Investment Trust Update

Keystone Investment Trust plc.

July 2019 (covering three months ending 30 June 2019)

This document is for Professional Clients only and is not for consumer use.

Market and economic comment

The UK equity market provided a positive return during the second quarter of 2019. Despite gaining further positive ground the market proved volatile, failing to sustain the strong rally we saw in the first quarter of the year. A resurgence in US-Sino trade concerns led markets lower in May, although increasingly accommodative language from the US Federal Reserve and an improved outlook for trade tensions allowed the market to recover lost ground during June. Having risen sharply in the opening months of 2019, the price of Brent crude oil peaked at US$74 per barrel in April, before falling back to US$60 a barrel in June.

At home domestic politics continued to dominate the agenda. In April, the European Union granted an extension to Article 50 following months of heightened political turmoil. Then in May, Theresa May announced her intention to resign, sparking the beginning of the Conservative Party leadership contest. Against this backdrop the value of the pound drifted lower against international currencies. Having peaked at 1.33 against the US dollar in March, the pound fell to just US$1.25 in June, as the Bank of England cut its economic growth forecasts.

Economic data released over the period proved mixed. UK retail sales were comparatively lower during April and May compared to 2018. The dip in consumer confidence was compounded by strong data from 2018 when retail sales received a boost from the hot weather and Royal Wedding. Elsewhere UK car production was 15% lower during May than over the equivalent period in 2018, reflecting a 12th consecutive month of declines. Meanwhile unemployment fell to 3.8% in the three months to the end of March, the lowest rate recorded since 1974.

Portfolio performance

Over the quarter, the investment trust's total return (NAV) was 2.0% against a total return of 3.3% from the FTSE All-Share index. *

The portfolio's holding in AJ Bell provided the largest contribution to returns over the quarter. The investment platform has traded strongly since its initial public offering in December 2018 and the share price rallied further following an unexpectedly strong trading update for the second quarter released at the end of April. Elsewhere in Financials, Amigo Holdings and Summit Properties also supported returns.

Elsewhere, media business Future also provided a strong positive contribution to performance. The company's share price rose sharply in May, following the release of a strong trading statement that prompted analyst upgrades.

Despite the well publicised crises facing many high street retailers, JD Sports was one the largest contributors to portfolio performance over the quarter. The company completed the acquisition of smaller UK rival Footasylum during April and released full-year results, which prompted a sharp rise in the company's share price.

Other notable contributors included RELX. Shares in the information services firm rose strongly over the course of the quarter, buoyed by the company's share buyback programme and a supportive trading update, which included a statement from company management reiterating their confidence in the firm's full year outlook. The portfolio's holdings in PureTech Health and BCA Marketplace also supported performance over the quarter.

Conversely, the portfolio's holding in XPS Pensions provided a significant negative contribution to performance over the period. The company released worse-than-expected full-year results at the end of June, prompting a material fall in the company's share price.

The portfolio's holdings in the mining sector supported performance over the quarter, supported by the strong rally in the gold price mid-June. However, the notable exception within this portfolio theme was Bushveld Minerals. The vanadium producer proved the portfolio's largest detractor over the second quarter. The share price of Bushveld Minerals was volatile during the period, falling on the release of disappointing operational updates. Other notable detractors included Phoenix Spree, McBride and Royal Bank of Scotland.

Ordinary share price, NAV and index cumulative performance*	% growth				
	6 months	1 year	3 years	5 years	10 years
Share price	6.8	-7.2	7.7	6.6	145.2
Net Asset Value	9.5	-6.1	9.1	18.8	177.6
FTSE All-Share index	13.0	0.6	29.5	35.8	167.1

Standardised rolling 12-month performance (% growth)*					
	30.6.14	30.6.15	30.6.16	30.6.17	30.6.18
	30.6.15	30.6.16	30.6.17	30.6.18	30.6.19
Ordinary share price	6.3	-6.9	12.8	2.9	-7.2
Net Asset Value	7.4	1.4	10.3	5.3	-6.1
FTSE All-Share Index	2.6	2.2	18.1	9.0	0.6
This information is updated on a calendar quarter basis. Up-to-date information is available on our website www.invesco.co.uk					
Past performance is not a guide to future returns					

* All performance figures are in sterling as at 30 June 2019 except where otherwise stated. Ordinary share price performance figures have been calculated using daily closing prices with dividends reinvested. NAV performance figures have been calculated using daily NAV with dividends reinvested. The NAV used includes current period revenue and values debt at fair. Source: Morningstar. Reference Benchmark: The FTSE All-Share Index performance shown is total return. Source: Datastream.

Portfolio manager biography – James Goldstone

Based in Henley-on-Thames, James joined the company in 2012 as a portfolio manager within the UK Equities team and was appointed manager of the Keystone Investment Trust plc portfolio in April 2017. James began his career in pan-European equity sales at Credit Lyonnais in 2001 and went on, via HSBC, Dresdner Kleinwort and Banco Espirito Santo, to specialise in UK equity sales. James graduated with a First Class Honours Degree in French from Manchester University.

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Strategy & outlook

Geopolitics and the global economic picture look more uncertain by the day, most obviously as a result of the escalating trade war which has seen lead indicators weaken globally and forced a reluctant Federal Reserve to back off tightening interest rates and contemplate monetary easing of one form or another. Low growth and low interest rates therefore look set to persist and central banks appear as determined as ever to avoid a debt deflation. No sooner has unconventional monetary policy been reversed than it is once again being contemplated, such that the Japanification of other developed economies is now a regularly discussed theme. The UK picture is clouded further by Theresa May's resignation and the ensuing leadership contest, which have left a parliamentary stalemate and a no deal exit from the EU a possibility once again.

Against this backdrop the portfolio manager continues to favour companies with strong balance sheets, high barriers to entry and the ability to expand market share, believing that these traits help underpin long-term capital and income growth. However, the portfolio manager also believes that a low valuation is the ultimate defensive attribute and a stretched valuation is a risk. He therefore deploys an investment approach anchored around valuation, aiming to provide shareholders with long-term growth of capital.

The portfolio continues to have an allocation to gold mining equities, a reflection of the portfolio manager's view that these holdings can offer some protection against tail risks, both geo-political (Iran, US/China tensions, loss of the US dollar's reserve currency status) and economic (a credit event, widening US fiscal deficit and dollar weakness) and should in theory be inversely correlated with the market in times of stress.

Investment risks

The value of investments and any income will fluctuate (this may partly be as a result of exchange rate fluctuations) and investors may not get back the full amount invested.

The product uses derivatives for efficient portfolio management which may result in increased volatility in the NAV.

The product invests in smaller companies which may result in a higher level of risk than a product that invests in larger companies. Securities of smaller companies may be subject to abrupt price movements and may be less liquid, which may mean they are not easy to buy or sell.

The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.

Important information

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