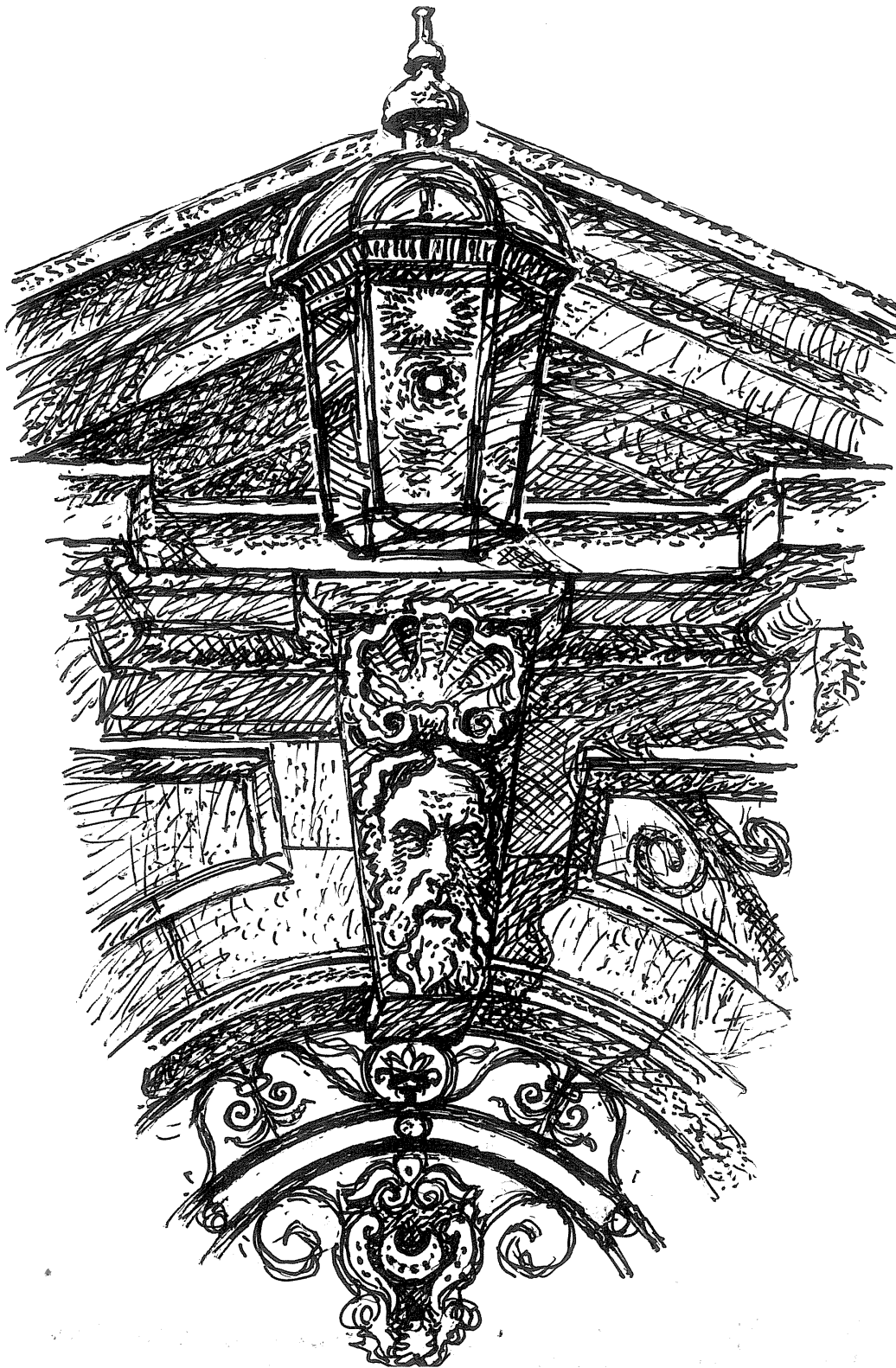


Keystone Investment Trust plc

ANNUAL FINANCIAL REPORT

YEAR ENDED 30 SEPTEMBER 2019



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, makes 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 the annual financial report cover. It depicts a keystone with the bearded face – reputedly a depiction of Father Cam, a river god mentioned in Milton's poetry – which presides over the entrance of Trinity Hall. It belongs to an eighteenth-century refacing of a fourteenth-century range but was repositioned here after a restoration in the 1850s – after a fire – by the architect Anthony Salvin (today best known for his restoration of Alnwick Castle).

