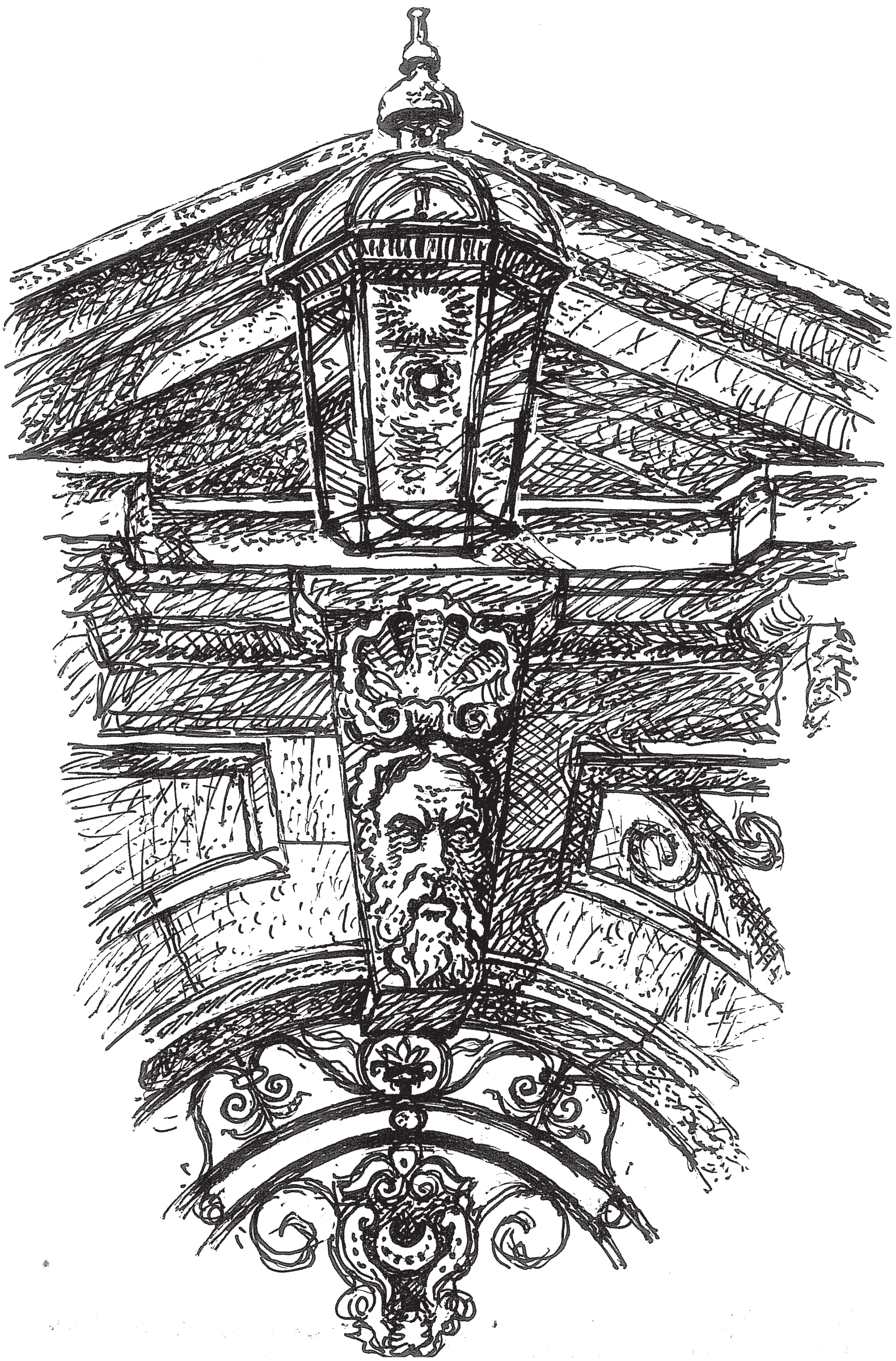
Keystone Investment Trust plc

Annual Financial Report
Year ended 30 September 2016



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 Perpetual,
please contact Invesco Perpetual's Client Services Team on

☎ 0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

The Company is a member of

aic

The Association of Investment Companies

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

	2016 % CHANGE	2015 % CHANGE
Total Return Statistics[1]		
(capital growth with income reinvested)		
Net asset value (NAV) per share:		
– debt at par	+5.6	+6.7
– debt at fair value	+5.2	+6.4
Share price	+1.3	+7.3
FTSE All-Share Index	+16.8	–2.3

	AT 30 SEPTEMBER 2016	AT 30 SEPTEMBER 2015	% CHANGE
Capital Statistics			
Net assets (£'000)	264,947	259,625	+2.0
NAV per share:			
– debt at par	1959.8p	1920.5p	+2.0
– debt at fair value	1894.9p	1867.1p	+1.5
Share price[1]	1735.5p	1776.0p	–2.3
FTSE All-Share Index[1]	3755.3	3335.9	+12.6
Discount† of share price to net asset value per share:			
– debt at par	11.4%	7.5%	
– debt at fair value	8.4%	4.9%	
Gearing from borrowings† – gross	12.1%	12.3%	
– net	6.2%	4.4%	

	FOR THE YEAR TO 30 SEPTEMBER 2016	2015	
Revenue Statistics			
Net revenue available for ordinary shareholders (£'000)	8,386	8,659	
Revenue return per ordinary share	62.0p	64.1p	–3.3
Dividends per ordinary share – first interim	18.0p	18.0p	
– second interim	35.0p	33.0p	
	53.0p	51.0p	+3.9
– special	5.3p	12.3p	
– total	58.3p	63.3p	
Ongoing charges†:			
Excluding performance fee	0.69%	0.71%	
Performance fee	0.03%	1.00%	

† Defined in the Glossary of Terms on page 64.

(1) Source: Thomson Reuters Datastream.

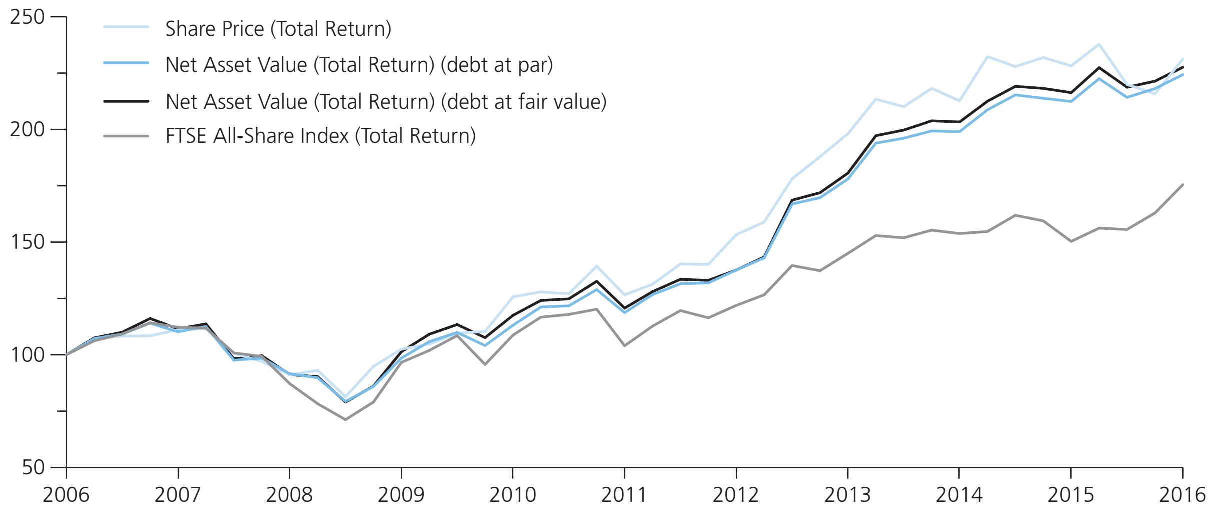
Ten Year Historical Record

YEAR ENDED 30 SEPTEMBER	NET REVENUE EARNINGS PER SHARE P	DIVIDENDS PER SHARE P	NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS £'000	NET ASSET VALUE PER SHARE P	SHARE PRICE P	ONGOING CHARGES[1] %	NET GEARING FROM BORROWINGS %
2007	41.6	40.0	179,197	1340.4	1190.0	1.07	13.4
2008	50.4	44.0	144,908	1083.9	940.0	0.90	—
2009	57.4	56.6[2]	150,252	1123.9	1008.0	0.89	4.9
2010	40.6	45.5	162,154	1212.9	1170.0	0.92	7.5
2011	45.5	46.5	164,253	1228.6	1135.5	0.99	9.0
2012	49.1	48.5	182,803	1367.4	1318.0	0.95	8.5
2013	57.4	57.0[3]	231,480	1712.3	1646.0	0.96	9.5
2014	59.3	58.5[4]	250,267	1851.3	1709.0	0.87	5.7
2015	64.1	63.3[5]	259,625	1920.5	1776.0	0.71	4.4
2016	**62.0**	58.3[6]	**264,947**	**1959.8**	**1735.5**	**0.69**	**6.2**

(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.

Ten Year Total Return Performance

Figures have been rebased to 100 at 30 September 2006



Source: Thomson Reuters Datastream.

