continued)

	2018 £'000	2017 £'000
Dividends on equity shares payable in respect of the year:		
First interim paid 18p per ordinary share (2017: 18p)	2,433	2,433
Second interim dividend of 38p per ordinary share (2017: 37p)	5,137	5,002
	7,570	7,435
Special dividend of 1.75p per ordinary share (2017: 4.7p)	237	635
	7,807	8,070

9. Investments

The portfolio is made up primarily of investments which are listed, i.e. traded on a recognised stock exchange (including AIM), and some unlisted investments. Gains and losses are either:

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

(a) Analysis of Investments by Listing Status

	2018 £'000	2017 £'000
Investments listed on a recognised stock exchange	285,654	285,298
Unlisted investments	11,038	9,480
	296,692	294,778

(b) Analysis of Investment Gains and Losses

	LISTED £'000	2018 UNLISTED £'000	TOTAL £'000	2017 TOTAL £'000
Opening book cost	269,085	8,535	277,620	213,594
Opening investment holding gains	16,213	945	17,158	68,241
Opening valuation	285,298	9,480	294,778	281,835
Movements in year:				
Purchases at cost	110,727	—	110,727	158,148
Sales – proceeds	(100,004)	(156)	(100,160)	(155,402)
– realised gains	15,191	156	15,347	61,280
Transfer between listed and unlisted during the year	(89)	89	—	—
Movement in investment holding gains	(25,469)	1,469	(24,000)	(51,083)
Closing valuation	285,654	11,038	296,692	294,778
Closing book cost	294,910	8,624	303,534	277,620
Closing investment holding (losses)/gains	(9,256)	2,414	(6,842)	17,158
Closing valuation	285,654	11,038	296,692	294,778
Net realised gains based on historical cost	15,191	156	15,347	61,280
Movement in investment holding gains in year	(25,469)	1,469	(24,000)	(51,083)
(Losses)/gains on investments	(10,278)	1,625	(8,653)	10,197

(c) Transaction Costs

Transaction costs on purchases of £410,000 (2017: £837,000) and on sales of £72,000 (2017: £194,000) are included within gains and losses on investments in the income statement.

10. Debtors

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

	2018 £'000	2017 £'000
Amounts due from brokers	988	—
Unrealised profit on forward currency contracts	70	157
Prepayments and accrued income	293	291
Unclaimed dividends from previous years recoverable	37	—
Overseas withholding tax recoverable	275	267
Income tax recoverable	—	18
	1,663	733

11. Creditors: amounts falling due within one year

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

	2018 £'000	2017 £'000
Amounts due to brokers	195	809
Accruals	1,055	1,067
	1,250	1,876

The Company has an uncommitted bank overdraft facility of up to £15 million, renewable on 20 September 2019. Interest payable on the facility is 0.75% over base rate. The covenant under the facility requires total assets not to fall below £100 million.

12. Creditors: amounts falling due after more than one year

Long term creditors consist of £32 million of debentures and a small issue of preference shares. These form the principal borrowings of the Company and the fixed interest that the Company pays is reported under note 5 'Finance Costs'.

	2018 £'000	2017 £'000
Debenture Stock:		
7.75% redeemable 1 October 2020	7,000	7,000
6.5% redeemable 27 April 2023	24,968	24,968
	31,968	31,968
Discount and issue expenses on debenture stock	(181)	(215)
	31,787	31,753
5% cumulative preference shares of £1 each	250	250
	32,037	32,003

The debentures rank pari passu with each other, and ahead of shareholders, and are secured by floating charge over the assets of the Company.

The debenture stocks both pay interest twice a year; the 7.75% Debenture Stock 2020 for the six months ended 31 March and 30 September, and the 6.5% Debenture Stock 2023 for the six months to 27 April and 27 October. Both debenture stocks generally make the payments in April and October. The preference shares dividend is paid bi-annually in March and September.

NOTES TO THE FINANCIAL STATEMENTS

continued

13. Called up share capital

Ordinary share capital represents the total number of shares in issue, for which dividends accrue.

	2018		2017	
	NUMBER	£'000	NUMBER	£'000
Allotted, called-up and fully paid:				
Ordinary shares of 50p each	13,518,799	6,760	13,518,799	6,760

The ordinary shares are fully participating and on a poll carry one vote per £1 nominal held.

No shares were issued or bought back during the year (2017: nil).

14. Reserves

This note explains the different reserves that have arisen over the years. The aggregate of the reserves and share capital (see previous note) make up total shareholders' funds.

The share premium comprises the net proceeds received by the Company following the issue of shares, after deduction of the nominal amount of 50 pence and any applicable issue costs. The capital redemption reserve maintains the equity share capital arising from the buy back and cancellation of shares; it, and the share premium, are non-distributable.

The capital reserve includes the investment holding gains/(losses), being the difference between cost and market value at the balance sheet date. It also includes cumulative realised gains/(losses). Capital investment gains and losses are shown in note 9(b) and form part of the capital reserve. Share buy backs can be funded from the capital reserve.

The revenue reserve shows the net revenue retained after payment of dividends. The revenue and capital reserves are distributable by way of dividend.

15. Net Asset Value

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

The following shows the shareholders' funds and net asset value (NAV) in pence per share, together with a reconciliation of NAV with debt at par to NAV with debt at fair value. The difference in the NAVs arises from the valuation of the debenture stocks and preference shares. The number of shares in issue at the year end is shown in note 13.

	2018		2017	
	SHAREHOLDERS' FUNDS £'000	NAV PER SHARE PENCE	SHAREHOLDERS' FUNDS £'000	NAV PER SHARE PENCE
NAV – debt at par	266,146	1,968.7	275,387	2,037.1
Add: debt at par, after amortised costs (note 12)	32,037	237.0	32,003	236.7
Less: debt at fair value (note 17)	(38,392)	(284.0)	(39,728)	(293.9)
NAV – debt at fair value	259,791	1,921.7	267,662	1,979.9

Only the basic NAV is shown. There is no dilution in this or the previous year.

16. Financial Instruments

Financial instruments comprise the Company's investment portfolio, derivative instruments (if any) as well as its cash, and any borrowings, debtors and creditors. This note sets out the Company's financial instruments and the risks related to them.