Jeremy Musson, Cambridge 2015

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

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

☎ 0800 085 8677

🌐 www.invesco.co.uk/keystone

The Company is a
member of

aic

The Association of
Investment Companies

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

Total Return⁽¹⁾⁽³⁾ (dividends reinvested)**Change for the year**

	2019	2018
Net asset value (NAV) ⁽²⁾⁽³⁾	+1.1%	0.0%
Share price	−4.1%	+0.8%
FTSE All-Share Index ⁽⁴⁾	+2.7%	+5.9%

	AT 30 SEPTEMBER 2019	AT 30 SEPTEMBER 2018	% CHANGE
Capital Statistics			
Net assets (£'000)	257,606	266,146	−3.2
NAV ⁽²⁾⁽³⁾ per share	1,862.4p	1,921.7p	−3.1
Share price ⁽¹⁾	1,540.0p	1,685.0p	−8.6
FTSE All-Share Index ⁽¹⁾⁽⁴⁾	4,061.7	4,127.9	−1.6
Discount ⁽³⁾ of share price to NAV ⁽²⁾ per share	(17.3)%	(12.3)%	
Gearing from borrowings ⁽³⁾ – gross – debt at par	12.4%	12.0%	
– net – debt at par	3.7%	11.6%	
– gross – debt at market value	15.1%	14.8%	
– net – debt at market value	6.1%	14.4%	

	FOR THE YEAR TO 30 SEPTEMBER 2019	2018	% CHANGE
Revenue Statistics			
Net revenue available for ordinary shareholders (£'000)	7,516	7,552	
Revenue return per ordinary share	55.60p	55.90p	−0.5
Dividends per ordinary share – first interim	24.00p	18.00p	
– second interim	12.00p	38.00p	
– third interim ⁽⁵⁾	20.00p	—	
	56.00p	56.00p	0.0
– special	3.67p	1.75p	
– total	59.67p	57.75p	+3.3
Ongoing charges ⁽³⁾ :			
Excluding performance fee	0.54%	0.54%	
Performance fee	0.00%	0.00%	

(1) Source: Refinitiv.

(2) Figures with debt at market value.

(3) Alternative Performance Measure (APM). See Glossary of Terms and Alternative Performance Measures on pages 69 to 71 of the financial report for the explanation and reconciliations of APMs.

(4) The benchmark index of the Company.

(5) The Company has moved to a quarterly dividends model and, as a consequence of the timing of this decision, will pay three interim dividends this year: June, September and December, the third interim being in lieu of a final dividend. Next year, the Company intends to pay four quarterly dividends in March, June, September and December.