Total Return per Ordinary Share to 30 September

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	THREE YEARS	FIVE YEARS	TEN YEARS
Keystone NAV (debt at par) %	+10.2	–16.9	+7.5	+14.8	+5.0	+15.8	+29.4	+11.7	+6.7	+5.6	+26.0	+88.9	+124.3
Keystone NAV (debt at fair value) %	+11.5	–18.2	+11.1	+16.0	+2.7	+14.1	+31.2	+12.6	+6.4	+5.2	+26.0	+88.6	+127.6
Keystone Share Price %	+11.1	–18.0	+12.5	+22.6	+0.8	+21.0	+29.3	+7.4	+7.3	+1.3	+16.7	+82.6	+131.2
FTSE All-Share Index %	+12.2	–22.2	+10.8	+12.5	–4.4	+17.2	+18.9	+6.1	–2.3	+16.8	+21.1	+68.9	+75.5

Source: Thomson Reuters Datastream.

CHAIRMAN'S STATEMENT

Performance

The total return to shareholders over the year to 30 September 2016 was 1.3%, based on the share price with dividends reinvested. Whilst this was a marginally positive return it was some way behind our benchmark, the FTSE All-Share Index, which posted a total return of 16.8%. The total return on the underlying net asset value (NAV) per share was 5.6% with debt at par value and 5.2% with debt at market (fair) value, thus part of the share price underperformance coming from a widening of the discount at which the shares trade relative to the NAV.

The three year share price performance also now lags our benchmark. However, the three year net asset performance still exceeds it, with a NAV total return (debt at fair value) of 26.0% compared with 21.1% for the benchmark, so a performance related fee is again payable, although it is very much reduced from last year at £65,000 (2015: £2,544,000).

The Company's longer term performance continues to be strong with five and ten year share price total returns of 82.6% and 131.2% respectively, compared with total returns of 68.9% and 75.5% for the FTSE All-Share Index. The NAV per share (with debt at fair value) total returns over the same periods were 88.6% and 127.6% (all figures sourced from Thomson Reuters Datastream).

The Manager's Report section of the following Strategic Report provides background on the year's investment performance and a detailed explanation for this year's disappointing return. In summary, the continued lack of mining stocks in our portfolio, a strategy which had served the Company well for so many years, and low exposure to oil negatively impacted the period under review as share prices for such stocks rebounded sharply.

Discount widening was a sector wide phenomenon. The weighted average discount of the investment companies in the UK All Companies sector was 9.2% at 30 September 2016 compared with 4.9% at 30 September 2015 (source: J.P. 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 was 7.7%, compared with an average of 3.8% last year. The share price stood at a discount of 8.4% relative to the NAV (debt at fair value) at the year end.

Revenue and Dividends

Income in the year, excluding special dividends, increased by almost 8% to £9,062,000 from £8,400,000 last year. However the amount of special dividends fell and consequently the total income for the year of £9,783,000 was less than last year's £10,071,000. The revenue return after tax fell correspondingly to 62.0p per ordinary share, compared with 64.1p for the year to 30 September 2015.

The Board has declared a second interim dividend, in lieu of a final, of 35p per share (2015: 33p), giving a total ordinary dividend for the year of 53p per share (2015: 51p). The dividend will be paid on 23 December 2016 to shareholders on the register on 2 December 2016.

The Company has continued to benefit from special dividends received from investee companies, albeit at a lower scale than last year. These dividends totalled £721,000, the equivalent of 5.33p this year (2015: £1,671,000; 12.36p) and the Board has decided again to pass the greater part of this on to shareholders as a special dividend of 5.3p (2015: 12.3p). The special dividend will be paid at the same time as the second interim dividend. As indicated in my statement last year the reduction in special dividends received this year was not a surprise and we anticipate the level of special dividends is likely to continue to decline.

Gearing

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the portfolio manager operates. The Company's borrowings, in the form of long-term debentures, amount to £32 million. The net gearing of the Company is determined by the extent to which these borrowings are invested. The Board has remained reasonably cautious through the past year, but relaxed the threshold in January 2016 after the market setback. Since then the parameters limiting the Manager have been that no net purchases be made which would take equity exposure above 107.5% of net assets (previously 105%), and that sales be made if, as a result of market movements, equity exposure goes higher than 115% of net assets. It is up to the portfolio manager to decide on exposure subject to these limits. When held, corporate bonds are not treated as equity exposure for the purposes of the gearing limits.

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. For the present, the Board has prescribed that all currency exposure should be hedged other than US dollar and Swiss franc. At the year end 5.7% of the portfolio was exposed to US dollars and 5.1% to Swiss francs, neither of which were hedged.

Outlook

The UK stock market as a whole delivered impressive returns over the last year, notwithstanding the uncertainty and sterling weakness fostered by the referendum in June and its aftermath. These elements look likely to continue for some time and, combined with the other background concerns of downward pressure on corporate profitability and subdued global growth, will challenge the UK equity market's long term growth potential.

However, the Board remains confident that Mark Barnett and his team will continue to find opportunities for investment that will, combined with their proven long term investment approach, generate worthwhile returns over time and enable the Company to fulfil its investment objective to provide shareholders with long-term growth of capital.

Annual General Meeting

The Notice of the Annual General Meeting of the Company, which is to be held on 24 January 2017, is on pages 58 to 61 and a summary of the resolutions is set out in the Directors' Report on pages 56 and 57.

Beatrice Hollond
Chairman

29 November 2016

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

BUSINESS REVIEW

Keystone Investment Trust plc is an investment company holding investments with a market value in excess of £280 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 Mark Barnett.

All administrative support is provided by third parties. In addition to the management and administrative functions of the Manager, the Company has contractual arrangements with Capita Asset Services as registrar and with BNY Mellon Trust & Depositary (UK) Limited as depositary. The depositary has delegated safekeeping of the Company's investments to The Bank of New York Mellon (London Branch) who acts as custodian under this authority.

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 carefully considers the Company's policy in respect of the level of equity exposure. The Board takes responsibility for the Company's gearing strategy and sets guidelines to control it, which it may change from time to time. Since January 2016 these guidelines have required that the Manager must make no net purchases if equity exposure was more than 107.5% of net assets (previously 105%), and must make sales if, as a result of market movements, equity exposure was to exceed 115% of net assets. When held, corporate bonds are not treated as equity exposure for the purposes of the gearing limits.

Performance

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

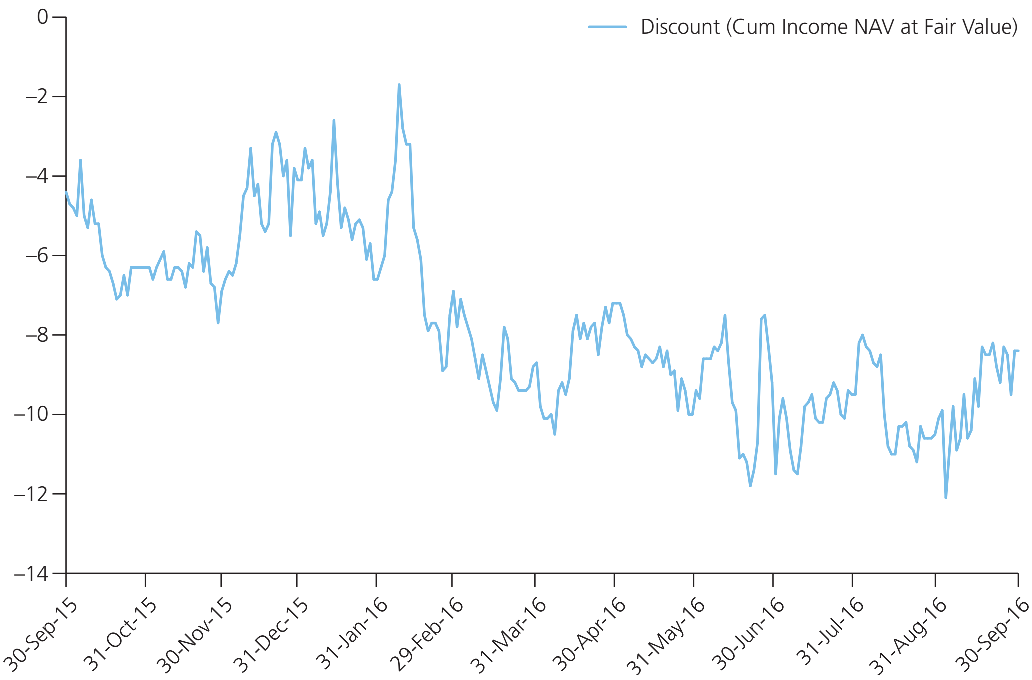
The Board reviews performance by reference to a number of Key Performance Indicators that include the following:

- 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** (debt at fair value) and **share price** total returns for the year to 30 September 2016 were 5.2% and 1.3%, both of which were substantially less than the total return of the Company's benchmark, the FTSE All-Share Index, of 16.8%. The Manager's Report on pages 12 and 13 provides commentary on the reasons for the performance. The year's results do not reflect the longer term successful implementation of the business strategy by the Manager – over three years, the Company's NAV (debt at fair value) and share price returns were 26.0% and 16.7% respectively compared to the benchmark return of 21.1%. Over five years, the returns were 88.6% and 82.6% compared to the benchmark of 68.9%. The Manager is entitled to a performance-related fee based on the last three years' NAV performance and a fee of £65,000 consequently accrues. 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 15 investment companies making up the UK All Companies sector of the approximately 300 investment companies in the UK. As at 30 September 2016, in NAV total return terms, the Company was ranked 8th in its sector over one year, 6th over three years and 7th over 5 years (source: JPMorgan Cazenove).