The Company's financial instruments comprise its investment portfolio (as shown on pages 16 and 17), derivatives, 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. The Company did not have any exposure to derivatives during the year (2017: none), apart from the use of forward currency contracts to hedge the Euro and Canadian dollar exposure.

The principal risks that an investment company faces in its portfolio management activities are set out below:

Market risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:

Currency risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;

Interest rate risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and

Other price risk – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.

Liquidity risk – arising from any difficulty in meeting obligations associated with financial liabilities.

Credit risk – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

Risk Management Policies and Procedures

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

An investment company invests in equities and other investments for the long term so as to meet its investment objective and policies. 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 distribution by way of dividends.

The risks applicable to the Company and the policies the Company used to manage these risks for the two years under review follow.

Market risk

The Company's Manager assesses the Company's exposure when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance, as disclosed under Board Responsibilities on page 53. No derivatives or hedging instruments are utilised to manage market risk. Borrowings are used to enhance returns, however, this increases the Company's exposure to market risk and volatility.

Currency risk

The majority of the Company's assets, liabilities and income are denominated in Sterling. There is some exposure to US dollars, Swiss francs, Canadian dollars and the Euro. The latter two currencies were hedged by the use of forward currency contracts.

Management of the currency risk

The Manager monitors the Company's exposure to foreign currencies daily and reports to the Board on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS

continued

16. Financial Instruments (continued)

Risk Management Policies and Procedures (continued)

Market risk (continued)

Forward currency contracts can be used to limit the Company's exposure to anticipated future changes in exchange rates which are also used to achieve the portfolio characteristics that assist the Company in meeting its investment objective and policies. All contracts are limited to currencies and amounts commensurate with asset exposure to those currencies.

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

Currency exposure

The fair values of the Company's monetary items that had currency exposure at 30 September 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.

	30 SEPTEMBER 2018			
	CANADIAN DOLLAR £'000	EURO £'000	SWISS FRANC £'000	US DOLLAR £'000
Debtors (due from brokers and dividends)	—	1	272	35
Forward currency contracts	(3,126)	(8,525)	—	—
Foreign currency exposure on net monetary items	(3,126)	(8,524)	272	35
Investments at fair value through profit or loss that are equities	3,258	8,340	—	6,326
Total net foreign currency exposure	132	(184)	272	6,361

	30 SEPTEMBER 2017			
	CANADIAN DOLLAR £'000	EURO £'000	SWISS FRANC £'000	US DOLLAR £'000
Debtors (due from brokers and dividends)	—	—	267	—
Forward currency contracts	—	(10,674)	—	—
Foreign currency exposure on net monetary items	—	(10,674)	267	—
Investments at fair value through profit or loss that are equities	—	10,794	2,672	1,708
Total net foreign currency exposure	—	120	2,939	1,708

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

Currency sensitivity

The table below illustrates the sensitivity of net assets and of net return after taxation for the year using the exchange rates shown below. It is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of forward foreign exchange contracts that offset the effects of changes in currency exchange rate.

	2018	2017
£/Canadian Dollar	±2.6%	n/a
£/Euro	±0.9%	±2.6%
£/Swiss franc	±2.2%	±1.8%
£/US dollar	±3.0%	±2.7%

The above percentages have been determined based on the market volatility in the year, using the standard deviation of Sterling's daily fluctuation to the relevant foreign currencies against the mean during the year.

If Sterling were to weaken against the Canadian dollar, Euro, US dollar or Swiss franc to this extent, this would have the following effect:

	30 SEPTEMBER 2018			
	CANADIAN DOLLAR £'000	EURO £'000	SWISS FRANC £'000	US DOLLAR £'000
Income statement – return after taxation				
Revenue return	—	—	6	3
Capital return	3	(2)	—	190
Total return after taxation for the year	3	(2)	6	193
Effect on net asset value	0.0%	0.0%	0.0%	0.1%

	30 SEPTEMBER 2017			
	CANADIAN DOLLAR £'000	EURO £'000	SWISS FRANC £'000	US DOLLAR £'000
Income statement – return after taxation				
Revenue return	—	1	13	10
Capital return	—	3	48	46
Total return after taxation for the year	—	4	61	56
Effect on net asset value	—	0.0%	0.0%	0.0%

If Sterling were to strengthen against the Canadian dollar, Euro, US dollar or Swiss franc to the same extent, the effect would be the exact opposite.

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

Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the variable rate borrowings. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the custodian. The Company has an uncommitted overdraft facility of up to £15 million available for investment and settlement purposes, details are shown in note 11. Use of the overdraft has been infrequent over the two years being reported on and at the year end none was drawn down (2017: none).

At the balance sheet date the Company had structural debt comprising £32 million of debenture stocks and £250,000 of 5% cumulative preference shares. The interest rates on the debenture stocks and preference shares are fixed and details are shown in notes 5 and 12.

The Company's portfolio is substantially invested in equities which are not directly exposed to interest rate risk.

Other price risk

Other price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the equity investments, and it is the business of the Manager to manage the portfolio 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 objectives and policies and to review investment performance.

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

NOTES TO THE FINANCIAL STATEMENTS

continued

16. Financial Instruments (continued)

Risk Management Policies and Procedures (continued)

Other price risk (continued)

Based on the equity portfolio value of £296,692,000 (2017: £294,778,000), if the value of the portfolio rose or fell by 1% at the balance sheet date, the net return after tax for the year and net assets would increase or decrease by £2.97 million (2017: £2.95 million) respectively; in calculating these amounts no adjustment has been made for other variables including management fees.

Liquidity risk

Liquidity risk is minimised as the majority of the Company's investments are readily realisable securities which can be sold to meet funding commitments if necessary. In addition, the bank overdraft facility provides for additional funding flexibility. No special arrangements have been made in connection with the liquidity of any of the Company's assets.

Liquidity risk exposure

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

	2018				2017			
	LESS THAN THREE MONTHS £'000	THREE TO TWELVE MONTHS £'000	MORE THAN ONE YEAR £'000	TOTAL £'000	LESS THAN THREE MONTHS £'000	THREE TO TWELVE MONTHS £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Debenture stocks	—	—	31,968	31,968	—	—	31,968	31,968
Interest on debenture stocks	811	1,354	7,035	9,200	811	1,354	9,200	11,365
Amounts due to brokers	195	—	—	195	809	—	—	809
Other creditors and accruals	351	—	—	351	364	—	—	364
	1,357	1,354	39,003	41,714	1,984	1,354	41,168	44,506

The 5% cumulative preference shares do not have a fixed repayment date and are, as a result, not shown in the above table. Details are shown in note 12 of the financial statements.

