

# Keystone Investment Trust plc

## Half-Yearly Financial Report for the Six Months to 31 March 2016

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

### OBJECTIVE OF THE COMPANY

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

Full details of the Company's investment policy, risk and limits can be found in the annual financial report for the year ended 30 September 2015.

### PERFORMANCE STATISTICS

#### SIX MONTHS ENDED 31 MARCH

##### Total Return Statistics<sup>(1)</sup>

(capital growth with income reinvested)

##### Net asset value (NAV) per share:

	2016	2015
– debt at par	+0.9%	+8.2%
– debt at fair value	+1.2%	+7.8%
Share price	–3.6%	+7.2%
FTSE All-Share Index	+3.5%	+5.3%

##### Capital Statistics

NAV per share:

	2016	2015
– debt at par	–2.2%	+5.3%
– debt at fair value	–2.1%	+4.8%
Share price <sup>(1)</sup>	–6.0%	+4.8%
FTSE All-Share Index <sup>(1)</sup>	+1.8%	+3.7%

(1) Source: Thomson Reuters Datastream.

#### SIX MONTHS ENDED 31 MARCH

##### Revenue Statistics

	2016	2015
Revenue return per ordinary share	30.6p	30.2p
Interim dividend per ordinary share	18.0p	18.0p

#### AT PERIOD END

NAV per share:

	31 MARCH 2016	30 SEPTEMBER 2015
– debt at par	1878.0p	1920.5p
– debt at fair value	1827.5p	1867.1p
Share price	1669.0p	1776.0p

Discount of share price to net asset value per share:

	2016	2015
– debt at par	11.1%	7.5%
– debt at fair value	8.7%	4.9%

Gearing from borrowings:

	2016	2015
– gross	12.6%	12.3%
– net	4.4%	4.4%

## INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

### Chairman's Statement

#### Performance

In the six months from 30 September 2015 to 31 March 2016 the Company's shares gave a total return of –3.6%. The underlying net asset value (NAV) per ordinary share (with debt at fair value) gave a total return of +1.2%. These compare with a total return by the Company's benchmark for performance measuring purposes, the FTSE All-Share Index, of +3.5% (all these figures are with income reinvested).

The Company's under-performance relative to the benchmark in this period is explained in the Manager's Report. However, the Company's long term performance continues to be strong with three, five and ten year share price total returns of 23.5%, 73.1% and 134.1% respectively, compared with total returns of 11.4%, 31.9% and 58.3% for the benchmark.

During the six months under review the discount of the share price relative to NAV (debt at fair value) increased from 4.9% to 8.7%. The discount widened, in common with most of the Company's AIC peer group, following the

decision by Aviva to liquidate a large investment trust portfolio that had been held by Friends Life, which Aviva recently acquired. We believe this effect will be temporary.

### Gearing and Investment Guidelines

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. The Board requires that the Manager must make no net purchases which would take equity exposure above 107.5% of net assets, and must make sales if, as a result of market movements, equity exposure goes higher than 115% of net assets. The former limit was modestly increased in January 2016 from 105%, although to date the additional latitude has not been used. Gearing parameters and levels continue to be reviewed on a regular basis.

### Dividend

The Board has declared a first interim dividend of 18p per ordinary share, which will be paid on 10 June 2016 to shareholders on the register on 20 May 2016. The shares will be marked ex-dividend on 19 May 2016.

Beatrice Hollond

10 May 2016

Chairman

### Manager's Report

#### Market Review

The UK equity market was extremely volatile over the period under review, with sentiment largely driven by the actions of central banks and by movements in commodity prices. After a strong year-end rally, following the first increase in US interest rates for seven years, the FTSE All-Share Index fell sharply in the first quarter of 2016, to its lowest level since 2012. The oil price hit a 10 year low, fears grew over the risk of a global recession and oil and mining companies cut profit guidance and, in some cases, dividends. Confirmation of the Brexit referendum date had little impact on the market, but did lead to weakness in sterling. The turbulence moderated as oil and mining prices showed some recovery and the ECB surprised financial markets by cutting interest rates in the eurozone to zero and stepping up the pace of quantitative easing. Towards the period end, Janet Yellen, Chairman of the US Federal Reserve, provided a boost to equities by stating that the US central bank should proceed cautiously with interest rate rises.