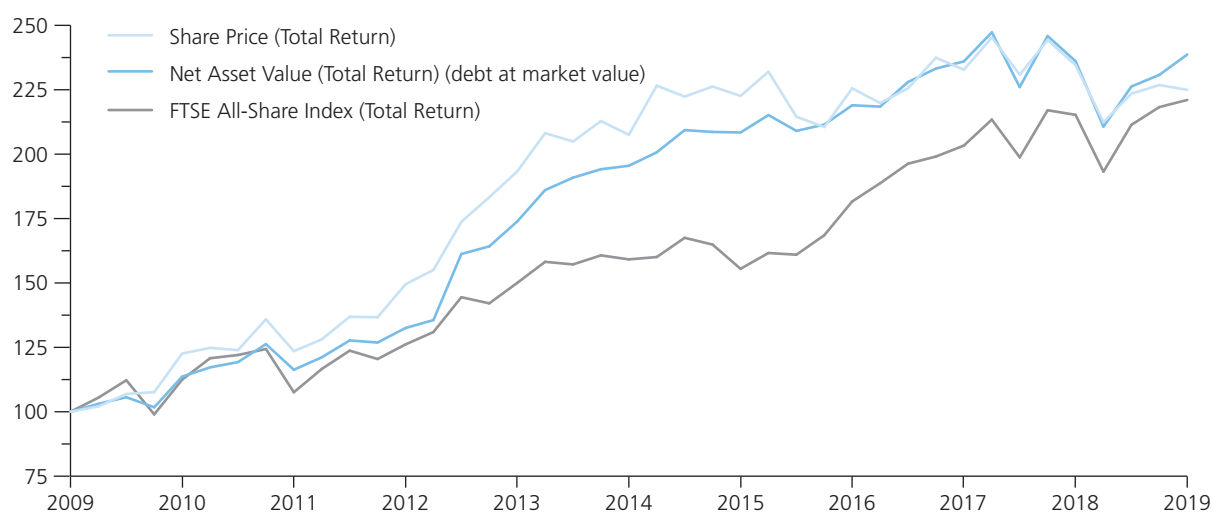
Ten Year Historical Record

YEAR ENDED 30 SEPTEMBER	REVENUE EARNINGS PER SHARE P	DIVIDENDS PER SHARE			NET ASSET VALUE PER SHARE			
		ORDINARY P	SPECIAL P	TOTAL P	DEBT AT MARKET VALUE P	DEBT AT PAR P	SHARE PRICE P	ONGOING CHARGES ⁽¹⁾ %
2010	40.6	45.50	—	45.50	1,187.5	1,212.9	1,170.0	0.92
2011	45.5	46.50	—	46.50	1,196.3	1,228.6	1,135.5	0.99
2012	49.1	48.50	—	48.50	1,310.3	1,367.4	1,318.0	0.95
2013	57.4	50.00	7.00	57.00	1,660.1	1,712.3	1,646.0	0.96
2014	59.3	50.50	8.00	58.50	1,806.2	1,851.3	1,709.0	0.87
2015	64.1	51.00	12.30	63.30	1,867.1	1,920.5	1,776.0	0.71
2016	62.0	53.00	5.30	58.30	1,894.9	1,959.8	1,735.5	0.69
2017	61.5	55.00	4.70	59.70	1,979.9	2,037.1	1,730.0	0.61
2018	55.9	56.00	1.75	57.75	1,921.7	1,968.7	1,685.0	0.54
2019	55.6	56.00	3.67	59.67	1,862.4	1,905.5	1,540.0	0.54

(1) All calculations exclude performance fees where applicable.

Ten Year Total Return Performance

Figures have been rebased to 100 at 30 September 2009



Source: Refinitiv.

Total Return per Ordinary Share to 30 September

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	THREE YEARS	FIVE YEARS	TEN YEARS
NAV (debt at market value) %	+13.6	+2.3	+13.9	+31.2	+12.4	+6.6	+5.1	+7.8	0.0	+1.1	+9.0	+22.1	+138.7
Share Price %	+22.6	+0.8	+21.0	+29.3	+7.4	+7.3	+1.3	+3.2	+0.8	-4.1	-0.3	+8.4	+125.0
FTSE All-Share Index %	+12.5	-4.4	+17.2	+18.9	+6.1	-2.3	+16.8	+11.9	+5.9	+2.7	+21.7	+38.9	+121.0

Source: Refinitiv.

CHAIRMAN'S STATEMENT

Performance

The total return to shareholders over the year to 30 September 2019 was -4.1% (2018: $+0.8\%$), based on the share price and disappointingly marks the fourth successive year that the return has been behind our benchmark, the FTSE All-Share Index, which posted a total return of $+2.7\%$ (2018: $+5.9\%$). The total return on the underlying net asset value (NAV) per share was $+1.1\%$ (2018: 0.0%) with debt at market value. At year end, the share price stood at a discount of 17.3% (2018: 12.3%) to the NAV (debt at market value).

The performance of the Company is unsatisfactory and the Board is acutely aware of shareholders' concerns. The Board has supported James Goldstone and the team at Invesco since he took over the management of the portfolio in April 2017. This period has coincided with market sentiments aligning against UK domestic stocks. During the year, the Board spent a significant amount of time challenging the investment process and portfolio positioning. James's contrarian approach to seeking truly undervalued companies in the UK requires patience. The Manager's Report section of the Strategic Report provides a review of market and portfolio performance during the year and his view of the outlook.