Credit risk

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered, and cash balances. Counterparty risk is minimised by using only approved and appropriately regulated counterparties. During the year cash balances were limited to a maximum of either £10 or £15 million with any one deposit taker and 10% of gross assets for holdings in the Short-Term Investments Company (Global Series) plc (STIC), which invests in high quality sterling denominated money market investments such as commercial paper, certificates of deposit, time deposits and asset-backed commercial paper. Since the year end the limit of cash that can be placed with STIC has been increased to 12.5%, with other deposit takers limited to 6% of gross assets. Only deposit takers approved by the Board are used.

The portfolio may be adversely affected if the custodian of the Company's assets suffers insolvency or other financial difficulties. The risk associated with failure of the custodian is mitigated by the appointment of a depositary. The depositary is ultimately responsible for safekeeping of the Company's assets and is strictly liable for the recovery of financial instruments in the event of loss. As part of the Board's risk management and control monitoring, the Board reviews the custodian's annual control report and the Manager's management of the relationship with the custodian.

17. Fair Value

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

Fair Value Hierarchy Disclosures

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in FRS 102 as amended for fair value hierarchy disclosures (March 2016). The three levels set out in FRS102 follow:

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

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

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

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability. The valuation techniques used by the Company are explained in the accounting policies note.

	2018				2017			
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:								
Quoted investments:								
Equities	285,480	—	—	285,480	285,095	—	—	285,095
Other securities	—	174	—	174	—	203	—	203
Unquoted investments:								
Equities	—	—	11,038	11,038	—	—	9,480	9,480
Derivative financial instruments:								
Currency hedges	—	70	—	70	—	157	—	157
Total for financial assets	285,480	244	11,038	296,762	285,095	360	9,480	294,935

Barclays Bank – Nuclear Power Notes 28 Feb 2019, was transferred to Level 1 (2017: Level 2) during the year following increased market activity in this holding. The fair value of this holding at the year end was £98,000 (2017: £1,000).

With regard to unobservable inputs used in the valuation of unquoted investments, there are no reasonably possible alternative assumptions which would produce a material change to the Company's net asset value.

The book cost and fair value of the debentures and the preference shares based on the offer value at the balance sheet date follow.

	BOOK VALUE 2018 £'000	FAIR VALUE 2018 £'000	BOOK VALUE 2017 £'000	FAIR VALUE 2017 £'000
Debentures payable in less than 5 years:				
7.75% Debenture Stock 2020	7,000	7,946	7,000	8,286
Debentures repayable in more than 5 years:				
6.5% Debenture Stock 2023	24,968	30,200	24,968	31,218
Discount on issue of debentures	(181)	—	(215)	—
	31,787	38,146	31,753	39,504
5% Cumulative preference shares of £1 each	250	246	250	224
	32,037	38,392	32,003	39,728

NOTES TO THE FINANCIAL STATEMENTS

continued

18. Capital Management

The Company's capital, or equity, is represented by its net assets which are managed to achieve the Company's investment objective set out on page 6.

The Company's total capital employed at 30 September 2018 was £298,183,000 (2017: £307,390,000) comprising borrowings of £32,037,000 (2017: £32,003,000) and equity share capital and other reserves of £266,146,000 (2017: £275,387,000).

The Company's total capital employed is managed to achieve the Company's investment objective and policy as set out on page 6; including that borrowings may be used to provide gearing of the equity portfolio. At the balance sheet date, net gearing was 11.6% (2017: 6.6%). The Company's policies and processes for managing capital are unchanged from the preceding year.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 8 and 9. These also explain that the Company is able to gear and that gearing will amplify the effect on equity of changes in the value of the portfolio.

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

The Company is subject to externally imposed capital requirements with respect to the obligation and ability to pay dividends by section 1159 Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the overdraft facility, by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Borrowings comprise debenture stocks, preference shares and an uncommitted bank overdraft facility, details of which are contained in note 12.

19. Contingencies, Guarantees and Financial Commitments

Contingencies or guarantees that the Company will or has given would be disclosed in this note if any existed. Likewise any commitments, being those amounts that the Company is contractually required to pay in the future as long as the other party meets their obligations.

There were no contingencies, guarantees or other financial commitments of the Company at the year end (2017: £nil).

20. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or influence over the Company. Under accounting standards, the Manager is not a related party.

Under UK GAAP, the Company has identified the Directors as related parties. The Directors' remuneration and interests have been disclosed on pages 25 and 26 with additional disclosure in note 4. No other related parties have been identified.

Details of the Manager's services and fees are disclosed in the Directors' Report on pages 55 and 56 and in note 3.

21. Post Balance Sheet Events

Any significant events that occurred after the Company's financial year end but before the signing of the Balance Sheet will be shown here.

There are no significant events after the end of the reporting period requiring disclosure.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Business and Status

The Company was incorporated and registered in England and Wales on 17 September 1954 as a public limited company, registered number 538179.

The Company is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust within the meaning of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust and, in the opinion of the Directors, the Company has conducted its affairs so as to enable it to maintain such approval.

The Board

The Company has a Board of six non-executive directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment policy is adhered to. Details of the Board's responsibilities and the number of meetings it holds are set out on the following pages. The Board is supported by an Audit Committee and a Nomination Committee, which deal with specific aspects of the Company's affairs as summarised on pages 21 to 23 and on page 52.

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

Chairman

The Chairman of the Company is Beatrice Hollond, a non-executive and independent Director who has no conflicting relationships. Mrs Hollond will retire at the conclusion of the forthcoming AGM and will be succeeded by Karen Brade, who is also a non-executive and independent Director who has no conflicting relationships.

Senior Independent Director/Deputy Chairman

The Board does not consider it necessary to identify a senior independent director. All Directors are available to shareholders if they have concerns which contact through the normal channels of the Chairman, Manager or Company Secretary has failed to resolve, or for which such channels are inappropriate.