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 8.4%



Source: Morningstar.

Although there is no specific target discount range a small discount or a premium would imply that there was strong demand for the shares. In order to ensure that the demand for and supply of the Company's shares are roughly in balance, the Board asks shareholders to approve resolutions every year which allow for the repurchase of shares (for cancellation or to be held as treasury shares) and also their issuance. This may assist in the management of the discount. The Company has not issued any ordinary shares in the year and no shares were repurchased.

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BUSINESS REVIEW
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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. A first interim dividend of 18p (2015:18p) per share was paid on 10 June 2016 and a second interim dividend of 35p (2015: 33p) per share has been declared, which is payable on 23 December 2016 to shareholders on the register at 2 December 2016. These give a total ordinary dividend for the year of 53p compared with 51p for the previous year. The Board has also declared a special dividend of 5.3p (2015: 12.3p) 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.

Ongoing charges is the industry measure of 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, which excludes the performance fee, was 0.69%, compared with 0.71% for the year to 30 September 2015. The ten year record of ongoing charges is shown on page 3.

Financial Position

At 30 September 2016, the Company's net assets were valued at £265 million (2015: £260 million). These comprised a portfolio of mainly equity investments and net current assets. The Company has an uncommitted short-term overdraft facility with the custodian for settlement and liquidity purposes.

At 30 September 2015 and 30 September 2016, 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.

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 following 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 19 to 21).

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 investment policy that has been approved 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 economy in the UK, 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 is aiming to achieve absolute returns through a genuinely active fund management 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 full understanding of financial risks associated with them.

The portfolio of investments held at 30 September 2016 is set out on pages 14 and 15.

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. As at 30 September 2016, net gearing from borrowings stood at 6.2%. The Board and the Manager regularly review gearing and will continue to monitor the level closely over the year ahead.

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 reliant upon the performance of third party service providers for it to function. In particular, the Manager performs services that are integral to the operation of the Company. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment or compromise of their systems could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to successfully pursue its investment policy.

The 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.

STRATEGIC REPORT
BUSINESS REVIEW
continued

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 63.

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 an investment company operating as an investment trust. As such, the Company is a collective investment vehicle rather than a commercial business venture and is designed and managed for long term investment. Long term for this purpose is considered to be at least five years and so the Directors 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 Board 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.

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 11% 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 foregoing analysis, 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 their assessment.

Board Diversity

The Company's policy on diversity is set out on page 51. 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. The Board comprises five non-executive directors of whom one, the Chairman, is a woman thereby constituting 20% female representation. Summary biographical details of the Directors are set out on page 16. 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. While a company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not necessarily decide to, or not to, make an investment on environmental and social grounds alone. The Manager applies the United Nations Principles for Responsible Investment.

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.invescoperpetual.co.uk.*

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

MANAGER'S REPORT

Market Review

The UK equity market was volatile during the first half of the Company's financial year with sentiment largely driven by the actions of central banks and by movements in commodity prices. After rallying strongly into the end of 2015, following the first increase in US interest rates for seven years, the FTSE All-Share index fell sharply to its lowest level since 2012 during the first quarter of 2016. Market moves were characterised by some particularly volatile, low volume trading days. Crude oil hit a ten-year low, fears grew over the risk of a global recession and oil and mining companies cut profit guidance and, in some cases, dividends.

The turbulence moderated through March as oil and mining prices showed some recovery, the ECB surprised financial markets by cutting interest rates in the Eurozone to zero and stepped up the pace of quantitative easing and Janet Yellen, Chair of the US Federal Reserve, provided a further boost to equities by stating that the US central bank should proceed cautiously with interest rate rises. The UK stock market rallied strongly and, after an initial sell-off, continued to do so after the EU referendum on 23 June as sterling's dramatic fall boosted international companies. There was significant divergence in sector performance, with share price falls after the referendum's Brexit result seen most acutely in certain domestically focused sectors, while the share prices of companies with US dollar denominated earnings rose strongly in anticipation of upgrades to forecast earnings. The resources sectors (oil and mining) performed notably well; crude oil continued to recover from its February price lows, particularly on news that OPEC members had proposed production cuts, while continued progress in commodity prices buoyed global mining companies.

The UK stock market's attention remained focused on the post-Brexit narrative as it unfolded and the timing of the next increase in US interest rates, which was generally perceived as being postponed by a dovish US Federal Reserve. Sector volatility moderated towards the end of the Company's financial year, with the share prices of domestically focused companies showing some recovery.

Portfolio Strategy and Review

The Company's net asset value (with debt at par value), including reinvested dividends, rose by 5.6% over the year ended 30 September 2016, compared with a rise of 16.8% by the FTSE All-Share index.

The portfolio delivered a positive return against a strong market backdrop, but failed to match the rise of the index. Relative performance was negatively impacted by the portfolio's zero weighting in mining companies and heavily underweight position in the oil sector – with share prices in the resources sectors rising strongly through the period. The continued zero weighting in the major UK domestic banks positively impacted performance, but the absence of a holding in HSBC proved a negative post the Brexit vote, as the company's international exposure saw its shares rise strongly. As in previous years, the portfolio held some direct investments in foreign listed companies (Reynolds American, Novartis, Roche) which enhanced performance as sterling fell.

The holdings in the tobacco sector were again amongst the top contributors to portfolio performance, benefiting from the sector's overseas earnings, but also from continued positive news flow. British American Tobacco is seeing the benefits of its focus on key brands – its Global Drive Brands posted a 10.5% volume increase in its second quarter earnings report. Imperial Brands and Reynolds American continue to see the benefits of last year's purchase by Reynolds of fellow US tobacco business Lorillard and by Imperial of certain Reynolds and Lorillard brands (including Winston) and of its manufacturing facilities. Both companies are posting double digit dividend increases on the back of strongly growing profits.

AstraZeneca, another US dollar beneficiary, issued plans to file its injectable asthma treatment drug with US and European regulators later this year, after favourable trial results. The failure of Bristol-Myers' lung cancer study was also seen as positive for AstraZeneca's combination therapy cancer drugs.

A significant positive contribution to portfolio performance came from the holding in Rentokil Initial. The pest control business reported strong overall performance and improved organic growth for the first half, supplemented by a plethora of merger and acquisition activity across the group's global operations. Other holdings to make notable positive contributions included BP, Bunzl, Compass, HomeServe, KCOM and RELX.

The portfolio's holdings in domestic sectors, notably those particularly exposed to the fall in sterling and those expected to be most impacted by any challenges to the UK economy, performed poorly in the aftermath of the Brexit vote. The stock market was also inclined to de-rate companies which warned of lower profits, compounding the impact on the share price.

Notable amongst these was the holding in Capita, which fell sharply in value as it downgraded full-year earnings forecasts, blaming a slow-down in specific trading businesses, one-off costs and problems with a major contract with Transport for London, along with delayed client decision-making since the EU referendum vote.

The holdings in the travel sector – easyJet and Thomas Cook – warned of the negative impact of weaker sterling and were additionally impacted during the period by concerns over terrorist activity and by air traffic control strikes. There was some respite for Thomas Cook shareholders towards period end as the company confirmed previous full year profit guidance. Strategic measures implemented by the company over the past two years have helped to offset the challenging trading environment.

Other domestically focused holdings to deliver negative share price performance included Derwent London, GAME Digital, Harworth Group, N Brown, P2P Global Investments and TalkTalk Telecom.

In terms of portfolio activity during the period, new investments were made in UK based specialist pharmaceutical company Diurnal, Hadrians Wall Secured Investments (a closed-end fund investing in UK small-to medium-sized enterprise commercial loans), Marwyn Value Investors (a closed-end fund investing in European sectors impacted by structural and regulatory change), fashion retailer Next and challenger bank Secure Trust. The holdings in Amlin, Ladbrokes, Reckitt Benckiser, Rolls-Royce and Workspace were sold.

Outlook

It is likely that the near term outlook for the UK equity market will continue to be dictated by the movement of global bond prices and the sterling/US dollar exchange rate. These asset markets have exerted a major influence on UK equities over the course of 2016. The strong performance of the bond market, not always associated with a rising equity market, and the perceived benefit from the drop in sterling have been the driving forces behind the ongoing re-rating of UK equities to reach a current price to earnings valuation of 17.5 times forecast 2016 earnings per share. This valuation looks full, particularly relative to the disappointing overall level of underlying profit growth recorded this year (excluding the impact of sterling and the commodity bounce back). It is highly unlikely that the rerating of UK equities will continue unchecked against a backdrop of higher valuations and ongoing pressure on corporate profitability. It is noticeable how the rate of profit warnings across the market has increased in the past few weeks. In addition, the recent reversal of bond markets has put pressure on valuations in certain sectors.

There are several challenges which may force a reassessment of the current valuations that are being applied to the UK equity market. The first is the lack of overall profit growth, which, in the absence of the significant devaluation in sterling, would have seen another year of no growth in 2016. The underlying earnings outlook for next year looks similarly muted. Second, a more difficult near-term UK economic picture is likely to emerge. The reappearance of inflation – largely as a result of the movement in sterling – will pressurise consumer budgets and hinder overall levels of economic growth. This factor, coupled with the ongoing uncertainty over the political path to Brexit, may put a brake on UK employment levels and investment intentions, further moderating activity in the domestic economy. To some extent, this has been priced into equities, as the performance disparity between global and domestic companies since the referendum has been significant. Nevertheless, the backdrop to corporate profitability is unlikely to ease over the coming year as pricing power remains elusive.