The weighted average discount of the investment companies in the UK All Companies sector narrowed marginally but remained wide through the year. It was 8.3% at 30 September 2019 compared with 9.5% at 30 September 2018 (source: JP Morgan Cazenove). The average discount at which the Company's ordinary shares traded relative to their underlying NAV (with debt at market value) over the past year widened to 12.9% , from 11.4% last year.

Discount and Buyback Authority

The Board regularly monitors the discount and how it compares with other investment trusts in the peer group. The Board has authority to buy back shares and is willing to do so if it is considered good value for shareholders. As such, the Board is monitoring the current anomalous discount carefully.

Sub-division of the Company's Share Capital

The Board is proposing to sub-divide the Company's shares so that investors will receive five new shares with a nominal value of 10p in place of each existing share of 50p. The share price following the split will therefore be approximately one-fifth of the current price, and dividends per share will be reduced accordingly. The intention is to improve market liquidity and to make the Company more attractive to retail investors. The proposal requires the approval of shareholders and the Board recommends voting in favour of this resolution at the forthcoming AGM.

Existing shareholders are assured that this sub-division of shares will not affect the underlying value of their holdings in the Company as each shareholder will hold the same proportionate interest in the Company following the completion of the share split as before.

Revenue and Dividends

The revenue return after tax for the year was 55.6p per ordinary share, slightly down from last year's 55.9p per share.

We announced in May 2019 the decision to change to quarterly dividends in order to provide shareholders with a more attractive flow of income. The Board has declared a third interim dividend, in lieu of a final, of 20p per share, with an element funded from the revenue reserve, giving a total dividend for the year of 56p per share (2018: 56p). This equates to a yield of 3.6% at 30 September 2019, which compares favourably with the UK All Companies sector average of 2.6% (source: JP Morgan Cazenove), and also extends the Company's record of either increasing or maintaining the level of ordinary dividends each year since 1976. The dividend will be paid on 20 December 2019 to shareholders on the register on 29 November 2019. The Board has decided again to pass on special dividends received from portfolio companies totalling £497,000 this year, the equivalent of 3.67p per share (2018: £236,000: 1.75p). It will be paid at the same time as the third interim dividend. The total dividend for the year of 59.67p represents an increase of 3.3% compared with 57.75p for the previous year.

Corporate Governance

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 Association of Investment Companies in 2019 and the Financial Reporting Council in 2018, respectively, issued revisions of the 2016 AIC Code of Corporate Governance and the 2016 UK Code of Corporate Governance. These will apply for the Company's financial year beginning 1 October 2019. Nonetheless, where practical, the Board has chosen to present elements of the new Codes in preparation for full compliance with the new codes in the next financial year, including a tenure policy for the Chairman and providing a note in this annual report of the individual contribution that each Director brings to the Board.

Gearing

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. The Board requires that no net purchases be made which would take the level of net gearing, with debt at par, above 15% of net assets, and that sales be made if, as a result of market movements, net gearing goes higher than 15% of net assets. The Manager has discretion on where to set the portfolio's exposure subject to the limits set by the Board. At the year end net gearing, with debt at par, stood at 3.7% compared with 11.6% a year ago.

The Company has fixed borrowing in the form of long-term debentures that amount to £32 million, and has also arranged with The Bank of New York Mellon an overdraft facility of up to £15 million that can be used for investment purposes. The net gearing of the Company is determined by the extent to which borrowings are invested.

Costs

The Board monitors costs closely and is pleased to report the ongoing charges, excluding borrowing costs, remain competitive at 0.54% (2018: 0.54%). This includes the base management fee which is 0.45% of the Company's market capitalisation. This was reduced from 0.6% when James Goldstone took over as portfolio manager.

Outlook

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

AGM

The timing and format of the AGM has been changed to encourage more shareholders to attend and will be held on 11 February 2020 at 43-45 Portman Square, London W1H 6LY at 12.30pm. This will be my first AGM as Chairman, since I took over the role from Beatrice Hollond in January 2019, and shareholders are cordially invited to attend the AGM and stay for a buffet lunch afterwards. You are welcome to bring a guest. To register your interest in attending, please contact us at KIT@invesco.com. The Notice of the AGM of the Company is on pages 62 to 66 and a summary of the resolutions is set out in the Directors' Report on pages 60 and 61. The Directors and the portfolio manager, James Goldstone, will be available at the meeting to answer shareholders' questions. The Board has carefully considered all the resolutions proposed in the Notice and, in their opinion, consider them to be in the best interests of the shareholders as a whole.