Appointment, Re-election and Tenure of Directors

New Directors are appointed by the Board, following recommendation by the Nomination Committee.

In September 2018, the Board approved the appointment of Karen Brade as Chairman of the Company and the Nomination Committee following the conclusion of the AGM on 22 January 2019, as explained above.

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 Articles of Association require that a Director shall retire and be subject to election by shareholders at the first AGM after appointment and to re-election at least every three years thereafter. However, the Board has resolved that, for the time being, all Directors shall stand for annual re-election at the AGM.

The Articles of Association do not limit Directors' tenure. However, they provide that the Directors may, by notice in writing, remove any Director from the Board.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the Registered Office of the Company. They will also be available at the AGM.

DIRECTORS' REPORT

continued

Board Balance and Independence

The Board keeps under review the balance of its members' skills and length of service.

The Board believes that this balance, both as currently constituted and in its prospective form following the AGM, is appropriate for the effective direction of the Company. The current 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 the members of the Board are shown on page 18.

The Board has noted the inference of provisions in the UK Corporate Governance Code that non executive directors who have served for more than nine years should be presumed not to be independent. However, the AIC does not believe that this presumption is appropriate for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of the independent majority of an investment trust board.

The Board considers that all of the current Directors are independent of the Company's Manager. The Board considers that Mrs Hollond and Mr Kendall who have served on the Board for more than nine years, remain independent in character and judgement from the Company's Manager, a view which has been demonstrated by their actions on behalf of the Company. As mentioned earlier, Mrs Holland will retire at the AGM on 22 January 2019.

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 21 to 23, which is included in this Directors' Report by reference.

Nomination Committee

As the Company is considered small for the purposes of the AIC Code, all Directors are members of the Nomination Committee. The main responsibilities of the Nomination Committee are to review the size, structure and skills of the Board and to make recommendations to the Board with regard to any changes considered necessary or new appointments.

The Nomination Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. 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 section of the Manager's website.

The Board has due regard for the benefits of diversity in its membership and seeks to ensure that its structure, size and composition, including the skills, knowledge, gender and experience of the Directors, is sufficient for the effective direction and control of the Company. In particular, the Board believes that the Company benefits from a balance of Board members with different tenures. The Board has not set any measurable objectives in respect of this policy.

Board, Committees 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.

A review of the Board, its Committees and individual Directors was undertaken during the year. The review was conducted through questionnaires and the following areas were assessed:

- Board and Committee processes, including composition, attendance at meetings, preparedness and contributions to decisions;
- effective use of communication and the level of interaction across the Board;
- the range of business, financial and asset management skills balanced with relevant experience to enable the Board and its Committees to perform satisfactorily; and
- the independence of individual directors and their ability to independently challenge the Manager across a range of issues and set out the future strategy of the Company.

The review concluded that the Board was functioning well, with members having complementary skillsets and backgrounds.

The Board recommends to shareholders the approval of resolutions 5 to 9 in the notice of meeting for the AGM relating to the re-election of Directors.

Attendance at Board and Committee Meetings

The Board meets on a regular basis at least five times each year. The following table sets out the number of scheduled Board, Audit Committee and Nomination Committee meetings held during the year to 30 September 2018 and the number of meetings attended by each Director.

MEETING	BOARD	AUDIT COMMITTEE	NOMINATION COMMITTEE
Meetings Held	6	3	4
Meetings Attended:			
Beatrice Hollond	6	3	3
Ian Armfield	6	3	4
Karen Brade ⁽¹⁾	5	2	2
Katrina Hart ⁽¹⁾	5	2	2
William Kendall	6	3	4
Peter Readman ⁽²⁾	1	—	1
John Wood	6	3	4

⁽¹⁾ Mrs Brade and Mrs Hart were appointed on 18 January 2018.

⁽²⁾ Not a member of the Audit Committee. Mr Readman retired from the Board on 18 January 2018.

Additional meetings are arranged as necessary. Regular contact is maintained between the Manager, the Chairman and the other Directors between formal meetings.

Board Responsibilities

The Directors have a statutory duty to promote the success of the Company taking into consideration the likely consequences of any decision in the long-term; the need to foster the Company's business relationships with its Manager and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between shareholders of the Company. This is reported on in the Strategic Report on page 11.

The Board directs and supervises the Company's 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 its responsibilities has been established. This schedule is reviewed annually to ensure compliance with latest best practice and the AIC Code and is available for inspection at the AGM, at the registered office of the Company and on the Company's section of the Manager's website at www.invesco.co.uk/keystone.

The main responsibilities of the Board 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 and managing risk, reviewing investment performance and the Company's financial position, reviewing Directors' remuneration, undertaking nomination responsibilities and assessing the Manager on an ongoing basis.

At its regular meetings the Board reviews financial reports and performance against approved forecasts, relevant stock market criteria and the Company's peer group, monitors the net borrowing position and approves recommendations made by the Audit Committee, to whom it has delegated the responsibility of monitoring the effectiveness of the Company's system of internal controls, amongst other things.

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 information given in the annual and half-year financial reports, factsheets and daily net asset value disclosures.

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

DIRECTORS' REPORT

continued

The Board as a whole undertakes the responsibilities which would otherwise be assumed by committees for management engagement and remuneration:

- Management Engagement**
 The Board as a whole operates as the Management Engagement Committee by reviewing all supplier services, and in particular the Investment Management and Administration Agreement, annually. The performance of the Manager in respect of investment performance and administration is reviewed formally to agreed standards and reported on in the Directors' Report under 'Assessment of the Investment Manager' on pages 55 and 56.
- Remuneration**
 The Board as a whole operates as a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report on pages 24 to 26.

Corporate Governance

The Corporate Governance Statement set out on page 20 is included in this Directors' Report by reference.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited (acting under delegated authority from Invesco Fund Managers Limited), which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. The Company Secretary ensures that all correspondence addressed to the Company, other than spam correspondence, is reported to the Board and dealt with in a timely manner. Finally, the Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

Directors

Directors' Interests in Shares

The Directors' interests in the ordinary share capital of the Company are disclosed in the Directors' Remuneration Report on page 25.

