

Keystone Investment Trust plc

Half-Yearly Financial Report for the Six Months to 31 March 2018

Keystone Investment Trust plc is a public listed investment company whose shares are traded on the London Stock Exchange. The Company is managed by Invesco Fund Managers Limited.

OBJECTIVE OF THE COMPANY

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

Full details of the Company's investment policy, risk and limits can be found in the annual financial report for the year ended 30 September 2017.

PERFORMANCE STATISTICS

SIX MONTHS ENDED 31 MARCH

Total Return Statistics⁽¹⁾

(capital growth with income reinvested)

Net asset value (NAV)⁽²⁾ per share

Share price

FTSE All-Share Index

	2018	2017

Capital Statistics

NAV⁽²⁾ per share

Share price⁽¹⁾

FTSE All-Share Index⁽¹⁾

	-6.3%	+1.8%
	-3.2%	-2.4%
	-3.8%	+6.2%

SIX MONTHS ENDED 31 MARCH

Revenue Statistics

Revenue return per ordinary share

Interim dividend per ordinary share

	2018	2017

AT PERIOD END

NAV⁽²⁾ per share

Share price

	31 MARCH 2018	30 SEPTEMBER 2017
	1855.8p	1979.9p
	1675.0p	1730.0p

Discount of share price to

NAV⁽²⁾ per share

	9.7%	12.6%
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Gearing from borrowings:

– gross

– net

	14.0%	11.6%
	14.0%	6.6%

(1) Source: Thomson Reuters.

(2) All NAV figures with debt at market value.

INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

Chairman's Statement

Performance

For the six months ended 31 March 2018, the Company delivered a net asset value per ordinary share (with debt at market value) (NAV) total return of -4.2% compared with a return of -2.3% for the Company's benchmark index, the FTSE All-Share Index. With the discount of the share price relative to NAV narrowing over the period from 12.6% to 9.7% the share price total return was better, at -0.8%. Factors contributing to the portfolio's performance over the period are explained in the Portfolio Manager's Report, which follows.

Gearing and Investment Guidelines

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. At the start of 2018 there was a downturn in the market and the Board granted the Manager greater latitude on gearing, increasing the level of gearing that can be used from 7.5% to 12.5% of net assets. However, the debentures in issue, and their servicing cost, inhibits strategic management of the permitted gearing. The Manager has therefore been given additional discretion to exceed 12.5% for short periods in order to take advantage of market opportunities. However, sales must be made if, as a result of market movements, equity exposure goes higher than 115% of net assets.

Dividend

The Board has declared a first interim dividend of 18p per ordinary share, which will be paid on 15 June 2018 to shareholders on the register on 25 May 2018. The shares will be marked ex-dividend on 24 May 2018.

The Board

As reported in the 2017 annual report Peter Readman, who had served on the Board since 1993, retired at the AGM on 18 January 2018. The Board extended its gratitude to Mr Readman for his long and dedicated service. Karen Brade and Katrina Hart were appointed as non-executive Directors following their election at the AGM. Both bring extensive experience of financial markets to the Board.

Investor Warning

The Board has been made aware that members of the public have received 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 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 for reporting frauds, or attempted frauds, can be found on page 64 of the 2017 annual report.

Beatrice Hollond

Chairman

18 May 2018

Portfolio Manager's Report

Market Review

The UK equity market delivered negative returns over the period as a whole, masking intervals of very positive returns, particularly entering the New Year. Market volatility occurred against a backdrop of continued geopolitical uncertainty and a sustained rally in sterling.

In November the Bank of England implemented the first UK interest rate rise in a decade as the central bank's Monetary Policy Committee (MPC) voted to increase the UK interest rate to 0.5%. Expectations of a further rise continued to build during the latter half of the period – with consensus expectations at the time anticipating a further rate hike in May.

Sterling enjoyed a sustained rally against the US dollar, making post-Brexit referendum highs against the dollar in January and again in March. Fears of a potential trade war between the US and China, which were fuelled by ongoing protectionist rhetoric from President Trump, caused global market unease. Combined with the strengthening pound, this weighed on the outlook for earnings from the internationally exposed constituents of the FTSE All-Share Index and was a key driver of negative market performance overall.