Market moves over the last six months were characterised by some particularly volatile days, with a low volume of shares traded.

#### Portfolio Strategy & Review

The Company's net asset value, with debt at fair value and including reinvested dividends, rose by 1.2% during the 6 months to the end of March 2016, compared to a rise of 3.5% from the FTSE All-Share index (total returns).

Against such a volatile stock market backdrop, the portfolio delivered a positive return over the period, but lagged the rise of the market. The performance benefited from its zero weighting in the banks sector, but its underweight position in the oil & gas sector, notably the absence of a holding in Royal Dutch Shell or BG Group, detracted from performance. The zero weighting in the mining sector, where share prices demonstrated exceptional swings, was on balance a positive.

Performance again benefited from the holdings in the tobacco sector. Notable amongst these was Reynolds American, which confirmed that it expects double-digit earnings growth this year and increased its dividend by 16.7%, while also planning to pay down debt sharply. The company is beginning to see the benefits of last year's acquisition of Lorillard – with cost and revenue synergies emerging from the process of integration.

Against a market backdrop of dividend cuts, Provident Financial was another holding to announce a significant increase in its pay-out. A 23% full year increase represented a sixth consecutive year of double-digit percentage increases. A meeting with the company, now a FTSE 100 index constituent, further reassured us of the positive long term outlook for this business.

Within the fixed line telecoms sector, BT announced its strongest revenue growth in over seven years and continued its expansion into mobile telephony, with its acquisition of EE gaining approval from the Competition and Markets Authority. Shareholders received further good news as it was confirmed that the company would not have to de-merge or sell the Openreach fixed line infrastructure, as had been feared. KCOM, meanwhile, saw its shares rise on

the sale of its national infrastructure (outside of Hull and East Yorkshire) to CityFibre for £90 million. TalkTalk Telecom, however, announced that it had been the victim of a cyber-attack. The shares were marked down in the weeks following the news, but stabilised towards the end of the period as it was confirmed that the impact of the attack had been less than originally suspected.

BAE Systems released a positive trading update, with a robust order backlog underpinning confidence in the future prospects for the business. The company also highlighted continuing strength in its adjacent commercial markets including cyber security and electronics, reiterating that defence and security remained the first priority of governments in all of its markets.

London Stock Exchange (LSE) announced a "merger of equals" with Deutsche Boerse. Its shares rose to a record high as New York Stock Exchange owner ICE said it may make a counter offer for LSE.

GAME Digital, however, saw its shares fall sharply after an update on pre-Christmas trading, which confirmed that UK sales had fallen off sharply at the most critical time of year for the company. Sales in old format content have declined much faster than expected and, while sales of new generation content have remained strong, these were not enough to offset the fall. The company's sales in the Spanish market have remained strong.

The holding in Capita fell over the period. The company's full year results led to a lowering of forecasts for organic growth and a higher interest charge. Most significantly in terms of the share price fall, the shares have been significantly de-rated by the stock market. The portfolio manager believes the share price reaction has been unduly harsh, with the company well positioned to deliver growth from its bid pipeline in a challenging macro-economic environment.

Also weighing on portfolio performance were the holdings in the travel & leisure sector, where sentiment has been overshadowed by terrorist events. Thomas Cook confirmed a challenging trading backdrop for 2016, although it has moved much of its summer capacity to the Western Mediterranean. EasyJet reported a reduction in revenue per seat – with French air traffic control strikes an additional headwind for the company.