Disclosable Interests

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

Conflicts of Interest

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 Articles of Association of the Company provide that Directors can authorise potential conflicts of interest and there are safeguards that apply when Directors decide to do so. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, is most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. Potential conflicts of interest are entered into the Company's Register of Potential Conflicts, which is reviewed regularly by the Board. The Directors have undertaken to advise the Company Secretary and/or Chairman as soon as they become aware of any potential conflicts of interest.

Directors' Indemnities and Insurance

The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for any legal action brought against its Directors. In addition, Deeds of Indemnity have been exercised on behalf of the Company for each of the Directors under the Company's Articles of Association. Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

The Manager

Invesco Fund Managers Limited (the Manager) is contractually responsible for providing the Company with investment management, administration and company secretarial services. In practice, most of these services are provided by the Manager's affiliate, Invesco Asset Management Limited, under delegated authority.

The Manager's Responsibilities

In addition to being responsible for day-to-day investment management decisions, the Manager is also responsible for maintaining complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which the half-year and annual financial statements are prepared. The company secretarial services provided ensure that the Company complies with all legal, regulatory and corporate governance requirements. Representatives of the Company Secretary attend and officiate at Board meetings and shareholders' meetings. To enable the Directors of the Board to fulfil their roles, the Manager also ensures that all Directors have timely access to all relevant management, financial and regulatory information.

Investment Management Agreement

The terms of the agreement with the Manager include a basic management fee for investment management and company secretarial work in respect of each of the quarterly periods ending on 31 March, 30 June, 30 September and 31 December each year of 0.1125% calculated on the average value of the market capitalisation of the Company's shares for the ten business days ending on the relevant quarter end date. The market capitalisation is calculated using middle market quotations derived from the Stock Exchange Daily Official List and the weighted average number of shares in issue during the quarter.

The Manager is also entitled to a performance-related fee based on the previous three years' performance of the net asset value (including dividends reinvested) and the FTSE All-Share (Total Return) Index, both annualised and calculated per annum each year. A performance-related fee is due if the Company's resultant return is greater than the equivalent return of the FTSE All-Share (Total Return) Index plus a percentage hurdle, and amounts to 15% of the value of any outperformance of this combination. The hurdle added to the Index is 1.25%.

The amount of any payment of performance-related fee in respect of any financial year is a maximum of 1% of the Company's gross assets less the basic management fees. In addition, the amount of any payment of performance-related fee in respect of any financial year is limited to an amount which, if added to the basic management fees paid in respect of that year, does not exceed 1.5% of gross assets less basic management fees.

The amount of any payment of performance-related fee in excess of these limits is carried forward and will become payable in any subsequent year in which the total fees payable are less than the maximum levels for that year.

The Investment Management Agreement can be terminated by either the Company or the Manager upon the expiry of not less than three months' written notice given to the other.

Assessment of the Investment Manager

The Board continually reviews the policies and performance of the Manager. The Board's philosophy and the Manager's approach are that the portfolio should consist of shares that are considered to be attractive investments irrespective of their index weightings. The portfolio's composition and performance are likely, therefore, to be very different from those of the benchmark index. Whilst there may be periods of underperformance compared with the benchmark, over the long term the Board

DIRECTORS' REPORT

continued

expects the combination of the Company's and Manager's approach will result in a significant degree of outperformance compared with the benchmark.

The Board also considers the ongoing secretarial and administrative requirements of the Company and assesses the services provided.

As described in the Manager's Report, the recent market backdrop has been difficult for value style investors. The Board understands this and supports the Manager's differentiated, value based, approach. In view of this and the overall level of service received, the Board believes that the continuing appointment of Invesco Fund Managers Limited remains in the best interest of the Company and its shareholders and is satisfied with the current terms of that appointment.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet. This conclusion is consistent with the longer term viability statement on page 10. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. The Directors also considered the revenue forecasts for the forthcoming year and future dividend payments in concluding that the going concern basis is appropriate.

Greenhouse Gas Emissions

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

Capital Structure

At both the beginning and end of the year, the Company's issued share capital consisted of 13,518,799 ordinary shares of 50p each and 250,000 5% cumulative preference shares of £1 each.

The Board has resolved that should the opportunity arise to issue ordinary shares, the fair value measure of NAV is the appropriate reference to use when agreeing the issuance price. The Directors will be seeking to renew their powers to issue new shares at the forthcoming Annual General Meeting:

Rights Attaching to the Ordinary Shares

The profits of the Company available for distribution and resolved to be distributed, subject to the provisions of UK law, shall be distributed by way of dividends to the holders of the ordinary shares. On a return of capital on liquidation, the assets of the Company shall be applied in repaying a sum equal to the nominal capital paid up or credited as paid up on the ordinary shares. The remaining balance shall be distributed rateably among the holders of the ordinary shares according to the number of shares held by them.

At a general meeting of the Company every ordinary shareholder has one vote on a show of hands and on a poll one vote per £1 nominal held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or in person in relation to resolutions to be passed at a general meeting. Except that the Directors can restrict voting powers (and dividends) where shareholders fail to provide information in respect of interests in voting rights when so requested.

Rights Attaching to the 5% Cumulative Preference Shares

Twice annually, on the last business days in March and September, the Company pays a fixed dividend of 2.5% in respect of the preference shares, a total of 5%. The holders of preference shares receive their fixed dividend before any dividends are paid to the holders of ordinary shares. Should the

Company not be able make timely dividend payments, the dividends of cumulative preference shares will accrue. In the event of liquidation, the preference shares take precedence over ordinary shares, so that preferred shareholders have the first claim on the Company's assets and are paid off before the ordinary shareholders, receiving the nominal value of their preference shares and any outstanding dividends. Like ordinary shares, preference shares represent partial ownership in the Company, but holders of preference shares do not enjoy any of the voting rights of ordinary shareholders.

Restrictions on the Transfer of Ordinary or Preference Shares

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 Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. As at 30 September 2018, the Company's issued share capital did not include any ordinary or preference shares that were not fully paid.