In Brexit news, David Davis, Secretary of State for Exiting the European Union, announced in March that the UK and EU had negotiated an extended transition period, meaning existing trading rules would apply for an additional 21 months and businesses would be able to operate as normal until December 2020. The statement further boosted sterling against both the US dollar and euro – though this saw the FTSE 100 fall to its lowest level since December 2016.

Economic data released over the period provided mixed signals; inflation remained elevated throughout the remainder of 2017, with the Consumer Price Index (CPI) at 3.1% in November, and into January, but fell in February and ended the period with the CPI at just 2.5% for March. The UK manufacturing sector performed strongly in the fourth quarter of 2017, with the Purchasing Managers' Index posting a three-year high for the three months to December.

Portfolio Strategy & Review

The portfolio's performance was supported by its overweight position in Financials, where holdings include Barclays and residential REIT developer Sigma Capital. Both companies have been introduced to the portfolio since

the change in portfolio manager in April 2017 and were among the strongest contributors to portfolio returns over the period.

Barclays is the Company's largest holding. This reflects conviction that the market is overly pessimistic about the company's earnings outlook and capital generation, and therefore the potential for the company to return capital to shareholders. The share price was boosted by the news that activist investor Sherborne Investors had built up a 5% stake in the company. More details are awaited on Barclays' response to Sherborne's proposed changes to strategy to accelerate the closing of the significant discount to tangible book value.

Shares in Sigma Capital rose following a statement that PRS REIT, the residential real estate fund that it manages, had successfully raised £250 million via a placing. This will increase the fees that Sigma earns for managing the assets.

Likewise easyJet provided strong returns over the period, overcoming a challenging market environment. The low-cost airline reported very strong growth in revenues for the final quarter of 2017, in part as they benefited from the bankruptcies of rivals Monarch, Air Berlin and Alitalia.

Other positive contributors to performance included unquoted company AJ Bell, which plans to make an initial public offering at the end of 2018, and carpet manufacturer Victoria, which completed two earnings accretive acquisitions as part of an effort to consolidate the European floor coverings sector.

Conversely, the portfolio's holdings in a number of sectors detracted from performance over the period. The largest drag came from software and IT management services provider Micro Focus. The company faced a dramatic fall in its share price during March following difficulties in integrating recently acquired Hewlett Packard Enterprise software assets.

The portfolio's lack of exposure to mining stocks weighed on relative returns, as metal prices (particularly copper) saw their 2017 rally continue up to the calendar year end. However, the latter half of the period under review saw negative performance by the sector, as geopolitical uncertainty weighed on commodity prices and the impact on earnings and sentiment was compounded by sterling strength.

The portfolio's holding in Saga also detracted from performance as the share price fell sharply on the company's warning that the collapse of Monarch Airlines and a challenging insurance market would negatively impact full-year profits. The position has since been sold.

Shares in the clothing retailer N Brown fell sharply in January despite the company releasing a strong trading update that showed increased revenue in the face of the challenging outlook for UK retail generally. The opportunity was taken to increase the holding.

Holdings in international tobacco giants British American Tobacco (BAT) and Imperial Brands also weighed on returns, with the companies' earnings coming under pressure from sterling's rally against the US dollar. Results from BAT confirmed that foreign exchange was a headwind. This overshadowed news of strong growth of next generation products and a 15% increase in the dividend.

In terms of other portfolio activity during the period, new investments were made in CVS, Endeavour Mining, MJ Gleeson and Tesco. The company's holdings in BAE Systems, Rentokil and Touchstone Innovations were sold.

Outlook

The recent bout of volatility has been followed by a change in leadership in equity markets. Although the FTSE All-Share Index has recovered over half of the losses sustained in the early February sell-off, the mood in the market now feels quite different.

The last few years have seen a dramatic divergence in the performance of certain styles and sectors. Global value stocks reached multi-decade lows relative to global growth stocks and this was compounded in the UK market in the wake of the EU referendum as we witnessed an equally extreme decline in domestically focused stocks relative to exporters.

The global position could be said to have reversed for a number of reasons, but the sharp move higher in US interest rates (both 3 month Libor and 10 year rates are up significantly) and the issues affecting the US tech sector

(President Trump publicly criticising Amazon, the well documented data privacy issues affecting Facebook, Tesla production misses, amongst others) are two that stand out as having driven the shift in market sentiment seen across asset classes and sectors.