In terms of portfolio activity, new investments were made in Diurnal and Marwyn Value Investors. The holding in Amlin was disposed of on acceptance of the previously agreed cash takeover by Mitsui and the holdings in Ladbrokes and Rolls-Royce were sold.

## Outlook

The near term outlook for the UK stock market is likely to remain clouded by a muted macro-economic backdrop in the global economy and increased pressure on profitability in the corporate sector. The multiyear monetary policy of setting interest rates at close to zero has not stimulated capital investment. Rather, companies have contained costs, particularly wages, and have used low financing costs to buy back their own stock. Whilst good for profit margins and shareholder returns in the short term, the result has been a level of economic growth in the developed world which is below historic averages. Another side effect has been to widen income inequality in many developed market economies, prompting incumbent governments, increasingly wary of more populist movements, to redress the balance – measures have included increasing minimum wages and tackling corporate tax arbitrage. Combined with some natural wage pressure from tighter labour markets in the US, this is beginning to threaten corporate profit margins.

The collapse in energy prices and the relentless drive of digital technology have entrenched low inflation expectations such that, combined with the factors outlined above, the global economy faces an ongoing lack of pricing power. This in turn has restrained the level of turnover growth in many industries, while any rebound in energy prices or pick up in employment costs may not easily be passed on.

The overall implications for the UK stock market, which is highly global in its make-up, are that earnings growth in many sectors may disappoint. Given that valuations are not obviously cheap, overall returns from equities may be expected to be subdued for the time being. The volatility witnessed since the start of 2016, partly caused by nervousness over financial stability in China, is also likely to remain a feature of the investment landscape for the remainder of the year. The Company's portfolio has changed relatively little in recent months, as the current investments continue to demonstrate the ability to grow earnings and dividends in this challenging environment.

Mark Barnett  
Portfolio Manager

10 May 2016

## Related Party Transactions and Transactions with the Manager

The Company has identified the Directors as related parties. Transactions with Directors are limited to their emoluments. Transactions with the Manager comprise management and any performance fees. The basis of these has not changed from that reported in the last annual report.

## Principal Risks and Uncertainties

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

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

A detailed explanation of these principal risks and uncertainties can be found on pages 8 to 10 of the 2015 annual financial report, which is available on the Company's section of the Manager's website.

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

## Going Concern

This half-yearly financial report has been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the date of approval of these half year financial statements. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities, including the debentures, and ongoing expenses. The Directors also considered the revenue forecasts for the year and future dividend payments in concluding on the going concern basis.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Directors confirm that to the best of their knowledge:

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

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

Signed on behalf of the Board of Directors.