The political backdrop has the potential to deliver more surprises over the coming year, a third factor likely to continue to exert major influence on both corporate behaviour and stock market performance. The election of Donald Trump as the next US president has already set off widespread expectations of fiscal reflation with knock-on effects in certain stock market sectors. The domestic political scene is currently overshadowed by the new government's evolving political agenda, while internationally, there are a series of important elections on the horizon; the potential for a sudden policy shift or unexpected election result is significant.

Finally, a shift in the value of global bonds also has the potential to de-stabilise the outlook for UK equities. This could emanate from US policy tightening or simply a realisation that the extreme low yields reached over the summer months across the world no longer represent a realistic view of the medium term outlook for inflation and interest rates. Indeed, at the time of writing, we are witnessing a meaningful shift upwards in 10 year bond yields globally.

Navigating any one of these obstacles, either individually or in combination, will continue to be challenging. The most important discipline is to remain vigilant about valuation. Notwithstanding the elevated level of stock market valuation, there are bottom-up opportunities for the long-term investor, which have started to emerge as a result of the substantial sector rotations that have occurred since the June Referendum. Where new opportunities arise, the emphasis will continue to be on companies that can demonstrate a sustainable top line growth and translate that into profit, free cash flow and dividends without excessive financial leverage.

Mark Barnett, Portfolio Manager

The Strategic Report was approved by the Board of Directors on 29 November 2016.

Invesco Asset Management Limited
Company Secretary

STRATEGIC REPORT
INVESTMENTS IN ORDER OF VALUATION
AT 30 SEPTEMBER 2016

UK listed ordinary shares unless stated otherwise

Equity Investments

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
Reynolds American – *US common stock*	Tobacco	14,786	5.2
British American Tobacco	Tobacco	13,775	4.9
AstraZeneca	Pharmaceuticals & Biotechnology	11,780	4.2
Imperial Brands	Tobacco	11,279	4.0
BP	Oil & Gas Producers	11,164	4.0
Provident Financial	Financial Services	9,390	3.3
BT Group	Fixed Line Telecommunications	9,188	3.3
BAE Systems	Aerospace & Defence	8,980	3.2
Roche – *Swiss common stock*	Pharmaceuticals & Biotechnology	8,795	3.1
Legal & General	Life Insurance	7,415	2.6
Top Ten Investments		**106,552**	**37.8**
RELX	Media	6,679	2.4
Rentokil Initial	Support Services	6,368	2.3
Babcock International	Support Services	6,258	2.2
Beazley	Non-life Insurance	5,965	2.1
London Stock Exchange	Financial Services	5,962	2.1
NewRiver REIT	Real Estate Investment Trusts	5,677	2.0
Compass	Travel & Leisure	5,652	2.0
Novartis – *Swiss common stock*	Pharmaceuticals & Biotechnology	5,574	2.0
Hiscox	Non-life Insurance	5,499	1.9
BTG	Pharmaceuticals & Biotechnology	5,321	1.9
Top Twenty Investments		**165,507**	**58.7**
Shaftesbury	Real Estate Investment Trusts	5,062	1.8
Bunzl	Support Services	5,009	1.8
Centrica	Gas, Water & Multiutilities	4,947	1.8
SSE	Electricity	4,767	1.7
KCOM	Fixed Line Telecommunications	4,254	1.5
Capita	Support Services	4,180	1.5
HomeServe	Support Services	4,060	1.4
A J Bell[UQ]	Financial Services	4,032	1.4
Derwent London	Real Estate Investment Trusts	3,703	1.3
Drax	Electricity	3,702	1.3
Top Thirty Investments		**209,223**	**74.2**
BCA Marketplace	Financial Services	3,697	1.3
IP Group	Financial Services	3,541	1.3
Next	General Retailers	3,397	1.2
Imperial Innovations	Financial Services	3,295	1.2
G4S	Support Services	3,223	1.2
easyJet	Travel & Leisure	3,176	1.1
Lancashire	Non-life Insurance	3,120	1.1
P2P Global Investments	Equity Investment Instruments	2,775	1.0
Real Estate Investors	Real Estate Investment & Services	2,724	1.0
Oxford Sciences Innovation[UQ]	Financial Services	2,677	0.9
Top Forty Investments		**240,848**	**85.5**

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
TalkTalk Telecom	Fixed Line Telecommunications	2,517	0.9
Smith & Nephew	Health Care Equipment & Services	2,329	0.8
PureTech Health	Health Care Equipment & Services	2,237	0.8
Motif Bio	Pharmaceuticals & Biotechnology	2,142	0.8
Harworth	Real Estate Investment & Services	2,103	0.7
Thomas Cook	Travel & Leisure	2,089	0.7
Diurnal	Pharmaceuticals & Biotechnology	1,914	0.7
Hadrians Wall Secured Investments	Equity Investment Instruments	1,890	0.7
Vectura	Pharmaceuticals & Biotechnology	1,802	0.6
Sherborne Investors Guernsey B – *A shares*	Financial Services	1,722	0.6
Top Fifty Investments		**261,593**	**92.8**
Horizon Discovery	Pharmaceuticals & Biotechnology	1,637	0.6
Secure Trust Bank	Banks	1,635	0.6
CLS	Real Estate Investment & Services	1,546	0.5
Marwyn Value Investors	Equity Investment Instruments	1,518	0.5
Doric Nimrod Air Three – *preference shares*	Equity Investment Instruments	1,414	0.5
Doric Nimrod Air Two – *preference shares*	Equity Investment Instruments	1,411	0.5
N Brown	General Retailers	1,355	0.5
Macau Property Opportunities Fund	Real Estate Investment & Services	1,324	0.5
GAME Digital	General Retailers	1,151	0.4
VPC Specialty Lending Investments	Financial Services	1,038	0.4
Top Sixty Investments		**275,622**	**97.8**
Silence Therapeutics	Pharmaceuticals & Biotechnology	1,021	0.4
Nexeon[UQ]	Electronic & Electrical Equipment	942	0.3
MayAir	Industrial Engineering	859	0.3
PuriCore	Health Care Equipment & Services	789	0.3
Napo Pharmaceuticals – *US common stock*[UQ]	Pharmaceuticals & Biotechnology	722	0.3
Damille Investments II	Equity Investment Instruments	692	0.3
Funding Circle SME	Equity Investment Instruments	569	0.2
Lombard Medical – *US common stock*	Health Care Equipment & Services	319	0.1
Nimrod Sea Assets	Equity Investment Instruments	135	—
HaloSource	Chemicals	97	—
Top Seventy Investments		**281,767**	**100.0**
Melrose Industries	Industrial Engineering	44	—
XTL Biopharmaceuticals – *ADR*	Pharmaceuticals & Biotechnology	19	—
Mirada	Media	1	—
Total Equity Investments (73)		**281,831**	**100.0**

Other Investments

ISSUER AND ISSUE	SECTOR	MOODY/ S&P RATING	MARKET VALUE £'000	% OF PORTFOLIO
Barclays Bank – Nuclear Power Notes 28 Feb 2019	Non-Equity Investment Instruments	NR/NR	4	—
Total Investments (74)			**281,835**	**100.0**

NR is non-rated.

UQ is unquoted.

DIRECTORS

Beatrice Hollond(1)
Was appointed to the Board in September 2003 and became Chairman of the Board and the Nomination Committee on 14 December 2010. She is deputy chairman of Millbank Financial Services, an independent family office, and chairman of Millbank Investment Managers Limited, its investment management subsidiary. She is also a director of Henderson Smaller Companies Investment Trust plc, M&G Group Ltd and Templeton Emerging Markets Investment Trust plc and a member of the advisory board of Brown Advisory. 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.

Ian Armfield(1)
Was appointed to the Board on 1 November 2012 and became the Chairman of the Audit Committee on 22 January 2013. He is a trustee member of the National Employment Savings Trust Corporation and chairman of the Audit and Risk Committee for Pearson Group 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.

William Kendall(1)
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.

Peter Readman(2)
Has been a Director of the Company since 1993. He is chairman of Abercromby Property International, the Cambridge University Investment Board and of the Chamber Orchestra of Europe, a partner of Abercromby & Company and a director of Schroder Income Growth Fund plc and the Social Market Foundation.

John Wood(1)
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.

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

(1) Member of the Audit and Nomination Committees.
(2) Member of the Nomination Committee.

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 Board

Five non-executive directors (NEDs)

Chairman: Beatrice Hollond

Key responsibilities:

- to set strategy, values and standards;
- to provide leadership within a framework of prudent and effective controls which enable risk to be assessed and managed; and
- to constructively challenge and scrutinise performance of all outsourced activities.

Management Engagement Committee Function

The Board as a whole performs this function

Key responsibility:

- to review the performance of the Manager.

Audit Committee

All NEDs, excluding Mr Readman

Chairman Ian Armfield

Key responsibilities:

- to oversee financial reporting and the control environment; and
- to review other service providers.

Nomination Committee

All NEDs

Chairman Beatrice Hollond

Key responsibilities:

- to review regularly the Board's structure and composition; and
- to make recommendations for any new appointments.

Remuneration Committee Function

The Board as a whole performs this function

Key responsibility:

- to set the remuneration policy of the Company.