At the same time a less antagonistic climate in the Brexit negotiations and the long awaited turning point in UK disposable incomes have combined to strengthen the pound and prompt a reassessment of the UK market's position relative to international peers.

Whilst it is too early to call a definitive end to such a long-established low growth, low inflation and low interest rate regime and to the equity market phenomena that have followed in its wake, it doesn't feel a stretch to say that this is the closest markets have been to a turning point since the financial crisis.

The portfolio has been positioned for the anticipated recovery in value stocks, especially in UK domestic cyclicals, and has limited exposure to the parts of the market that have seen valuations expand the most in recent years. I am therefore cautiously optimistic in light of recent developments.

As ever though, risk abounds. The current list of things to worry about includes, but is not limited to: signs of cyclical weakness in global leading indicators, numerous geopolitical uncertainties, China credit, governments that remain horribly geared, challenges to the US dollar's reserve status, threats to global trade, and the prospect of QE reversal and higher interest rates, which may have unpredictable consequences, especially for emerging markets.

These issues are being monitored carefully however I believe that this diversified portfolio of well-positioned and attractively-valued businesses, with the protection afforded by an allocation to gold equities, is well placed to navigate what lies ahead.

Portfolio Manager

James Goldstone

18 May 2018

Related Party Transactions and Transactions with the Manager

Under United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), the Company has identified the Directors as related parties. No other related parties have been identified. No transactions with related parties have taken place which have materially affected the financial position or the performance of the Company.

Principal Risks and Uncertainties

The principal risk factors relating to the Company can be summarised as:

- Investment Objective – the Company may not achieve its published objective.
- Market Risk – a fall in the stock market as a whole will affect the performance of the portfolio and individual investments.
- Investment Risk – the active fund management approach employed can result in a portfolio that looks and behaves differently from the benchmark index.
- Shares – the share price is affected by market sentiment, supply and demand, and dividends declared as well as portfolio performance.
- Gearing – borrowing will amplify the effect on shareholders' funds of portfolio gains and losses.
- Reliance on the Manager and Other Service Providers – failure by any service provider to carry out its obligations to the Company could have a materially detrimental impact on the operations of the Company and affect the ability of the Company to pursue its investment policy successfully.
- Regulatory – whilst compliance with rules and regulations is closely monitored, breaches could affect returns to shareholders.

A detailed explanation of these principal risks and uncertainties can be found on pages 8 to 10 of the 2017 annual financial report, which is available on the Company's section of the Manager's website.

In the view of the Board, these principal risks and uncertainties are equally applicable to the remaining six months of the financial year as they were to the six months under review.