Beatrice Hollond  
Chairman

10 May 2016

## INVESTMENTS IN ORDER OF VALUATION AT 31 MARCH 2016

UK listed ordinary shares unless otherwise stated

Equity investments				Equity investments				
ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO	ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO	
Reynolds American – <i>US common stock</i>	Tobacco	15,124	5.7	Imperial Innovations	Financial Services	2,567	1.0	
British American Tobacco	Tobacco	13,389	5.0	Oxford Sciences Innovation <sup>UQ</sup>	Financial Services	2,535	1.0	
Imperial Brands ( <i>formerly Imperial Tobacco</i> )	Tobacco	11,227	4.2	N Brown	General Retailers	2,329	0.9	
BT Group	Fixed Line Telecommunications	10,642	4.0	Smith & Nephew	Health Care Equipment & Services	2,149	0.8	
AstraZeneca	Pharmaceuticals & Biotechnology	9,630	3.6	Vectura	Pharmaceuticals & Biotechnology	2,115	0.8	
BAE Systems	Aerospace & Defence	8,983	3.4	Marwyn Value Investors	Equity Investment Instruments	2,008	0.7	
Roche – <i>Swiss common stock</i>	Pharmaceuticals & Biotechnology	8,354	3.1	Diurnal	Pharmaceuticals & Biotechnology	1,982	0.7	
Provident Financial	Financial Services	8,283	3.1	GAME Digital	General Retailers	1,919	0.7	
BP	Oil & Gas Producers	8,258	3.1	Motif Bio	Pharmaceuticals & Biotechnology	1,877	0.6	
Legal & General	Life Insurance	6,462	2.4	Horizon Discovery	Pharmaceuticals & Biotechnology	1,670	0.6	
<b>Top Ten Investments</b>		<b>100,352</b>	<b>37.6</b>	<b>Top Fifty Investments</b>		<b>249,337</b>	<b>93.7</b>	
London Stock Exchange	Financial Services	6,415	2.4	Sherborne Investors				
RELX	Media	6,408	2.4	Guernsey B – <i>A Shares</i>	Financial Services	1,554	0.6	
Beazley	Non-life Insurance	6,059	2.3	CLS	Real Estate Investment & Services	1,546	0.6	
Rentokil Initial	Support Services	6,035	2.3	Doric Nimrod Air Two	Equity Investment Instruments	1,378	0.5	
Capita	Support Services	5,977	2.2	Doric Nimrod Air Three	Equity Investment Instruments	1,340	0.5	
Babcock International	Support Services	5,601	2.2	Macau Property				
Bunzl	Support Services	5,502	2.1	Opportunities Fund	Real Estate Investment & Services	1,210	0.5	
Compass	Travel & Leisure	5,473	2.1	PureTech Health	Health Care Equipment & Services	1,187	0.4	
Hiscox	Non-life Insurance	5,113	1.9	Napo Pharmaceuticals <sup>UQ</sup>	Pharmaceuticals & Biotechnology	1,150	0.4	
Shaftesbury	Real Estate Investment Trusts	5,000	1.9	VPC Specialty Lending				
<b>Top Twenty Investments</b>		<b>157,935</b>	<b>59.4</b>	Investments	Financial Services	1,122	0.4	
BTG	Pharmaceuticals & Biotechnology	4,976	1.9	Silence Therapeutic	Pharmaceuticals & Biotechnology	1,042	0.4	
NewRiver Retail	Real Estate Investment Trusts	4,894	1.8	Nimrod Sea Assets	Equity Investment Instruments	1,027	0.4	
SSE	Electricity	4,662	1.8	<b>Top Sixty Investments</b>		<b>261,893</b>	<b>98.4</b>	
Centrica	Gas, Water & Multiutilities	4,521	1.7	Nexeon				
Derwent London	Real Estate Investment Trusts	4,489	1.7	– <i>B Shares</i> <sup>UQ</sup>	Electronic & Electrical Equipment	497	0.4	
KCOM	Fixed Line Telecommunications	3,942	1.5	– <i>Preference C Shares</i> <sup>UQ</sup>		400		
easylet	Travel & Leisure	3,931	1.5	– <i>Ordinary shares</i> <sup>UQ</sup>		4		
Drax	Electricity	3,606	1.3	Damille Investments II	Equity Investment Instruments	792	0.3	
A J Bell <sup>UQ</sup>	Financial Services	3,600	1.3	PuriCore	Health Care Equipment & Services	680	0.3	
BCA Marketplace	Financial Services	3,168	1.2	MayAir	Industrial Engineering	650	0.2	
<b>Top Thirty Investments</b>		<b>199,724</b>	<b>75.1</b>	Funding Circle SME	Equity Investment Instruments	466	0.2	
HomeServe	Support Services	3,035	1.1	Lombard Medical	Health Care Equipment & Services	329	0.1	
Novartis – <i>Swiss common stock</i>	Pharmaceuticals & Biotechnology	3,035	1.1	Real Estate Investors	Real Estate Investment & Services	252	0.1	
TalkTalk Telecom	Fixed Line Telecommunications	2,954	1.1	HaloSource	Chemicals	69	—	
P2P Global Investments	Equity Investment Instruments	2,868	1.1	<b>Top Seventy Investments</b>		<b>266,032</b>	<b>100.0</b>	
Reckitt Benckiser	Household Goods & Home Construction	2,867	1.1	XTL Biopharmaceuticals – <i>ADR</i>	Pharmaceuticals & Biotechnology	20	—	
Harworth	Real Estate Investment & Services	2,816	1.1	Mirada	Media	1	—	
IP Group	Financial Services	2,816	1.1	<b>Total Equity Investments (72)</b>		<b>266,053</b>	<b>100.0</b>	
Thomas Cook	Travel & Leisure	2,803	1.1	<b>Other investments</b>				
G4S	Support Services	2,698	1.0	ISSUER AND ISSUE	SECTOR	MOODY/S&P RATING	MARKET VALUE £'000	% OF PORTFOLIO
Lancashire	Non-life Insurance	2,570	1.0	Barclays Bank – <i>Nuclear Power Notes</i>				
<b>Top Forty Investments</b>		<b>228,186</b>	<b>85.9</b>	28 Feb 2019	Electricity	NR/NR	8	—
				<b>Total Investments (73)</b>			<b>266,061</b>	<b>100.0</b>