The Portfolio Manager

The portfolio manager, Mark Barnett, is based in Henley-on-Thames. Mark is Head of UK Equities at Invesco Perpetual and is directly responsible for the management of a number of UK equity portfolios. Mark started his investment career in 1992 at Mercury Asset Management and joined Perpetual in 1996. He graduated in French and Politics from Reading University in 1992 and has passed the associate examinations of the Association for Investment Management and Research (AIMR).

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

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 2015 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 2014 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 50).

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 17, pages 50 and 51, and pages 19 to 21 in respect of the Audit Committee;
- the Company's approach to internal control and risk management is summarised on page 21;
- the contractual arrangements with, and assessment of, the Manager are summarised on pages 53 and 54;
- the Company's capital structure and voting rights are summarised on page 55;
- the most substantial shareholders in the Company are listed on page 56;
- 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

29 November 2016

AUDIT COMMITTEE REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2016

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 are Beatrice Hollond, William Kendall and John Wood.

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 2016. 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.invescoperpetual.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 audit plan, 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.

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

AUDIT COMMITTEE REPORT
continued

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 unlisted 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 35, and all such valuations are carefully reviewed by the Manager's pricing committee and the Committee.
Correct calculation of the performance-related fee	The year end performance-related fee calculation is prepared and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the investment management agreement.
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 2016 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 third 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
- audit fees reasonableness.

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 consider 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 2016 financial year, the Committee was satisfied with the auditor's 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 2017 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 51.

Ian Armfield
Chairman of the Audit Committee

29 November 2016

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2016

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. Ordinary resolutions for the approval of the Directors' Remuneration Policy (binding) and the Annual Statement and Report on Remuneration (advisory) will be put to shareholders at the Annual General Meeting (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 auditor's opinion is included on pages 26 to 31.

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 23 January 2014 and became effective on that date. It is a requirement that the policy be put to shareholders at least every three years and accordingly a resolution for the approval of the Directors' Remuneration Policy below is included in the Notice of Meeting on page 57.

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.

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the Board and summarised in the last Directors' Remuneration Report except that, for consistency with the Company's peers and evolving practice, the specific percentage by which the Board can increase the fees as a result of its regular reviews has been removed. This Policy is intended to take effect immediately upon its approval by shareholders.

Notwithstanding the above, 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 2016 fees paid to Directors were as shown in the Directors' Emoluments table below. 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.

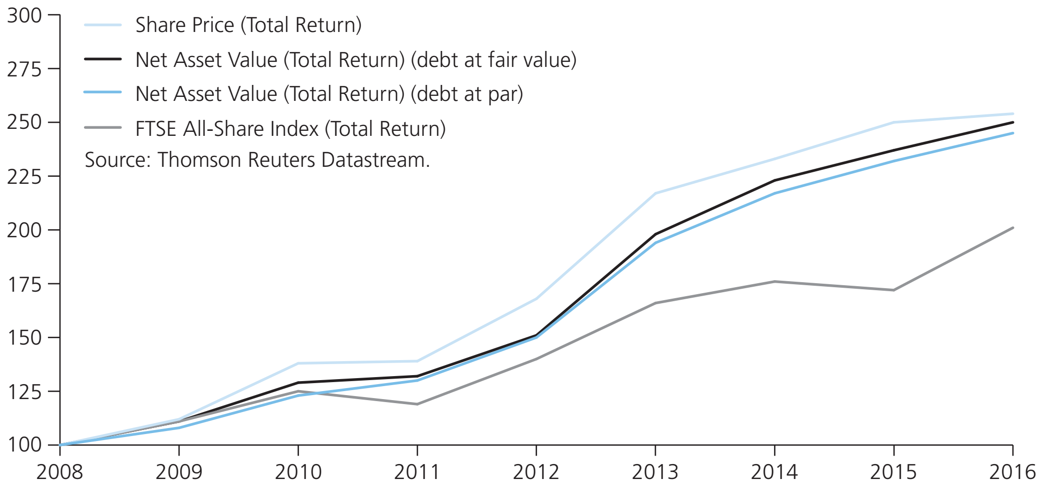
Following the year end the Board undertook its regular remuneration review and decided that fees should remain unchanged.

Report on Remuneration for the Year Ended 30 September 2016

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 eight years to 30 September 2016. 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.



Directors' Emoluments for the Year (Audited)

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

	2016 £	2015 £
Beatrice Hollond (Chairman)[1]	27,000	26,500
Ian Armfield[1]	24,000	23,625
William Kendall	20,000	20,000
Peter Readman	20,000	20,000
John Wood	20,000	20,000
Total	111,000	110,125

[1] Increase in fees with effect from 1 January 2015.

DIRECTORS' REMUNERATION REPORT
continued

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:

	2016	2015
Beatrice Hollond	850	850
Ian Armfield	—	—
William Kendall	6,250	6,250
Peter Readman	—	—
John Wood	1,000	1,000

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 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 2016 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.

	2016 £'000	2015 £'000	CHANGE
Aggregate Directors' Emoluments	111	110	+0.9%
Aggregate Shareholder Distributions	8,557	7,909	+8.2%

Voting at Last Annual General Meeting

At the Annual General Meeting of the Company held on 21 January 2016 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 was as follows:

	VOTES FOR	%	VOTES AGAINST	%	VOTES WITHHELD
Annual Statement and Report on Remuneration	1,810,608	99.9	2,348	0.1	383

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 29 November 2016.

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 16 of this Report, each confirm to the best of their knowledge that:

- the financial statements, which have been 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 Hollond
Chairman

Signed on behalf of the Board of Directors

29 November 2016

Electronic Publication

The annual financial report is published on *www.invescoperpetual.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 financial statements

Our opinion

In our opinion, Keystone Investment Trust plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Financial Report (the "Annual Report"), comprise:

- the Balance Sheet as at 30 September 2016;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview

- Overall materiality: £2.6 million which represents 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 the Bank of New York Mellon (the Administrator) to whom 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.

- Valuation and existence of investments.
- Income.
- Performance fee.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing 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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table that follows. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS
Valuation and existence of investments *Refer to page 20 (Audit Committee Report), page 35 (Accounting Policies) and page 41 (Note 9 to the Financial Statements).* The investment portfolio at 30 September 2016 comprised quoted and unquoted investments. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements. We focused on the valuation of the unquoted investments as these investments represented a material balance in the financial statements (£8.37 million) and the valuation requires estimates and significant judgements to be applied by the Manager such that changes to key inputs to the estimates and/or the judgements made can result, either on an individual unquoted investment or in aggregate, in a material change to the valuation of unquoted investments.	We tested the valuation of the quoted 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. 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 Manager's 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. We consider the valuation methodology of the unquoted investments to be appropriate. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from The Bank of New York Mellon. No differences were identified by our testing which required reporting to those charged with governance.
Income *Refer to page 36 (Accounting Policies) and page 38 (Note 2 to the Financial Statements).* We focused on the accuracy and completeness of dividend 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"). This is because incomplete or inaccurate dividend income could have a material impact on the Company's net asset value and dividend cover.	We assessed the accounting policy for revenue 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 as set out in note 1(e) on page 36 of the financial statements. 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 understood and assessed the design and implementation of key controls surrounding revenue recognition. In addition, we tested dividend receipts by agreeing the dividend rates for investments to independent third party sources. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends.

INDEPENDENT AUDITORS' REPORT
continued

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS
Income *continued*	We 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. We then tested the validity of revenue and capital special dividends to independent third party sources. We did not find any special dividends that were allocated inappropriately in accordance with the AIC SORP.
Performance fee *Refer to page 20 (Audit Committee Report), page 37 (Accounting Policies) and page 38 (Note 3 to the Financial Statements).* A performance fee is payable for the year of £65,000. We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager.	We tested the performance fee of £65,000 and agreed the inputs to the calculation, including the benchmark data, to independent third party sources, where applicable. We tested the allocation of the performance fee between the income and capital return columns of the Income Statement with reference to the accounting policy as set out on page 37. We found that the allocation of the performance fee was consistent with the accounting policy.

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 type of investments within the Company, the involvement of the Manager and the Administrator, the accounting processes and controls, and the industry in which the company operates.

The Company's accounting is delegated to the Administrator which maintains its own accounting records and controls and report to the Manager and the Directors.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment involved obtaining and reading the relevant control reports, issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work, to gain an understanding of both the Manager's and Administrator's control environment and to consider the operating and accounting structure at both the Manager and the Administrator. Following this 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 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	£2.6 million (2015: £2.5 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, 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 £132,000 (2015: £129,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page pages 54 and 55, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion: • information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 25, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 19, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

INDEPENDENT AUDITORS' REPORT

continued

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the Directors' confirmation on page 21 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 10 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' 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 Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report - Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

29 November 2016

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2016 REVENUE £'000	2016 CAPITAL £'000	2016 TOTAL £'000	2015 REVENUE £'000	2015 CAPITAL £'000	2015 TOTAL £'000
Gains on investments	9	—	8,155	8,155	—	13,884	13,884
Foreign exchange losses		—	(11)	(11)	—	(10)	(10)
Income	2	9,783	88	9,871	10,071	—	10,071
Investment management and performance-related fees	3	(343)	(1,092)	(1,435)	(365)	(3,637)	(4,002)
Other expenses	4	(355)	—	(355)	(350)	—	(350)
Net return before finance costs and taxation		9,085	7,140	16,225	9,356	10,237	19,593
Finance costs	5	(560)	(1,647)	(2,207)	(560)	(1,645)	(2,205)
Return on ordinary activities before taxation		8,525	5,493	14,018	8,796	8,592	17,388
Tax on ordinary activities	6	(139)	—	(139)	(137)	—	(137)
Net return on ordinary activities after taxation for the financial year		8,386	5,493	13,879	8,659	8,592	17,251
Return per ordinary share							
Basic	8	62.0p	40.7p	102.7p	64.1p	63.5p	127.6p

The total column of this statement represents the Company's profit and loss account, prepared in accordance with the accounting policies detailed in note 1 to the financial statements. The return on ordinary activities 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. No operations were acquired or discontinued in the year.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

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
Balance at 30 September 2014	6,760	3,449	466	229,558	10,034	250,267
Dividends paid – note 7	—	—	—	—	(7,893)	(7,893)
Net return on ordinary activities	—	—	—	8,592	8,659	17,251
Balance at 30 September 2015	6,760	3,449	466	238,150	10,800	259,625
Dividends paid – note 7	—	—	—	—	(8,557)	(8,557)
Net return on ordinary activities	—	—	—	5,493	8,386	13,879
Balance at 30 September 2016	6,760	3,449	466	243,643	10,629	264,947

The accompanying notes are an integral part of these statements.