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

Substantial Holdings in the Company

The Company was aware of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	AS AT 31 OCTOBER 2018		AS AT 30 SEPTEMBER 2018	
	HOLDING	%	HOLDING	%
Investec Wealth & Investment	1,496,363	11.1	1,519,774	11.2
1607 Capital Partners	1,466,669	10.9	1,426,669	10.6
Speirs & Jeffr�y	972,291	7.2	976,703	7.2
J.P. Morgan Securities	859,090	6.4	832,400	6.2
Brewin Dolphin	801,900	5.9	829,516	6.1
Wells Capital	525,913	3.9	525,913	3.9
Rathbones	518,782	3.8	520,557	3.9
Charles Stanley	465,802	3.5	471,509	3.5

Disclosures Required by Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the annual financial report. None of the prescribed information is applicable to the Company for the year under review.

Shareholder Relations

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the half-year and annual financial reports, which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication of the net asset value of the Company's ordinary shares, *ad hoc* regulatory announcements, fact sheets produced by the Manager and information about the Company available on the website. At each AGM, a presentation is made by the portfolio 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 AGM. 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. The Directors and the Company's corporate broker, Numis Securities Limited, have also engaged with major shareholders during the year. All meetings between the Manager and institutional and other shareholders are reported to the Board.

DIRECTORS' REPORT

continued

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 20 working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so in writing, to the Company Secretary at the correspondence address given on page 65. At other times, the Company responds to any letters from shareholders. Shareholders can also visit the Company's section of the Manager's investment trust website: www.invesco.co.uk/keystone in order to access copies of half-year and annual financial reports; shareholder circulars; Company factsheets; and regulatory announcements. Shareholders are also able to access copies of the schedule of matters reserved for the Board and the terms of reference of the Audit Committee and the Nomination Committee and, following any shareholders' general meetings, proxy voting results.

Individual Savings Account (ISA)

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

Business of the Annual General Meeting

The following summarises the business of the forthcoming AGM of the Company, which is to be held on 22 January 2019 at 11 am. The notice of the AGM and related notes can be found on pages 60 to 63. All resolutions are ordinary resolutions unless otherwise identified.

Resolution 1 is for members to receive this Annual Financial Report, including the financial statements and auditors' report.

Resolution 2 is to approve the Annual Statement and Report on Remuneration. It is mandatory for listed companies to put their Annual Statement and Report on Remuneration to an advisory shareholder vote. The Annual Statement and Report on Remuneration is set out on pages 24 to 26 of this Annual Financial Report.

Resolution 3 is for members to approve the Company's Dividend Payment Policy which is set out on page 8. This is an advisory vote.

Resolution 4 is to re-appoint the Auditor and to authorise the Audit Committee to determine the Auditors' remuneration. PricewaterhouseCoopers LLP have expressed their willingness to continue to hold office until the conclusion of the next annual general meeting of the Company.

Resolutions 5 to 9 are to re-elect five Directors. Biographies of these Directors can be found on page 18.

Special Business

Resolution 10 is to renew the Directors' authority to allot shares, which expires at this AGM. Your Directors are asking for authority to allot new ordinary shares up to an aggregate nominal value of £2,253,133 (one third of the Company's issued share capital at 26 November 2018). This will allow Directors to issue shares within the prescribed limits should opportunities to do so arise that they consider would be in shareholders' interests. This authority will expire at the AGM in 2020.

Special Resolution 11 is to renew the authority to disapply pre-emption rights. Your Directors are asking for authority to issue new ordinary shares for cash up to an aggregate nominal value of £675,939 (10% of the Company's issued share capital as at 26 November 2018); disapplying pre-emption rights. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus broadening the shareholder base of the Company. This authority will not be exercised at a price below NAV (with debt at fair value) and will expire at the AGM in 2020.

Special Resolution 12 is to renew the authority for the Company to purchase its own shares, which expires at this AGM. Your Directors are seeking authority for the purchase of up to 14.99% of the Company's issued ordinary share capital as at the date of the AGM, subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2020. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders. The current

authority (to buy back up to 2,026,467 shares) expires at the AGM and had not been utilised to the date of this report. No shares have been repurchased under the equivalent authority granted by shareholders at the last AGM.

Special Resolution 13 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days notice, which is the minimum notice period permitted by the Companies Act 2006. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that this flexibility will be used only where the Board believes it is in the interests of shareholders as a whole

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

By order of the Board

Invesco Asset Management Limited
Company Secretary

6th Floor
125 London Wall
London EC2Y 5AS

26 November 2018

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 Keystone Investment Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting of Keystone Investment Trust plc will be held at the offices of Invesco at 43-45 Portman Square, London W1H 6LY at 11am on 22 January 2019 for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 30 September 2018.
2. To approve the Annual Statement and Report on Remuneration.
3. To approve the Company's Dividend Payment Policy to declare two dividends in respect of each accounting year, with a payment in each of the second and fourth calendar quarters.
4. To reappoint PricewaterhouseCoopers LLP as auditor to the Company and authorise the Audit Committee to determine their remuneration.
5. To re-elect Mr Ian Armfield a Director of the Company.
6. To re-elect Mrs Karen Brade a Director of the Company.
7. To re-elect Mrs Katrina Hart a Director of the Company.
8. To re-elect Mr William Kendall a Director of the Company.
9. To re-elect Mr John Wood a Director of the Company.

Special Business

To consider and, if thought fit, pass the following resolutions of which Resolution 10 will be proposed as Ordinary Resolution and Resolutions 11, 12 and 13 will be proposed as Special Resolutions:

10. THAT:

the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to exercise all powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount (within the meaning of Sections 551(3) and (6) of the Act) of £2,253,133, 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.

11. THAT:

the Directors be and they are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to allot equity securities for cash or (if such allotment constitutes the sale of relevant shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, pursuant to the authority given by Resolution 10 set out above, as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities

(subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);

- (b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £675,939; and
- (c) to the allotment of equity securities at a price not less than the net asset value per share calculated with debt at fair value

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 17 of the Act shall bear the same meanings in this Resolution.

12. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ('the Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued ordinary shares of 50p each ('Shares').

PROVIDED ALWAYS THAT:

- (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares on 22 January 2019, being the date of the Annual General Meeting (equivalent to 2,026,467 shares at 26 November 2018);
- (b) the minimum price which may be paid for a Share shall be 50p;
- (c) the maximum price which may be paid for a Share 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;
- (e) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company or, if earlier, on the expiry of 15 months from the passing of this Resolution unless the authority is renewed at any other general meeting prior to such time; and
- (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.