Karen Brade
Chairman

28 November 2019

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

BUSINESS REVIEW

Keystone Investment Trust plc is an investment company holding investments with a market value in excess of £260 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 investment objective has been to contract the services of Invesco Fund Managers Limited (IFML or 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. In practice, many of these services are performed under delegated authority by Invesco Asset Management Limited (IAML), a company related to IFML. References to the Manager in this annual financial report should consequently be considered to include both entities. The portfolio manager responsible for the day-to-day management of the portfolio is James Goldstone.

The Manager has delegated portfolio valuation, fund accounting and administrative services to The Bank of New York Mellon, London Branch. The Company has contractual arrangements with Link Asset Services as registrar and The Bank of New York Mellon (International) Limited (BNYMIL) as depositary and custodian. BNYMIL is also the Company's bank.

Investment Objective and Policy

Investment Objective

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

Investment Policy and Risk

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

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

Investment Limits

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

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

Gearing Policy

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. The Company has fixed borrowing, in the form of long-term debentures that amount to £32 million, and also has an uncommitted overdraft facility from BNYMIL of up to £15 million that can be used for investment purposes. The 7.75% Debenture Stock 2020 is due to be repaid at par on 1 October 2020 together with accrued interest to the date of repayment and the

6.5% Debenture Stock 2023 is due to be repaid on 27 April 2023. The net gearing of the Company is determined by the extent to which borrowings are invested. The Board reviews the limit to which the Manager may gear the portfolio at every Board meeting. The Board requires that no net purchases be made which would take the level of net gearing, with debt at par, above 15% of net assets, and that sales be made if, as a result of market movements net gearing goes higher than 15% of net assets. The Manager has discretion as to how much borrowing is utilised within the limits set by the Board. At the year end net gearing, with debt at par, stood at 3.7%.

Foreign Exchange

The Company has some non-sterling denominated investments and is therefore subject to foreign exchange risk. The Board monitors foreign currency exposure and takes a view, from time to time, on whether foreign currency exposure should be hedged. During the year, the Board had prescribed that all currency exposure should be hedged other than US dollar, Canadian dollar and Swiss franc. Since the year end, the Board has provided the Manager some discretion as to whether to hedge currency exposure to US dollar and Canadian dollar.

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 (all of which, apart from dividends, are Alternative Performance Measures and are defined on pages 69 to 71):

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

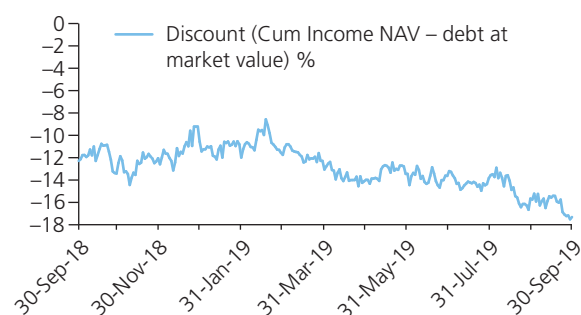
The Company's **NAV** and **share price** total returns for the year to 30 September 2019 were +1.1% and -4.1% respectively, both of which were less than the total return of the Company's benchmark, the FTSE All-Share Index, of +2.7%. The Manager's Report on pages 12 to 15 provides commentary on the reasons for the performance.

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

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

Peer group performance is monitored by comparing the Company with the 13 investment companies making up the UK All Companies sector. As at 30 September 2019, in NAV total return terms, the Company was ranked 5th in its sector over one year, 11th over three years and 9th over five years (source: JPMorgan Cazenove). The Board also compares the Company to a bespoke list of investment companies which the Board considers to be its nearest peers.

The Company's shares traded at a **discount** relative to NAV (with debt at market value) through the year, as shown in the following graph. The discount at the year end was 17.3%. The Company's shares are likely to trade on a relatively wide discount until there is more certainty around the macro economic backdrop and in particular the UK's exit from the European Union.