NR is non-rated.

UQ is unquoted.

## CONDENSED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
<b>For the six months ended 31 March 2016</b>						
At 30 September 2015	6,760	3,449	466	238,150	10,800	259,625
Dividends paid – note 8	—	—	—	—	(6,124)	(6,124)
Net return on ordinary activities	—	—	—	(3,750)	4,138	388
<b>At 31 March 2016</b>	<b>6,760</b>	<b>3,449</b>	<b>466</b>	<b>234,400</b>	<b>8,814</b>	<b>253,889</b>
<b>For the six months ended 31 March 2015</b>						
At 30 September 2014	6,760	3,449	466	229,558	10,034	250,267
Dividends paid – note 8	—	—	—	—	(5,459)	(5,459)
Net return on ordinary activities	—	—	—	14,536	4,079	18,615
<b>At 31 March 2015</b>	<b>6,760</b>	<b>3,449</b>	<b>466</b>	<b>244,094</b>	<b>8,654</b>	<b>263,423</b>

## CONDENSED BALANCE SHEET

Registered number 538179

	NOTE	AT 31 MARCH 2016 £'000	AT 30 SEPTEMBER 2015 £'000
<b>Fixed assets</b>			
Investments held at fair value	6	266,061	275,790
<b>Current assets</b>			
Prepayments and accrued income		648	341
Tax recoverable		479	301
Cash and cash equivalents		20,717	20,398
		21,844	21,040
<b>Creditors: amounts falling due within one year</b>			
Amounts due to brokers		(258)	(1,567)
Accruals and deferred income		(1,113)	(1,152)
Performance-related fee	4	—	(2,544)
		(1,371)	(5,263)
<b>Net current assets</b>			
		20,473	15,777
<b>Total assets less current liabilities</b>			
		286,534	291,567
<b>Creditors: amounts falling due after more than one year</b>			
Debenture stock	7	(31,707)	(31,692)
Cumulative preference shares		(250)	(250)
<b>Provision</b>			
Performance-related fee	4	(688)	—
<b>Net assets</b>			
		253,889	259,625
<b>Capital and reserves</b>			
Called up share capital		6,760	6,760
Share premium		3,449	3,449
Capital redemption reserve		466	466
Capital reserve		234,400	238,150
Revenue reserve		8,814	10,800
<b>Shareholders' funds</b>			
		253,889	259,625
<b>Net asset value per ordinary share – Basic</b>			
		1878.0p	1920.5p
<b>Number of 50p ordinary shares in issue at the period end</b>			
		13,518,799	13,518,799