BALANCE SHEET

AT 30 SEPTEMBER

	NOTES	2016 £'000	2015 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	281,835	275,790
Current assets			
Debtors	10	724	642
Cash and cash equivalents		15,597	20,398
		16,321	21,040
Creditors: amounts falling due within one year	11	(1,237)	(5,263)
Net current assets		15,084	15,777
Total assets less current liabilities		296,919	291,567
Creditors: amounts falling due after more than one year	12	(31,972)	(31,942)
Net assets		264,947	259,625
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	243,643	238,150
Revenue reserve	14	10,629	10,800
Shareholders' funds		264,947	259,625
Net asset value per ordinary share			
Basic	15	1959.8p	1920.5p

The financial statements, on pages 32 to 49, were approved and authorised for issue by the Board of Directors on 29 November 2016.

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	2016 £'000	2015 £'000
Cash flow from operating activities			
Net return before finance costs and taxation		16,225	19,593
Adjustments for:			
Purchase of investments		(44,117)	(31,314)
Sale of investments		44,503	36,840
		386	5,526
Scrip dividends		(39)	(237)
Gains on investments		(8,155)	(13,884)
Operating cash flows before movements in working capital		8,417	10,998
Decrease in debtors		133	456
(Decrease)/increase in creditors		(2,477)	1,574
Tax on overseas income	6	(139)	(137)
Net cash inflow from operating activities		5,934	12,891
Cash flow from financing activities			
Interest paid on debenture stocks		(2,166)	(2,166)
Preference dividends paid		(12)	(12)
Net equity dividends paid	7	(8,557)	(7,893)
Net cash outflow from financing activities		(10,735)	(10,071)
Net (decrease)/increase in cash and cash equivalents		(4,801)	2,820
Cash and cash equivalents at the beginning of the year		20,398	17,578
Cash and cash equivalents at the end of the year		15,597	20,398
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:			
Cash at custodian		267	3,215
Short-Term Investment Company (Global Series) plc, money market fund		15,330	17,183
Cash and cash equivalents		15,597	20,398
Cash flow from operating activities includes:			
Interest received		12	16
Dividends received		9,479	9,871

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). Accordingly, FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland applies to and has been applied for the first time. The financial statements are issued on a going concern basis.

As a result of the first time adoption of FRS 102 and the revised SORP, comparative figures and presentation have been revised where required. The net return attributable to ordinary shareholders and shareholders' funds remain unchanged. The accounting policies applied to these financial statements are consistent with those applied for the year ended 30 September 2015, apart from a revision to cash which is now defined as cash and cash equivalents. Note 1(d) sets out the accounting policy for cash and cash equivalents. No other accounting policies have changed as a result of the application of FRS 102, amendments to FRS 102 (see below) and the revised SORP.

Amendments to FRS 102 – Fair value hierarchy disclosures (March 2016) amends paragraphs 34.22 and 34.42 of FRS 102, revising the disclosure requirements for financial instruments held at fair value to align these with the disclosure requirements of EU-adopted IFRS. These amendments become effective for accounting periods beginning on or after 1 January 2017. The Company has chosen to early adopt these paragraphs. There are no accounting policy or disclosure changes as a result of this adoption.

(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

(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.

NOTES TO THE FINANCIAL STATEMENTS
continued

1. Accounting Policies (continued)

(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 Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Valuation Guidelines issued in 2012, using valuation techniques such as earnings multiples, recent arm's length transactions and net assets.

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) Accounting for Capital Reserves

Realised gains and losses on sales of investments (note 9(b)); realised gains or losses on forward currency contracts; realised gains and losses on foreign currency; management fees and finance costs allocated to capital; and any other capital charges, are included in the income statement and dealt with in the capital reserve. Unrealised increases and decreases in the valuation of investments at the year end (including the related foreign exchange gains and losses) are also included in the income statement and dealt with in the capital reserve.

(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 provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

(k) Dividends Payable

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

NOTES TO THE FINANCIAL STATEMENTS
continued

2. Income

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

	2016 £'000	2015 £'000
Income from investments		
UK dividends		
– Ordinary dividends	7,055	6,443
– Special dividends	305	1,124
Overseas dividends		
– Ordinary dividends	1,725	1,609
– Special dividends	416	547
Scrip dividends	39	237
Unfranked investment income	207	95
	9,747	10,055
Other income		
Deposit interest	12	16
Other	24	—
	36	16
Total income	9,783	10,071

Special dividends of £88,000 (2015: £nil) 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.

	2016			2015		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	343	1,027	1,370	365	1,093	1,458
Performance-related fee	—	65	65	—	2,544	2,544
	343	1,092	1,435	365	3,637	4,002

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

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 2016, an investment management fee of £354,000 (2015: £359,000) has been accrued in respect of the three months to 30 September 2016. In addition a performance-related fee of £65,000 (2015: £2,544,000) has been accrued for the year.

4. Other Expenses

The other expenses of the Company are presented below.

	2016 £'000	2015 £'000
Directors' fees	111	110
Fees payable to the Company's auditor in relation to:		
– the statutory audit of the financial statements	26	25
Other expenses	218	215
	355	350

The Directors' 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 £6,000 (2015: £6,000) of employer's National Insurance paid on Directors' fees. As at 30 September 2016, the amount outstanding on Directors' fees and employer's National Insurance was £6,900 (2015: £6,400).

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).

	2016			2015		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Interest payable on borrowings repayable not by instalment:						
Debenture stock repayable after 5 years	548	1,647	2,195	548	1,645	2,193
	548	1,647	2,195	548	1,645	2,193
Dividends on 5% cumulative preference shares	12	—	12	12	—	12
	560	1,647	2,207	560	1,645	2,205

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

	2016 REVENUE £'000	2015 REVENUE £'000
Overseas tax	139	137

NOTES TO THE FINANCIAL STATEMENTS
continued

6. Tax on ordinary activities (continued)

(b) Reconciliation of Current Tax Charge

	2016 £'000	2015 £'000
Total return on ordinary activities before taxation	14,018	17,388
UK Corporation Tax effective rate of 20% (2015: 20.50%)	2,804	3,565
Effect of:		
– Gains on investments	(1,631)	(2,846)
– Loss on foreign exchange movements	2	2
– UK dividends which are not taxable	(1,415)	(1,494)
– Non-taxable overseas dividends	(415)	(430)
– Overseas tax	139	137
– Non-taxable scrip dividends	(8)	(49)
– Disallowed expenses	3	4
– Excess of management expenses over taxable income	660	1,248
Current tax charge for the year	139	137

(c) Factors that may Affect Future Tax Changes

The Company has excess expenses of £68,676,000 (2015: £65,378,000) that are available to offset future taxable revenue. A deferred tax asset, of £11,675,000 measured at the standard corporation tax rate of 17% (2015: £13,076,000 at 20%), 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 asset can be offset.

7. Dividends

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

	2016 £'000	2015 £'000
Dividends on equity shares paid and recognised in the year:		
Second interim dividend for 2015 of 33p (2014: 32.5p)	4,461	4,394
Special dividend for 2015 of 12.3p (2014: 8p)	1,663	1,082
First interim dividend for 2016 of 18p (2015: 18p)	2,433	2,433
	8,557	7,909
Return of unclaimed dividends from previous years	—	(16)
	8,557	7,893

	2016 £'000	2015 £'000
Dividends on equity shares payable in respect of the year:		
First interim paid 18p per ordinary share (2015: 18p)	2,433	2,433
Second interim dividend of 35p per ordinary share (2015: 33p)	4,732	4,461
	7,165	6,894
Special dividend of 5.3p per ordinary share (2015: 12.3p)	716	1,663
	7,881	8,557

Investment trusts must ensure that no more than 15% of total income is retained each year after providing for dividends payable.

8. 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 (2015: 13,518,799) shares being the weighted average number of ordinary shares in issue throughout the year.