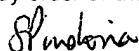
13. THAT:

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

Please refer to the Directors' Report on pages 58 and 59 for further explanations of all the Resolutions.

Dated this 26th November 2018

By order of the Board



Invesco Asset Management Limited
Company Secretary

NOTICE OF ANNUAL GENERAL MEETING

continued

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 Link Asset Services' website www.signalshares.com; or
 - in hard copy form by post, by courier or by hand to the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; 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 provider(s) 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 (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST proxy instruction) does not prevent a member from attending and voting at this meeting.

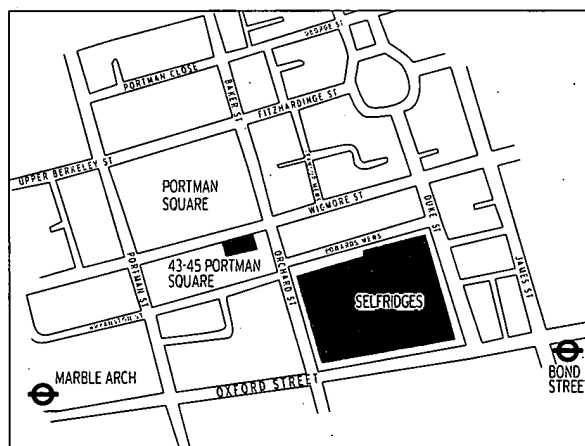
To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notorially certified copy thereof) must be lodged at the office of the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, by not later than 11am on 18 January 2019.
4. A person entered on the Register of Members at close of business on 18 January 2019 ('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 Schedule of Matters Reserved for the Board, the Terms of Reference of the Audit Committee and the Nomination Committee and the Letters of Appointment for Directors will be available for inspection at the Company's AGM.
6. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on Monday to Friday (excluding public holidays) and will also be available at the Annual General Meeting for at least 15 minutes prior to the Annual General Meeting until its conclusion.
7. Any person to whom this Notice is sent who is a person nominated under Section 146 under the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the shareholder as to the exercise of voting rights.

The statement of the above rights of the shareholders in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
9. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.
10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
11. As at 26 November 2018 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 13,518,799 ordinary shares of 50p each carrying one vote for every £1 nominal held; and 250,000 5% Cumulative Preference Shares of £1 each carrying no voting rights.
12. This notice is sent for information only to the holders of the 7.75% Debenture Stock (redeemable 1 October 2020), 6.5% Debenture Stock (redeemable 27 April 2023) and 5% Cumulative Preference Shares, who are not entitled to attend and vote at the meeting.
13. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at www.invesco.co.uk/keystone
14. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006 (the '2006 Act'), the company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 October 2017; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 October 2017 ceasing to hold office since the previous meeting at which annual financial reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant Annual General Meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

The Annual General Meeting will be held at 11am on 22 January 2019 the offices of Invesco at 43-45 Portman Square, London W1H 6LY. The Manager will be giving a presentation following the Annual General Meeting.

Map of venue



SHAREHOLDER INFORMATION

History of the Keystone Investment Trust plc (the 'Company')

On 13 January 2003, the investment trust changed its name from Merrill Lynch UK Investment Trust plc to Keystone Investment Trust plc, the name by which the investment trust was formerly known.

Website

Information relating to the Company can be found on the Company's page of the Manager's website, www.invesco.co.uk/keystone.

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

How to invest in the Company

The Company's shares are listed and traded on the London Stock Exchange. There are a variety of ways by which investors can buy the shares, including through the following: independent professional financial advisers, brokers and platforms. The Manager's website contains a list of some of the larger dealing platforms as well as a link to unbiased.co.uk, for those seeking financial advice, and to the AIC's website for detailed information on investment companies.

Share Price Listings

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

In addition, share price information can be found using the KIT.L ticker code and on the Company's section of the Manager's website, www.invesco.co.uk/keystone.

General Data Protection Regulation (GDPR)

GDPR, which is intended to improve controls over personal data and how it is used, came into effect on 25 May 2018. The Company's privacy notice, which sets out what personal data is collected, and how and why it is used, can be found at www.invesco.co.uk/keystone in the 'Literature' section, or a copy can be obtained from the company secretary whose correspondence address is shown on page 65.

Net Asset Value (NAV) Publication

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

Financial Calendar

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

November

Annual results and second interim dividend for year announced.
Annual Financial Report published.

December

Second interim dividend paid.

January

Annual General Meeting.

May

Half-year figures announced and half-year financial report published.

June

First interim dividend paid.

Interest on the debenture stocks is generally paid in April and October. See note 12 for more information.

Kepler Partners LLP

Kepler Partners LLP (Kepler) are an independent research boutique, appointed by the Board of Keystone Investment Trust plc to produce biannual research coverage of the Company.

You can find the latest version of this report on the Invesco Website: www.invesco.co.uk/keystone

Alternatively, type "Kepler Keystone" into your search engine.

This website is aimed only at providing information to private investors. No information or opinions contained in this site constitute a solicitation or inducement by Kepler to buy, sell or subscribe for any securities mentioned herein or to provide any investment advice or service.

Be ScamSmart

Investment scams are designed to look like genuine investments

Spot the warning signs

Have you been:

- contacted out of the blue
- promised tempting returns and told the investment is safe
- called repeatedly, or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

Avoid investment fraud

1 Reject cold calls

If you've received unsolicited contact about an investment opportunity, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

2 Check the FCA Warning List

The FCA Warning List is a list of firms and individuals we know are operating without our authorisation.

3 Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

Remember: if it sounds too good to be true, it probably is!

Report a Scam

If you suspect that you have been approached by fraudsters please tell the FCA using the reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm. You can also call the FCA Consumer Helpline on 0800 111 6768

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk

Find out more at www.fca.org.uk/scamsmart



ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Registered Office and Company Number

Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire
RG9 1HH

Registered in England and Wales.
Number: 538179.

Alternative Investment Fund Manager
(Manager)

Invesco Fund Managers Limited

Company Secretary

Invesco Asset Management Limited
Company Secretarial Contact: Shilla Pindoria.