## CONDENSED INCOME STATEMENT

	NOTE	SIX MONTHS TO 31 MARCH 2016			SIX MONTHS TO 31 MARCH 2015				
		REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000		
(Losses)/gains on investments		—	(1,712)	(1,712)	—	17,046	17,046		
Foreign exchange (losses)/gains	2	—	(5)	(5)	—	3	3		
Income	3	4,867	—	4,867	4,824	—	4,824		
		4,867	(1,717)	3,150	4,824	17,049	21,873		
Investment management fee	4	(174)	(522)	(696)	(183)	(545)	(728)		
Performance-related fee	4	—	(688)	(688)	—	(1,146)	(1,146)		
Other expenses		(179)	—	(179)	(182)	—	(182)		
<b>Net return before finance costs and taxation</b>				4,514	(2,927)	1,587	4,459	15,358	19,817
<b>Finance costs</b>									
Interest payable	4	(274)	(823)	(1,097)	(274)	(822)	(1,096)		
Distributions in respect of non-equity shares	4	(6)	—	(6)	(6)	—	(6)		
<b>Return on ordinary activities before taxation</b>				4,234	(3,750)	484	4,179	14,536	18,715
Tax on ordinary activities	5	(96)	—	(96)	(100)	—	(100)		
<b>Net return on ordinary activities after taxation</b>				4,138	(3,750)	388	4,079	14,536	18,615
<b>Return per ordinary share – Basic</b>				30.6p	(27.7)p	2.9p	30.2p	107.5p	137.7p
<b>Number of ordinary shares in issue</b>						13,518,799			13,518,799

The total column of this statement represents the Company's profit and loss account prepared in accordance with UK Accounting Standards. The 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 and the Company has no other gains or losses and therefore no additional statement of comprehensive income is presented. No operations were acquired or discontinued in the period.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Accounting Policies

The condensed financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) 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. Accordingly, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* applies for the year ending 30 September 2016 and these condensed financial statements. In addition, FRS 104 *Interim Financial Reporting*, issued by the Financial Reporting Council in March 2015 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. As an investment fund the Company has the option, which it has taken, not to present a cash flow statement. A cash flow statement is not required when an investment fund meets all the following conditions: substantially all investments are highly liquid and are carried at market value, and where a statement of changes in equity (in these financial statements it is called the *Reconciliation of Movements in Shareholders' Funds*) is provided.

The accounting policies applied to these condensed financial statements are consistent with those applied in the financial statements for the year ended 30 September 2015, with the following exception and revision:

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.

*Amendments to FRS 102 – Fair value hierarchy disclosures* (March 16) 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. No other accounting policies have changed as a result of the application of FRS 102, amendments to FRS 102 and the revised SORP.

### 2. Foreign Currency and Forward Currency Contracts

The equity portfolio includes £29,039,000 (30 September 2015: £31,556,000; 31 March 2015: £33,805,000) of equities denominated in currencies other than pounds sterling. In order to manage the currency risk, the Manager may hedge part of the currency exposure into sterling through the use of forward foreign exchange contracts. If used, foreign exchange contracts are designated as fair value hedges through profit or loss. At the period end no forward foreign exchange contracts were held.

### 3. Income

	SIX MONTHS TO 31 MARCH	
	2016 £'000	2015 £'000
<b>Income from investments</b>		
UK dividends – ordinary	2,889	2,628
– special	305	532
Overseas dividends – ordinary	1,110	1,061
– special	416	547
Unfranked investment income	98	—
Scrip dividends	39	50
	4,857	4,818
<b>Other Income</b>		
Deposit interest	10	6
	4,867	4,824

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

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

The performance-related fee is allocated wholly to capital. The performance-related fee is due when the Company's annualised total return over the previous three years exceeds the annualised return of the benchmark over the same period plus the hurdle of 1.25%. A performance-related fee provision of £688,000 is provided for the six months ended 31 March 2016 (31 March 2015: £1,146,000).