INVESTMENTS IN ORDER OF VALUATION AT 31 MARCH 2018

UK listed ordinary shares unless otherwise stated

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO	ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
Barclays	Banks	15,609	5.3	Standard Life Aberdeen	Financial Services	2,509	0.9
BP	Oil & Gas Producers	12,084	4.1	Agnico Eagle Mines	Mining	2,458	0.8
Next	General Retailers	9,099	3.1	– Canadian common stock			
Shire	Pharmaceuticals & Biotechnology	9,019	3.1	Phoenix Spree Deutschland	Real Estate Investment & Services	2,458	0.8
Royal Dutch Shell - B Shares	Oil & Gas Producers	8,814	3.0	Diurnal	Pharmaceuticals & Biotechnology	2,358	0.8
Legal & General	Life Insurance	8,806	3.0	Ultra Electronics	Aerospace & Defence	2,311	0.8
Coats	General Industrials	8,504	2.9	Drax	Electricity	2,241	0.8
Lloyds Bank	Banks	7,450	2.5	IP Group	Financial Services	2,239	0.8
British American Tobacco	Tobacco	7,437	2.5	Hadrian's Wall Secured			
Tesco	Food & Drug Retailers	7,373	2.5	Investments	Equity Investment Instruments	2,195	0.7
Top Ten Investments		94,195	32.0	Provident Financial	Financial Services	1,612	0.7
Aviva	Life Insurance	6,019	2.0	– Rights 9 Apr 2018		570	
A J Bell ^{UQ}	Financial Services	6,006	2.0	Acacia Mining	Mining	2,077	0.7
Cairn Homes	Household Goods & Home Construction	5,611	1.9	Top Sixty Investments		265,699	90.3
BT	Fixed Line Telecommunications	5,407	1.8	Micro Focus	Software & Computer Services	2,019	0.7
Babcock International	Support Services	5,344	1.8	Macau Property	Real Estate Investment & Services	1,877	0.6
RELX	Media	4,912	1.7	Opportunities Fund			
McBride	Household Goods & Home Construction	4,650	1.6	International Consolidated Airlines	Travel & Leisure	1,847	0.6
Xafinity	Financial Services	4,598	1.6	Mears	Support Services	1,740	0.6
Victoria	Household Goods & Home Construction	4,492	1.5	Bushveld Minerals	Mining	1,719	0.6
easyJet	Travel & Leisure	4,412	1.5	Cranswick	Food Producers	1,702	0.6
Top Twenty Investments		145,646	49.4	Ashtead	Support Services	1,677	0.6
Derwent London	Real Estate Investment Trusts	4,316	1.5	Horizon Discovery	Pharmaceuticals & Biotechnology	1,648	0.6
Summit Germany	Real Estate Investment & Services	4,301	1.5	CLS	Real Estate Investment & Services	1,561	0.5
Sigma Capital	Financial Services	4,235	1.4	TruFin	Financial Services	1,480	0.5
Oxford Sciences	Financial Services	3,746	1.3	Top Seventy Investments		282,969	96.2
Innovation ^{UQ}				On the Beach	Travel & Leisure	1,468	0.5
Hollywood Bowl	Travel & Leisure	3,704	1.3	Silence Therapeutics	Pharmaceuticals & Biotechnology	1,398	0.5
Chesnara	Life Insurance	3,575	1.2	Tungsten	Financial Services	1,382	0.5
JD Sports Fashion	General Retailers	3,572	1.2	Marwyn Value Investors	Equity Investment Instruments	1,335	0.5
TP ICAP	Financial Services	3,531	1.2	Hibernia REIT	Real Estate Investment Trusts	1,295	0.4
Hiscox	Non-life Insurance	3,461	1.2	Realm Therapeutics	Health Care Equipment & Services	898	0.3
MJ Gleeson	Household Goods & Home Construction	3,452	1.2	Sherborne Investors	Financial Services	756	0.3
Top Thirty Investments		183,539	62.4	Guernsey B – A shares			
Motif Bio	Pharmaceuticals & Biotechnology	2,113	1.2	Safestyle UK	General Retailers	732	0.2
– ADR		1,114		Debenhams	General Retailers	592	0.2
– ADR Warrants 9 Nov 2021		212		Nexeon ^{UQ}	Electronic & Electrical Equipment	471	0.2
Imperial Brands	Tobacco	3,408	1.2	Top Eighty Investments		293,296	99.8
BCA Marketplace	Financial Services	3,356	1.1	GAME Digital	General Retailers	293	0.1
PRS REIT	Real Estate Investment Trusts	3,275	1.1	Nimrod Sea Assets ^{UQ}	Equity Investment Instruments	157	0.1
Gamma Communications	Mobile Telecommunications	3,267	1.1	Real Estate Investors	Real Estate Investment Trusts	128	—
N Brown	General Retailers	3,198	1.1	The Local Shopping REIT	Real Estate Investment Trusts	109	—
Melrose Industries	Construction & Materials	3,106	1.1	Eurovestech ^{UQ}	Financial Services	51	—
Secure Trust Bank	Banks	3,092	1.0	Jaguar Health ^{UQ}	Pharmaceuticals & Biotechnology	48	—
Harworth	Real Estate Investment & Services	3,029	1.0	– Indemnity shares			
Endeavour Mining	Mining	2,913	1.0	HaloSource	Chemicals	21	—
Top Forty Investments		215,622	73.3	Lombard Medical	Health Care Equipment & Services	18	—
Newmont Mining	Mining	2,909	1.0	– US common stock			
– US common stock				Barclays Bank ^{NR} – Nuclear	Electricity	11	—
Randgold Resources	Mining	2,844	1.0	Power Notes 28 Feb 2019			
Sherborne Investors	Financial Services	2,762	0.9	XTL Biopharmaceuticals	Pharmaceuticals & Biotechnology	6	—
Guernsey C				– ADR			
Balfour Beatty	Construction & Materials	2,746	0.9	Total Investments (90)		294,138	100.0
CVS	General Retailers	2,717	0.9				
PureTech Health	Health Care Equipment & Services	2,716	0.9				
P2P Global Investments	Equity Investment Instruments	2,710	0.9				
HomeServe	Support Services	2,558	0.9				
Royal Bank of Scotland	Banks	2,544	0.9				
Dairy Crest	Food Producers	2,543	0.9				
Top Fifty Investments		242,671	82.5				

NR is non-rated.
UQ is unquoted.
ADR is American Depositary Receipt.