Source: Refinitiv.

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

STRATEGIC REPORT

BUSINESS REVIEW

continued

Dividends form a key component of the total return to shareholders. The income from the portfolio and potential level of dividend payable is reviewed at every board meeting. The Board decided to move from semi-annual to quarterly dividends in May 2019. The Board's dividend payment policy is for the Directors to declare four dividends in respect of each accounting year, with a payment in each calendar quarter. Additional special dividends may be declared, at the discretion of the Directors.

A first interim dividend, which reflected payment of two quarters under the new quarterly model, of 24p (2018:18p) per share was paid on 14 June 2019, a second interim dividend of 12p per share was paid on 27 September 2019 and a third interim dividend, in lieu of a final dividend, of 20p has been declared, which is payable on 20 December 2019 to shareholders on the register at 29 November 2019. These give a total ordinary dividend for the year of 56p, which is on a par with the previous year. The Board has also declared a special dividend of 3.67p (2018: 1.75p) to be paid at the same time as the third interim dividend. The total dividend for the year of 59.67p represents an increase of 3.3% compared with 57.75p for the previous year. The dividend history of the Company over the last ten years is shown in the table on page 3.

The ongoing charge is the industry measure of the Company's operating costs as a percentage of average net asset value (debt at market value) during the year. 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 remained at 0.54%, the same as for the year to 30 September 2018. No performance fee was payable in respect of either year. The ten year record of ongoing charges is shown on page 3 and the calculation is shown in the Glossary of Terms and Alternative Performance Measures on page 70.

Financial Position

At 30 September 2019, the Company's net assets were valued at £258 million (2018: £266 million). These comprised a portfolio of mainly equity investments and net current assets.

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

In addition, the Company has an uncommitted overdraft facility of up to £15 million. No amounts were drawn down at the year end (2018: none).

Outlook and Future Trends

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

Principal Risks and Uncertainties

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

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

Investment Objective

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

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

Market Risk

The majority of the Company's investments are traded on the London Stock Exchange. The principal risk for investors in the Company is of a significant fall in stock markets and/or a prolonged period of

decline in the markets relative to other forms of investment. The value of investments held within the portfolio is influenced by many factors including the general health of the UK economy, interest rates, inflation, government policies, industry conditions, political events, tax laws, environmental laws and investor sentiment. The portfolio manager has summarised in the Manager's Report section of this Strategic Report particular factors affecting the performance of markets in the year and his view of those most pertinent to the outlook for the portfolio. Such factors are out of the control of the Board and the Manager and may give rise to high levels of volatility in the prices of investments held by the Company, although the use or elimination of gearing may modify the impact on shareholder return.

Investment Risk

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

The investment process employed by the Manager combines top down assessment of economic and market conditions with stock selection. Fundamental analysis forms the basis of the Company's stock selection process, with an emphasis on sound balance sheets, good cash flows, the ability to pay and sustain dividends, good asset bases and market conditions. The process is complemented by constant assessment of market valuations. It is important to have a sense of a company's realistic valuation which, to some extent, will be independent of the price at which it trades in the market. Overall, the investment process aims to achieve absolute returns through a genuinely active stock selection approach. This can therefore result in a portfolio which looks substantially different from the benchmark index.

Risk management is an integral part of the investment management process. The Manager effectively controls risk by ensuring that the Company's portfolio is always appropriately diversified. Continual analysis of all holdings gives the Manager a thorough understanding of financial risks associated with them.

The portfolio of investments held at 30 September 2019 is set out on pages 16 and 17.

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

Shares

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

The ordinary shares of the Company may trade at a premium or discount to its NAV. The Board monitors the price of the Company's shares in relation to their NAV and the premium/discount at which they trade. The Board is proposing a resolution on a share split at the Company's AGM as detailed in the Chairman's Statement on page 4.

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 four times 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 liquidity and enhance the NAV for existing shareholders. The Board also monitors the level of revenue available for distribution at each Board meeting.