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

### 5. Tax

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

### 6. Classification under Fair Value Hierarchy

The fair value hierarchy analysis for investments at fair value at the period end is as follows:

	AT 31 MARCH 2016 £'000	AT 30 SEPTEMBER 2015 £'000
Level 1 – Quoted prices for identical instruments in active markets	257,867	266,974
Level 2 – Valuation techniques using observable inputs – Barclays Nuclear Power Notes	8	145
Level 3 – Valuation techniques using unobservable inputs – unquoted securities	8,186	8,671
	266,061	275,790

### 7. Debenture Stock

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

	AT 31 MARCH 2016 £'000	AT 30 SEPTEMBER 2015 £'000
7.75% debenture stock 2020	7,000	7,000
6.5% debenture stock 2023	24,968	24,968
Total	31,968	31,968
Discount and issue expenses on debenture stock	(261)	(276)
	31,707	31,692

### 8. Dividends Paid

	SIX MONTHS TO 31 MARCH	
	2016 £'000	2015 £'000
Second interim 33p (2014: 32.5p)	4,461	4,393
Special dividend 12.3p (2014: 8p)	1,663	1,082
Return of unclaimed dividends from previous years	—	(16)
Total paid	6,124	5,459

The Company pays two interim dividends a year, the second interim being in lieu of a final dividend. The first interim dividend of 18p will be paid on 10 June 2016 to shareholders on the register on 20 May 2016.

### 9. Investment Trust Status

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

## 10. Status of Half-Yearly Financial Report

The financial information contained in this half-yearly financial report, which has not been reviewed or audited by the independent auditors, does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information for the half-years ended 31 March 2015 and 31 March 2016 has not been audited. The figures and financial information for the year ended 30 September 2015 are extracted and abridged from the latest published accounts and do not constitute the statutory accounts for that year. Those accounts have been

delivered to the Registrar of Companies and include the Independent Auditor's Report, which was unqualified and did not include a statement under section 498 of the Companies Act 2006.

By order of the Board  
Invesco Asset Management Limited  
Company Secretary

10 May 2016

## DIRECTORS, INVESTMENT MANAGER AND ADMINISTRATION

### Directors

Beatrice Hollond (Chairman)  
Ian Armfield  
William Kendall  
Peter Readman  
John Wood

### Manager

Invesco Fund Managers Limited

### Company Secretary

Invesco Asset Management Limited  
Company Secretarial contacts: Paul Griggs and Nira Mistry

### Registered Office

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

### Correspondence address

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

### Invesco Perpetual Client Services

Invesco Perpetual Client Services Team is available from 8.30am to 6pm Monday to Friday (excluding Bank Holidays):  
☎ 0800 085 8677  
🌐 [www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts)

### Savings Scheme and ISA Administrators

For queries relating to both the Invesco Perpetual Investment Trust Savings Scheme and ISA:  
Invesco Perpetual  
P.O. Box 11150  
Chelmsford  
CM99 2DL  
☎ 0800 085 8677

### Manager's Website

Information relating to the Company can be found on the Company's section of the Manager's website, at [www.invescoperpetual.co.uk/keystone](http://www.invescoperpetual.co.uk/keystone).

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

### Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

If you hold your shares direct and not through a savings scheme or ISA and have queries relating to your shareholding you should contact the registrars on: ☎ 0871 664 0300. Calls cost 12p per minute plus your phone company's access charges.

From outside the UK: +44 371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open from 9am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Shareholders holding shares directly can also access their holding details via Capita's website [www.capitashareportal.com](http://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](http://www.capitadeal.com) or ☎ 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 8am to 4.30pm Monday to Friday (excluding Bank Holidays).

### Depositary

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

## FINANCIAL CALENDAR 2016

### Announcements

Half-yearly Financial Report	May
Annual Financial Report	November

### Ordinary Share Dividends

First interim	June
Second interim	December

### Annual General Meeting

Year end	January 2017
	30 September



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 Perpetual is a business name of Invesco Fund Managers Limited