CONDENSED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
For the six months ended 31 March 2018						
At 30 September 2017	6,760	3,449	466	253,648	11,064	275,387
Dividends paid – note 9	—	—	—	—	(5,637)	(5,637)
Net return on ordinary activities	—	—	—	(14,731)	2,616	(12,115)
At 31 March 2018	6,760	3,449	466	238,917	8,043	257,635
For the six months ended 31 March 2017						
At 30 September 2016	6,760	3,449	466	243,643	10,629	264,947
Dividends paid – note 9	—	—	—	—	(5,448)	(5,448)
Net return on ordinary activities	—	—	—	5,661	3,964	9,625
At 31 March 2017	6,760	3,449	466	249,304	9,145	269,124

CONDENSED BALANCE SHEET

Registered number 538179

	NOTE	AT 31 MARCH 2018 £'000	AT 30 SEPTEMBER 2017 £'000
Fixed assets			
Investments held at fair value through profit or loss	6	294,138	294,778
Current assets			
Unrealised profit on forward currency contracts		199	157
Prepayments and accrued income		449	291
Tax recoverable		289	285
Cash and cash equivalents		—	13,755
		937	14,488
Creditors: amounts falling due within one year			
Bank overdraft		(3,927)	—
Amounts due to brokers		(462)	(809)
Accruals		(1,031)	(1,067)
		(5,420)	(1,876)
Net current (liabilities)/assets		(4,483)	12,612
Total assets less current liabilities		289,655	307,390
Creditors: amounts falling due after more than one year			
Debenture stock	7	(31,770)	(31,753)
Cumulative preference shares		(250)	(250)
Net assets		257,635	275,387
Capital and reserves			
Called up share capital		6,760	6,760
Share premium		3,449	3,449
Capital redemption reserve		466	466
Capital reserve		238,917	253,648
Revenue reserve		8,043	11,064
Shareholders' funds		257,635	275,387
Net asset value per ordinary share – basic			
– debt at par	8	1905.8p	2037.1p
– debt at market value	8	1855.8p	1979.9p
Number of 50p ordinary shares in issue at the period end		13,518,799	13,518,799

CONDENSED STATEMENT OF CASH FLOWS

	SIX MONTHS TO 31 MARCH 2018 £'000	SIX MONTHS TO 31 MARCH 2017 £'000
Operating activities		
Net return before finance costs and taxation	(11,003)	10,840
Adjustments for:		
Purchases of investments	(66,068)	(18,351)
Sales of investments	50,315	26,216
	(15,753)	7,865
Scrip dividends	(70)	—
Losses/(gains) on investments	16,117	(6,972)
Net cash movement from derivative instruments – currency hedges	(42)	—
Increase in debtors	(162)	(417)
Decrease in creditors	(36)	(102)
Tax on overseas income	(6)	(111)
Net cash (outflow)/inflow from operating activities	(10,955)	11,103
Cash flow from financing activities		
Interest paid on overdraft	(1)	—
Interest paid on debenture stocks	(1,083)	(1,083)
Preference dividends paid	(6)	(6)
Equity dividends paid – note 9	(5,637)	(5,448)
Net cash outflow from financing activities	(6,727)	(6,537)
Net (decrease)/increase in cash and cash equivalents	(17,682)	4,566
Cash and cash equivalents at start of the period	13,755	15,597
Cash and cash equivalents at the end of the period	(3,927)	20,163
Cash flow from operating activities includes:		
Interest received	86	74
Dividends received	5,260	4,096