9. Investments

The portfolio is made up primarily of investments which are listed, i.e. traded on a regulated stock exchange, 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

	2016 £'000	2015 £'000
Investments listed on a recognised stock exchange	273,462	267,119
Unlisted investments	8,373	8,671
	281,835	275,790

(b) Analysis of Investment Gains and Losses

	2016 LISTED £'000	2016 UNLISTED £'000	2016 TOTAL £'000	2015 TOTAL £'000
Opening book cost	192,245	8,573	200,818	193,801
Opening investment holding gains	74,874	98	74,972	70,198
Opening valuation	267,119	8,671	275,790	263,999
Movements in year:				
Purchases at cost	42,608	—	42,608	33,118
Sales – proceeds	(44,718)	—	(44,718)	(35,211)
– net realised gains	16,409	—	16,409	9,110
Book cost written off	—	(1,523)	(1,523)	—
Movement in investment holding gains	(7,956)	1,225	(6,731)	4,774
Closing valuation	273,462	8,373	281,835	275,790
Closing book cost	206,544	7,050	213,594	200,818
Closing investment holding gains	66,918	1,323	68,241	74,972
Closing valuation	273,462	8,373	281,835	275,790
Net realised gains/(losses) based on historical cost	16,409	(1,523)	14,886	9,110
Movement in investment holding gains in year	(7,956)	1,225	(6,731)	4,774
Gains/(losses) on investments	8,453	(298)	8,155	13,884

(c) Transaction Costs

Transaction costs on purchases of £171,000 (2015: £129,000) and on sales of £57,000 (2015: £53,000) are included within gains and losses on investments in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
continued

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.

	2016 £'000	2015 £'000
Amounts due from brokers	215	—
Prepayments and accrued income	281	341
Overseas withholding tax recoverable	186	282
Income tax recoverable	42	19
	724	642

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.

	2016 £'000	2015 £'000
Amounts due to brokers	19	1,567
Accruals	1,153	1,152
Performance-related fee	65	2,544
	1,237	5,263

Details of the performance-related fee are given in note 3.

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'.

	2016 £'000	2015 £'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	(246)	(276)
	31,722	31,692
5% cumulative preference shares of £1 each	250	250
	31,972	31,942

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.

13. Called up share capital

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

	2016 NUMBER	2016 £'000	2015 NUMBER	2015 £'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 (2015: 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, totalling a gain of £68,241,000 (2015: £74,972,000). 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. The revenue reserve shows the net revenue retained after payment of dividends. The revenue and capital reserves are distributable by way of dividend. Share buy backs can be funded from the capital reserve.

15. Net Asset Value per Ordinary Share

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

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

	NET ASSET VALUE PER SHARE		NET ASSETS ATTRIBUTABLE	
	2016 PENCE	2015 PENCE	2016 £'000	2015 £'000
Ordinary shares				
– Basic	1959.8	1920.5	264,947	259,625

Net asset value per ordinary share is based on net assets at the year end and on 13,518,799 (2015: 13,518,799) ordinary shares, being the number of ordinary shares in issue at the year end.

16. Financial Instruments

Financial instruments comprise the Company's investment portfolio as well as its cash, borrowings, debtors and creditors. Derivative financial instruments are financial instruments that are used to manage the risk associated with fluctuations in the value of certain assets and liabilities. In accordance with Board approved policies, the Company can use derivatives to manage its exposure to fluctuations in foreign exchange rates.

The Company's financial instruments comprise its investment portfolio (as shown on pages 14 and 15), 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 (2015: none).

NOTES TO THE FINANCIAL STATEMENTS
continued

16. Financial Instruments (continued)

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 on page 52. 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 and Swiss francs.

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.

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 2016		30 SEPTEMBER 2015	
	US DOLLAR £'000	SWISS FRANC £'000	US DOLLAR £'000	SWISS FRANC £'000
Debtors (due from brokers, dividends)	125	186	107	84
Foreign currency exposure on net monetary items	125	186	107	84
Investments at fair value through profit or loss that are equities	15,981	14,369	19,255	12,301
Total net foreign currency exposure	16,106	14,555	19,362	12,385

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.

	2016	2015
£/US dollar	±5.4%	±2.2%
£/Swiss franc	±6.1%	±3.5%

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 US dollar and Swiss franc against the mean during the year.

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

	30 SEPTEMBER 2016		30 SEPTEMBER 2015	
	US DOLLAR £'000	SWISS FRANC £'000	US DOLLAR £'000	SWISS FRANC £'000
Income statement – return after taxation				
Revenue return	27	35	11	18
Capital return	863	877	424	431
Total return after taxation for the year	890	912	435	449
Effect on net asset value	0.3%	0.3%	0.2%	0.2%

If Sterling were to strengthen against the US dollar and Swiss franc to this 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.

NOTES TO THE FINANCIAL STATEMENTS
continued

16. Financial Instruments (continued)

Risk Management Policies and Procedures (continued)

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 bank overdraft facility which it uses for settlement purposes, on which interest is payable at a variable rate. Use of this facility has been minimal over the two years being reported on. At the year end there was none drawn down (2015: nil).

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.

Based on the equity portfolio value of £281,835,000 (2015: £275,790,000), 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 £2.82 million (2015: £2.76 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:

	2016				2015			
	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	11,366	13,531	811	1,354	13,531	15,696
Amounts due to brokers	19	—	—	19	1,567	—	—	1,567
Other creditors and accruals	450	—	—	450	449	—	—	449
Performance fee accrued	65	—	—	65	2,544	—	—	2,544
	1,345	1,354	43,334	46,033	5,371	1,354	45,499	52,224

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. This risk is mitigated by using only approved and appropriately regulated counterparties. Cash balances are 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, which invests in high quality sterling denominated money market investments such as commercial paper, certificates of deposit, time deposits and asset-backed commercial paper. 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 in 2014 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.

Fair Values of Financial Assets and Financial Liabilities

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). 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 2016 £'000	FAIR VALUE 2016 £'000	BOOK VALUE 2015 £'000	FAIR VALUE 2015 £'000
Debentures payable in less than 5 years:				
7.75% Debenture Stock 2020	7,000	8,444	7,000	8,505
Debentures repayable in more than 5 years:				
6.5% Debenture Stock 2023	24,968	32,071	24,968	30,445
Discount on issue of debentures	(246)	—	(276)	—
	31,722	40,515	31,692	38,950
5% Cumulative preference shares of £1 each	250	233	250	213
	31,972	40,748	31,942	39,163

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 (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (ie 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.

NOTES TO THE FINANCIAL STATEMENTS
continued

16. Financial Instruments (continued)

Fair Value Hierarchy Disclosures (continued)

	2016 LEVEL 1 £'000	2016 LEVEL 2 £'000	2016 LEVEL 3 £'000	2016 TOTAL £'000	2015 LEVEL 1 £'000	2015 LEVEL 2 £'000	2015 LEVEL 3 £'000	2015 TOTAL £'000
Financial assets designated at fair value through profit or loss:								
Quoted investments:								
Equities	273,458	—	—	273,458	266,974	—	—	266,974
Other securities	—	4	—	4	—	145	—	145
Unquoted investments:								
Equities	—	—	8,373	8,373	—	—	8,671	8,671
Total for financial assets	273,458	4	8,373	281,835	266,974	145	8,671	275,790

A reconciliation of the fair value movements in Level 3 is set out below:

	2016 £'000	2015 £'000
Opening fair value of Level 3	8,671	8,837
Purchases at cost	—	2,700
Movement in holding gains on assets held at the year end	(298)	(2,866)
Closing fair value of Level 3	8,373	8,671

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 2016 was £296,919,000 (2015: £291,567,000) comprising borrowings of £31,972,000 (2015: £31,942,000) and equity share capital and other reserves of £264,947,000 (2015: £259,625,000).

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 raise equity exposure. At the balance sheet date, net gearing was 6.2% (2015: 4.4%). 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 to 10. 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 and preference shares, details of which are contained in note 12.

17. 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 (2015: £nil).

18. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or 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' emoluments and interests have been disclosed on pages 23 to 24 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 page 53 and 54, and in note 3.

19. 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 2016

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 five 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 19 to 21 and on page 51.

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. She has been on the Board since September 2003 and is subject to an annual performance appraisal. Following this year's appraisal, the Board has confirmed that Mrs Hollond's performance continues to be effective. Accordingly, the Board recommends her re-election. The Chairman will be present at the AGM to answer questions.

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.

Board Balance and Independence

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

The Board considers all of the Directors to be independent of the Company's Manager.

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. 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 keeps under review, and has concluded that, it has the appropriate balance of skills and length of service. The Board considers that Mrs Hollond, Mr Kendall and Mr Readman, 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.

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 19 to 21, 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 under the chairmanship of Beatrice Hollond. The main responsibilities of the Nomination Committee are to review the size, structure and skills of the Board and to make recommendations 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.

Appointment, Re-election and Tenure of Directors

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

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 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.

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

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

The Board opted to conduct performance evaluation through questionnaires and discussion between the Directors, the Chairman of the Company and the Chairman of the Audit Committee. The result of this year's performance evaluation process was that the Board, the Committees of the Board and the Directors individually were assessed to have performed satisfactorily. No follow-up actions were required.

Accordingly, the Board confirms that the performance of all Directors is and continues to be effective and demonstrates commitment to the role. It recommends to shareholders the approval of Resolutions 4 to 8 relating to the re-election of the 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 2016 and the number of meetings attended by each Director.

DIRECTORS' REPORT
continued

MEETING	BOARD	AUDIT COMMITTEE	NOMINATION COMMITTEE
Meetings Held	5	3	3
Meetings Attended:			
Beatrice Hollond	5	3	3
Ian Armfield	5	3	3
William Kendall	4	3	3
Peter Readman[(1)]	5	—	3
John Wood	5	3	3

(1) Not a member of the Audit Committee.