Correspondence Address

43-45 Portman Square
London W1H 6LY.
☎ 020 3753 1000.
Email: investmenttrusts@invesco.com

The Association of Investment
Companies

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

Contact details are:
☎ 020 7282 5555
Email: enquiries@theaic.co.uk
Website: www.theaic.co.uk

Depository, Custodian & Banker

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

Independent Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT.

Invesco Client Services

Invesco has a Client Services Team, available to
assist you from 8.30am to 6.00pm Monday to
Friday (excluding Bank Holidays). Please note no
investment advice can be given.

☎ 0800 085 8677
www.invesco.co.uk/investmenttrusts

Corporate Broker

Numis Securities Limited
10 Paternoster Square
London EC4M 7LT.

Registrar

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU.

If you hold your shares directly and not through
a savings scheme or ISA and have a query
relating to your shareholding, you should contact
the Registrar on:

☎ 0871 664 0300.

Calls cost 12p per minute plus your phone
company's access charges.

From outside the UK: +44 371 664 0300. Calls
from outside the UK will be charged at the
applicable international rate.

Lines are open 9.00am to 5.30pm
Monday to Friday (excluding Bank Holidays).

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

Link Asset Services provides 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.linksharedeal.com or ☎ 0371 664 0445.
Calls cost 12p per minute plus your phone
company's access charge.

From outside the UK: +44 371 664 0445. Calls
from outside the UK will be charged at the
applicable international rate.

Lines are open from 8.00am to 4.30pm
Monday to Friday (excluding Bank Holidays).

Link Asset Services is the business name of Link
Market Services Limited.

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Discount

A description of the situation when the share price is lower than the NAV per share. The size of the discount is calculated by subtracting the share price from the NAV per share and is expressed as a percentage (%) of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or 'nil', shows a company has no borrowings.

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

Gross Gearing

This reflects the amount of gross borrowings by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of shareholders' funds.

Net Gearing

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

Leverage

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

Net Asset Value (NAV)

Also described as Shareholders' funds, the net asset value (NAV) is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The NAV per share is calculated by dividing the NAV by the number of ordinary shares in issue. For accounting purposes assets are valued at fair (usually market) value and liabilities are valued at their par (repayment) value. An alternative, the NAV – debt at fair (usually market) value, which is used by the industry for performance reporting purposes and in this report, values long term liabilities at their market, or a comparable equivalent, value.

Ongoing Charges

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

Total Return

Total return is an alternative performance measure and can be calculated in a number of ways. The total returns used in this annual financial report, and their basis, follow.

Net Asset Value

Total return on net asset value per share assuming dividends paid by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Share Price

Total return to shareholders, on a mid-market price basis, assuming all dividends received were re-invested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

Benchmark

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

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURE

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

The Company falls with the definition of an Alternative Investment Fund (AIF) under the Directive and, as such, is required to have (or be) an authorised AIFM. Invesco Fund Managers Limited (IFML) was authorised as an AIFM, and appointed by the Company as such, with effect from 22 July 2014.

Amongst other things, the AIFMD requires certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invesco.co.uk/keystone) in a downloadable document entitled 'AIFMD Investor Information'. There has been no material change to this document in the year. Since 30 September 2017, there have been two non-material changes: the Company's registrar changed its name to Link Asset Services from Capita Asset Services on a change of ownership in November 2017 and the legal entity appointed as depositary changed to the Bank of New York Mellon (International) Limited from BNY Mellon Trust & Depositary (UK) Limited with effect from 1 December 2017. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the remuneration of the Company's AIFM, IFML, and the Company's leverage (both 'gross' and 'commitment' – see Glossary on page 66) to be made available to investors.

Accordingly:

- the leverage calculated for the Company at its year end was 117% for gross and 112% for commitment (2017: 113% for gross and 108% for commitment). The limits the AIFM has set for the Company remain unchanged at 250% and 200%, respectively;
- the AIFM summary remuneration policy is available from the corporate policies section of the Manager's website (www.invesco.co.uk) and from the Company's company secretary, on request (see contact details on page 65); and
- the AIFM remuneration paid for the year to 31 December 2017 is set out below.

AIFM Remuneration

The AIFM remuneration paid is based on the latest financial year of the AIFM, which was to 31 December 2017.

IFML does not employ any staff directly. All staff involved in the AIF related activities of IFML are employed and paid by Invesco UK Limited or other entities in the Invesco Limited Group. Remuneration for staff involved in AIF related activities has been apportioned based on the average assets under management of £3,632 million for the nine AIFs managed by IFML during the reporting period.

The aggregate total remuneration apportioned to IFML's AIF related activities for performance year 2017 is £8.64 million, of which £4.71 million is fixed remuneration and £3.93 million is variable remuneration. The number of beneficiaries is 35.

IFML has identified individuals considered to have a material impact on the risk profile of IFML or the AIFs it manages ('Identified Staff'), including board members of IFML, senior management, heads of control functions, other risk takers and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers whose professional activities can exert material influence on IFML's risk profile or on an AIF it manages.

The aggregate total remuneration paid to the Identified Staff of IFML for AIF related activities is £1.63 million, of which £0.41 million is paid to senior management and £1.22 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates.



The Manager of Keystone Investment Trust plc is Invesco Fund Managers Limited.

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

Invesco is one of the largest independent global investment management firms, with funds under management of \$926.1 billion.*

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

** Funds under Management as at 31 October 2018.*

INVESTMENT COMPANIES MANAGED BY INVESCO

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

City Merchants High Yield Trust Limited Allocation

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

Invesco Income Growth Trust plc

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

Invesco Perpetual Enhanced Income Limited

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

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio

Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

Invesco Perpetual Select Trust plc – UK Equity Portfolio

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

Keystone Investment Trust plc

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

Perpetual Income and Growth Investment Trust plc

Aims to provide shareholders with capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK equity and fixed interest markets. The Company has secured loan stock in issue and, in addition, may use bank borrowings.

The Edinburgh Investment Trust plc

Invests primarily in UK securities with the long-term objective of achieving:

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

The Company has a debenture stock and, in addition, may use bank borrowings.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders primarily by investment in a broad cross-section

of small to medium sized UK-quoted companies. The Company may use bank borrowings.

Investing Internationally

Invesco Asia Trust plc

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

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

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

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Allocation Portfolio

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

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

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

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

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

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