CONDENSED INCOME STATEMENT

	NOTE	SIX MONTHS TO 31 MARCH 2018			SIX MONTHS TO 31 MARCH 2017		
		REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
(Losses)/gains on investments at fair value		—	(16,117)	(16,117)	—	6,972	6,972
Foreign exchange gains	2	—	236	236	—	16	16
Income	3	3,230	2,372	5,602	4,700	—	4,700
		3,230	(13,509)	(10,279)	4,700	6,988	11,688
Investment management fee	4	(132)	(398)	(530)	(168)	(503)	(671)
Other expenses		(194)	—	(194)	(177)	—	(177)
Net return before finance costs and taxation		2,904	(13,907)	(11,003)	4,355	6,485	10,840
Finance costs							
Interest payable	4	(276)	(824)	(1,100)	(274)	(824)	(1,098)
Distributions in respect of preference shares	4	(6)	—	(6)	(6)	—	(6)
Return on ordinary activities before taxation		2,622	(14,731)	(12,109)	4,075	5,661	9,736
Tax on ordinary activities	5	(6)	—	(6)	(111)	—	(111)
Net return on ordinary activities after taxation		2,616	(14,731)	(12,115)	3,964	5,661	9,625
Return per ordinary share – basic		19.4p	(109.0)p	(89.6)p	29.3p	41.9p	71.2p
Number of ordinary shares in issue			13,518,799			13,518,799	

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 period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Accounting Policies

The condensed financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, FRS 104 *Interim Financial Reporting and 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, as updated in January 2017. The financial statements are issued on a going concern basis.

The accounting policies applied to these condensed financial statements are consistent with those applied in the financial statements for the year ended 30 September 2017.

2. Foreign Currency and Forward Currency Contracts

The equity portfolio includes £21,042,000 (30 September 2017: £15,174,000) of equities denominated in currencies other than pounds sterling. In order to manage the currency risk, the Manager may hedge part of the currency exposure into sterling through the use of forward foreign exchange contracts. Foreign exchange contracts are designated as fair value hedges through profit or loss.

3. Income

	SIX MONTHS TO 31 MARCH	
	2018 £'000	2017 £'000
Income from investments		
UK dividends – ordinary	2,472	3,205
– special	236	413
Overseas dividends – ordinary	346	951
– special	86	—
Income from interest distribution	—	111
Scrip dividends	70	—
	3,210	4,680
Other Income		
Underwriting commission	—	1
Other	20	19
	3,230	4,700

Special dividends of £2,372,000 (31 March 2017: £nil) have been recognised in capital.

4. Base Management Fee, Performance-related Fee and Finance Costs

The base management fee is allocated 75% to capital and 25% to revenue and is calculated at a rate of 0.1125% (previously 0.15%) of the 10 day average mid-market capital of the Company at each quarter end date.

The performance-related fee is allocated wholly to capital. The performance-related fee is due when the Company's annualised total return over the previous three years exceeds the annualised return of the benchmark over the same period plus the hurdle of 1.25%. There was no performance-related fee provision for the six months ended 31 March 2018 (31 March 2017: £nil).

The finance costs of debt are allocated 75% to capital and 25% to revenue. The distributions in respect of preference shares are charged to revenue.

5. Tax

The tax effect of expenditure is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting period.

6. Classification under Fair Value Hierarchy

FRS102 as amended for fair value hierarchy disclosures (March 2016) sets out three fair value levels. These are:

- 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.

The fair value hierarchy analysis for investments and related forward currency contracts held at fair value at the period end is as follows:

	AT 31 MARCH 2018 £'000	AT 30 SEPTEMBER 2017 £'000
	Financial assets designated at fair value through profit or loss:	
Level 1	283,436	285,095
Level 2	422	360
Level 3	10,479	9,480
Total for financial assets	294,337	294,935

7. Debenture Stock

The Company's structured debt at the period end is as follows:

	AT 31 MARCH 2018 £'000	AT 30 SEPTEMBER 2017 £'000
7.75% Debenture stock 2020	7,000	7,000
6.5% Debenture stock 2023	24,968	24,968
Total	31,968	31,968
Discount and issue expenses on debenture stock	(198)	(215)
	31,770	31,753

8. Net Asset Value

The following shows a reconciliation of NAV with debt at par to NAV with debt at market value. The difference in the NAVs arises solely from the valuation of the debenture stocks and preference shares. The number of shares at both period ends was unchanged at 13,518,799.