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 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.

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.invescoperpetual.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 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 page 54.

- *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 22 to 24.

Corporate Governance

The Corporate Governance Statement set out on page 18 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 24.

Disclosable Interests

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

Conflicts of Interest

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

DIRECTORS' REPORT
continued

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 0.15% of 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 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 thought attractive irrespective of their index weightings. The portfolio's composition and performance are likely, therefore, to be very different from those of the benchmark index. Over the short term, there may be periods of sharp underperformance compared with the benchmark. Over the long term, the Board expects the combination of the Company's and Manager's approach to result in a significant degree of outperformance compared with the benchmark. The Board is satisfied with the current terms of appointment of the Manager.

Annually, the Board also considers the ongoing secretarial and administrative requirements of the Company and assesses the services provided. The Board, based on its recent review of activities, believes that the continuing appointment of Invesco Fund Managers Limited remains in the best interest of the Company and its shareholders.

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 Transfers 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 2016, 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 or 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.

DIRECTORS' REPORT
continued

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 2016		AS AT 30 SEPTEMBER 2016	
	HOLDING	%	HOLDING	%
Investec Wealth & Investment	1,830,130	13.5	1,829,089	13.5
Brewin Dolphin	1,278,350	9.5	1,284,072	9.5
Charles Stanley	664,824	4.9	678,124	5.0
Rathbones	664,737	4.9	664,491	4.9
1607 Capital Partners	657,214	4.9	576,825	4.3
Speirs & Jeffrey	654,186	4.8	651,641	4.8
JM Finn	555,703	4.1	555,132	4.1
Alliance Trust Savings	452,361	3.4	457,486	3.4
Smith & Williamson	433,410	3.2	435,150	3.2

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. All meetings between the Manager and institutional and other shareholders are reported to the Board.

It is the intention of the Board that the Annual Financial Report and Notice of the AGM be issued to shareholders so as to provide at least 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 63. 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.invescoperpetual.co.uk/keystone* in order to access copies of half-year and annual financial reports; shareholder circulars; Company factsheets; regulatory announcements; and ISA and savings scheme literature. 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 24 January 2017 at 11 a.m. The notice of the AGM and related notes can be found on pages 58 to 61. All resolutions are ordinary resolutions unless otherwise identified.

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

Resolution 2 is to approve the Directors' Remuneration Policy. The Directors' Remuneration Policy is set out on page 22 of this Annual Financial Report.

Resolution 3 is to approve the Annual Statement and Report on Remuneration. It is mandatory for listed companies to put their Annual Statement and Report on Remuneration to an advisory shareholder vote. The Annual Statement and Report on Remuneration is set out on pages 22 to 24 of this Annual Financial Report.

Resolutions 4 to 8 are to re-elect the Directors. Biographies of the Directors can be found on page 17.

Resolution 9 is to re-appoint the Auditor and to authorise the Audit Committee to determine the Auditor's remuneration. PricewaterhouseCoopers LLP have expressed their willingness to continue to hold office until the conclusion of the next annual general meeting of the Company.

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 29 November 2016). 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 2017.

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 29 November 2016), 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 2017.

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 2017. 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

29 November 2016

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 Perpetual at 43-45 Portman Square, London W1H 6LY at 11am on 24 January 2017 for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 30 September 2016.
2. To approve the Directors' Remuneration Policy.
3. To approve the Annual Statement and Report on Remuneration.
4. To re-elect Mrs Beatrice Hollond a Director of the Company.
5. To re-elect Mr Ian Armfield a Director of the Company.
6. To re-elect Mr William Kendall a Director of the Company.
7. To re-elect Mr Peter Readman a Director of the Company.
8. To re-elect Mr John Wood a Director of the Company.
9. To reappoint PricewaterhouseCoopers LLP as auditor to the Company and authorise the Audit Committee to determine their remuneration.

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 24 January 2017, being the date of the Annual General Meeting (equivalent to 2,026,467 shares at 29 November 2016);

(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 56 and 57 for further explanations of all the Resolutions.

Dated this 29th November 2016

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 Capita Asset Services' website *www.capitashareportal.com*; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, 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 notarially certified copy thereof) must be lodged at the office of the Company's registrars, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, by not later than 11am on 20 January 2017.

4. A person entered on the Register of Members at close of business on 20 January 2017 ('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 29 November 2016 (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.

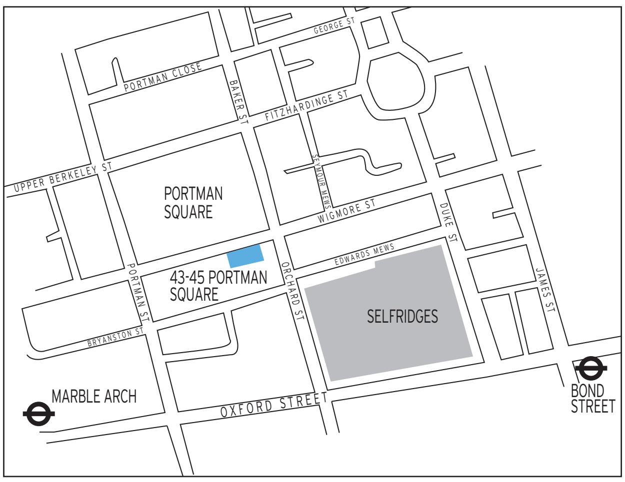
12. This notice is sent for information only to the holders of the 7.75% Debenture Stock (redeemable 1 October 2020), 6.5% Debenture Stock (redeemable 27 April 2023) and 5% Cumulative Preference Shares, who are not entitled to attend and vote at the meeting.

13. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at *www.invescoperpetual.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 auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 October 2015; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 October 2014 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 24 January 2017 the offices of Invesco Perpetual 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

The shares of Keystone Investment Trust plc are quoted on the London Stock Exchange.

Savings Plan and ISA

The Company's ordinary shares are eligible for investment via an ISA.

Keystone Investment Trust plc is also a participant in the Invesco Perpetual Investment Trust Savings Scheme and ISA. Shares in this Company can be purchased and sold via these two schemes.

Invesco Perpetual Investment Trust Savings Scheme

The Invesco Perpetual Investment Trust Savings Scheme allows investors to make purchases from £20 per month or through lump sum investments from £500.

Invesco Perpetual Investment Trust ISA

The Invesco Perpetual Investment Trust ISA allows investments up to £15,240 in shares of Keystone Investment Trust plc in the 2016/17 tax year. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

For further details of these Invesco Perpetual investment schemes please contact the Invesco Perpetual Client Services Team free on ☎ 0800 085 8677.

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.

Website

Information relating to the Company can be found on the Company's section of the Manager's website, 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 financial report.

Share Price Listings

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

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

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.

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 Contacts: Shilla Pindoria and Paul Griggs.

Correspondence Address

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

Invesco Perpetual Client Services

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

Savings Scheme and ISA Administrator

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

Invesco Perpetual
P.O. Box 11150
Chelmsford CM99 2DL
☎ 0800 085 8677.

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

Depositary

BNY Mellon Trust Depositary (UK) Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA.

Custodian

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

Independent Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT.

Registrar

Capita 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 registrar:
☎ 0871 664 0300.
Calls cost 12p per minute plus your phone company's access charges.

From outside the UK: +44 208 639 3399. 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 Capita's website:
www.capitashareportal.com.

The registrar 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.capitadeal.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).

GLOSSARY OF TERMS

Net Asset Value (NAV)

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

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.

Total Return

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Performance comparisons can then be made between companies with different dividend policies. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (to give share price total return) or the company's assets (to give NAV total return).

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, ie borrowings less cash and bond holdings. 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.

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.

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.invescoperpetual.co.uk/keystone) in a downloadable document entitled 'AIFMD Investor Information'. There have been no material changes to this information in the year to 30 September 2016 or up to the date of this report. 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 64) to be made available to investors.

Accordingly:

— the leverage calculated for the Company at its year end was 106% for both gross and commitment (2015: gross and commitment 106%). The limits the AIFM has set for the Company remain unchanged at 250% and 200%, respectively;

— the AIFM remuneration policy is available from the Company's company secretary, on request (see contact details on page 63); and

— the AIFM remuneration paid for the year to 31 December 2015 is set out below.

AIFM Remuneration

The AIFM remuneration paid is based on the financial year of the AIFM, which is 31 December 2015.

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 £3,759 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 2015 is £6,899,615, of which £3,634,486 is fixed remuneration and £3,265,129 is variable remuneration. The number of beneficiaries is 40.

IFML has identified individuals considered to have a material impact on the risk profile of IFML or the AIFs it manages ('AIFMD Code Staff'), including Board members of IFML, senior management, heads of control functions and other 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 AIFMD Code Staff of IFML for AIF related activities is £1,257,880 of which £368,220 is paid to senior management and £889,660 is paid to other AIFMD Code Staff. Please note the total remuneration for AIFMD Code Staff excludes 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 $807.5 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 2016.*

INVESTMENT COMPANIES MANAGED BY INVESCO PERPETUAL

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

City Merchants High Yield Trust Limited

A Jersey-incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments. 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, including AIM stocks. 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 Portfolio

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

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

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

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

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

Please contact Invesco Perpetual'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.invescoperpetual.co.uk/investmenttrusts.

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