Gearing

Gearing levels may change from time to time in accordance with the Manager's and the Board's assessment of risk and reward. Whilst the use of borrowings by the Company should enhance total return where the return on the Company's underlying securities is rising and exceeds the cost of borrowing, it will have the opposite effect where the underlying return is falling. The Board and the Manager regularly review gearing and will continue to monitor the level closely over the year ahead. The maximum gearing limit currently authorised by the Board is 15% of net assets. As at 30 September 2019, net gearing from borrowings stood at 3.7% (2018: 11.6%) with debt at par.

STRATEGIC REPORT

BUSINESS REVIEW

continued

Reliance on the Manager and Other Service Providers

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

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

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

The Company's main service providers are listed on page 68. The Board monitors the services provided to the Company informally at every Board meeting and formally at least annually and by reference to third party independent audited control reports.

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, under section 1158 of the Corporation Tax Act 2010, 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.

In addition to these risks, the outcome and potential impact on the Company of the ongoing Brexit situation remains unclear at the time of writing. The outcome of the forthcoming General Election is likely to have a material impact on the Brexit position. The majority of the Company's assets, liabilities and income are denominated in Sterling and the Company has the ability to hedge non-Sterling positions, should there be sharp movements in exchange rates to the pound. Separately, investor sentiment might lead to increased or reduced demand for the Company's shares, in the light of continued Brexit uncertainty, which would be reflected in a narrowing or widening of the discount at which the Company's shares trade relative to their net asset value. Overall, the Board does not expect the Company's business model, over the longer term, to be affected by Brexit.

Viability Statement

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

In assessing the viability of the Company the Directors considered the Company's current position, the principal risks to which it is exposed, as set out on pages 8 to 10, and their potential impact on its future development and prospects. The most significant of these are shareholder dissatisfaction arising from failure to meet the Company's investment objective, through poor investment performance or because the investment policy is no longer appropriate to the prevailing market conditions, and contributory market and investment risks. The Board also took into account the capabilities of the

Manager and the varying market conditions experienced, which have effectively stress tested the Company over many years through different and difficult market cycles.

In terms of financial risks to viability, save for the limited value ascribed to unquoted investments, the Company's portfolio is readily realisable and many times the value of its short term liabilities and annual operating costs. The Company also has long term debt obligations comprising two debentures. The smaller debenture, £7 million, falls due in 2020 and the larger, £25 million, in 2023. In aggregate this long term debt amounts to 11.1% of total assets less current liabilities, so the principal is more than nine times covered and the risk that interest obligations will not be met is negligible.

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

Board Responsibilities

As set out in the Directors' Report on page 54 the Directors have a statutory duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and to have regard to their interests (s172 Companies Act 2006). However, the Company has no employees and no customers in the traditional sense. In accordance with the Company's nature as an investment trust the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager at every Board meeting, reviews its relationships with other service providers at least annually and monitors compliance with the Company's obligations to debt holders.

Board Diversity

The Company's policy on diversity is set out on page 53. 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. Although the Board has not set a specific target or quota in this regard, it has aspired to meet the Hampton Alexander return target of 33% female board representation and has achieved this. At the date of this report, the Board comprises five non-executive directors of whom two, including the Chairman, are women thereby constituting 40% female representation. Summary biographical details of the Directors are set out on page 18. The Company has no employees.

Environment, Social and Governance (ESG) Matters

The Company has no employees, property or activities outside of investment, and so environmental policy has limited application. The Company has delegated the management of the Company's investments to the Manager, who has an ESG Guiding Framework which sets out a number of principles that are intended to be considered in the context of its responsibility to manage investments that are in the financial interests of shareholders. The Manager is committed to being a responsible investor and applies the United Nations Principles for Responsible Investment which demonstrates its extensive efforts in terms of ESG integration, active ownership, investor collaboration and transparency.

The Manager is a signatory to the FRC Stewardship Code 2012 which seeks to improve the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. As a long term, valuation-led, active investor, the Manager's investment process is aligned with ESG integration and active ownership. ESG matters are considered as one input to the investment process, as part of evaluation of ideas, company dialogue and portfolio monitoring. ESG aspects are incorporated into the wider investment process as part of a holistic consideration of the investment risk and opportunity. A copy of the Manager's Stewardship Code can be found at www.invesco.co.uk.