	AT 31 MARCH 2018 NAV PER SHARE PENCE	AT 30 SEPTEMBER 2017 NAV PER SHARE PENCE
NAV - debt at par	1,905.8	2,037.1
Debentures and preference shares:		
– debt at par, after amortised costs	236.8	236.7
– debt at market value	(286.8)	(293.9)
NAV - debt at market value	1,855.8	1,979.9

The market value of the debentures and preference stock in the above reconciliation, which is based on the offer value is:

	AT 31 MARCH 2018 £'000	AT 30 SEPTEMBER 2017 £'000
7.75% Debenture Stock 2020	7,946	8,286
6.5% Debenture Stock 2023	30,603	31,218
Preference shares	224	224
	38,773	39,728

9. Dividends Paid

	SIX MONTHS TO 31 MARCH	
	2018 £'000	2017 £'000
Second interim 37p (2016: 35p)	5,002	4,732
Special dividend 4.7p (2016: 5.3p)	635	716
Total paid	5,637	5,448

The Company pays two interim dividends a year, the second interim being in lieu of a final dividend. The first interim dividend of 18p will be paid on 15 June 2018 to shareholders on the register on 25 May 2018.

10. Investment Trust Status

It is the intention of the Directors to conduct the affairs of the Company so that it satisfies the conditions for approval as an investment trust company within the meaning of section 1159 of the Corporation Tax Act 2010.

11. Status of Half-Yearly Financial Report

The financial information contained in this half-yearly financial report, which has not been reviewed or audited by the independent auditors, does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information for the half-years ended 31 March 2017 and 31 March 2018 has not been audited. The figures and financial information for the year ended 30 September 2017 are extracted and abridged from the latest published accounts and do not constitute the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and include the Independent Auditor's Report, which was unqualified and did not include a statement under section 498 of the Companies Act 2006.

By order of the Board
Invesco Asset Management Limited
Company Secretary

18 May 2018

Going Concern

This half-yearly financial report has 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 date of approval of this half-yearly financial report. 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, including the debentures, and ongoing expenses. The Directors also considered the revenue forecasts for the year and future dividend payments in concluding on the going concern basis.

FINANCIAL CALENDAR 2018

Announcements

Half-yearly Financial Report	May
Annual Financial Report	November

Ordinary Share Dividends

First interim	June
Second interim	December

Annual General Meeting January 2019

Year end 30 September

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the preparation of the half-yearly financial report.

The Directors are responsible for preparing the half-yearly financial report using accounting policies consistent with applicable law and UK Accounting Standards.

The Directors confirm that to the best of their knowledge:

- the condensed financial statements contained within this half-yearly financial report have been prepared in accordance with the FRC's FRS 104 *Interim Financial Reporting*;
- the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the FCA's *Disclosure Guidance and Transparency Rules*; and
- the interim management report includes a fair review of the information required on related party transactions.

The half-yearly financial report has not been audited or reviewed by the Company's auditor.

Signed on behalf of the Board of Directors.

Beatrice Hollond
Chairman

18 May 2018

DIRECTORS, INVESTMENT MANAGER AND ADMINISTRATION

Directors

Beatrice Hollond (Chairman)
Ian Armfield
Karen Brade (appointed 18 January 2018)
Katrina Hart (appointed 18 January 2018)
William Kendall
Peter Readman (retired 18 January 2018)
John Wood

Manager

Invesco Fund Managers Limited

Company Secretary

Invesco Asset Management Limited
Company Secretarial contacts: Shilla Pindoria and Paul Griggs

Registered Office and Company Number

Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH
Registered in England and Wales No. 538179

Correspondence Address

6th Floor
125 London Wall
London EC2Y 5AS
☎ 020 3753 1000

Invesco Client Services

Invesco's Client Services team is available from 8.30am to 6pm Monday to Friday (excluding bank holidays):

☎ 0800 085 8677

🌐 www.invescoperpetual.co.uk/investmenttrusts

Website

Information relating to the Company can be found on the Company's section of the Manager's website, at www.invescoperpetual.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 half-yearly report.

Depository

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

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 queries relating to your shareholding you should contact the registrars 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 from 9am to 5.30pm, Monday to Friday (excluding Bank Holidays).

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

The registrar provides an on-line and telephone share dealing services 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 are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 8am to 4.30pm Monday to Friday (excluding Bank Holidays).



Invesco Fund Managers Limited

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

Invesco is a business name of Invesco Fund Managers Limited