Modern Slavery Act 2015

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.

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

MANAGER'S REPORT

Market Review

The twelve months to September 2019 have been another challenging period in which to manage equity portfolios. The FTSE All-Share Index finished the period up 2.7% year-on-year on a total return basis, however that performance figure belies some very significant volatility along the way as the Index was at one point in December 2018 down over 12%.

Almost to the day, the start of the period under review coincided with a sharp decline in global equities and in the final calendar quarter of 2018 the FTSE All-Share fell 11%. Markets had already been concerned about the threat to global growth from the escalating US-China trade dispute. As the outlook for global economic growth deteriorated, hawkish comments from the US Federal Reserve gave the impression that it was determined to continue to tighten monetary policy regardless of this weaker data. A sharp fall in the oil price from \$85 in October to just above \$50 in December added to the narrative that growth was slowing. Fraught negotiations around Brexit provided an additional layer of uncertainty in a UK context and gave added impetus to a market rotation into higher quality, less cyclical and more internationally exposed stocks and sectors.

The new year saw greater optimism surrounding US-China trade talks as well as signals from the Federal Reserve that monetary policy may not be on "autopilot" after all. Between October and May the bond market moved from pricing in three rate rises for 2019 to three cuts and global equity markets duly rallied. By the end of March 2019, the FTSE All-Share had recovered two thirds of the losses from the final quarter of 2018 and by the end of April 2019 was 14% above the December low. Brent crude oil had climbed back to US\$75 per barrel.

Despite the optimism creeping into headline index levels, political and economic uncertainty persisted at home. The Bank of England cut its official 2019 UK growth estimate from +1.7% to +1.2% as the question of the UK's departure from the European Union continued to dominate the agenda. As the 29 March deadline for Britain's exit drew closer, Parliament prepared to take control of the process. The Prime Minister's stance softened and the chances of leaving without a deal were seen to recede. Sterling strengthened against international currencies over the first quarter, peaking at US\$1.33 and €1.17 in March as an extension to Article 50 was secured, avoiding a no-deal exit.

The UK economy proved remarkably resilient throughout this period, as did trends in employment and disposable income. However, as the 29 March deadline was missed and the new 31 October deadline was set, some uncertainty crept in which impacted consumer confidence and retail sales, the latter not helped by an extremely tough comparative period in 2018 which had been boosted by both weather and the royal wedding. UK GDP and manufacturing output data for the month of April were very weak at -0.4% and -3.9% respectively, hinting at an artificial boost in the prior quarter as inventories were built into March to ensure continuity of supply.

In late May Prime Minister Theresa May announced her intention to resign as leader of the Conservatives. With most of the candidates to replace her from the Eurosceptic wing of the party and a number of them stating that they intended to take the UK out on 31 October with or without a deal, sterling showed renewed weakness and at the end of May had fallen to \$1.255.

Domestic politics and the impending deadline for leaving the EU continued to drive the performance of sterling and the performance of UK domestically exposed share prices relative to their internationally exposed counterparts. The Tory leadership contest concluded in late July with Boris Johnson elected leader. As the rhetoric built around "getting Brexit done" and the slogan that the UK would be leaving on 31 October "come what may" hit the headlines, sterling fell back to post referendum lows of \$1.20 in August. Concern abated somewhat in early September when the Benn Act was passed, forcing the government to request a further extension from the EU if they had been unable to reach a deal by 19 October and sterling duly rallied. Frustrated by such moves and their impact on the UK's negotiating position, Prime Minister Johnson moved to prorogue Parliament until shortly before the end of the extension period. In late September the Supreme Court ruled the prorogation unlawful and the UK entered uncharted constitutional waters, sterling reversing its latest decline in the process.

Labour market strength was sustained throughout the year with unemployment at or below 4% and job vacancies remaining at above 800,000. Consequently wage growth, which had remained stuck below 2.5% in recent years, began to accelerate towards 3% in 2018 and hit 4% in July 2019. With core CPI below 2% throughout, real disposable income growth continued to build and provided a strong foundation for the broader UK economy.

Elsewhere in the world, the Chinese authorities continued with fiscal and monetary stimulus, cutting taxes, cutting interest rates and reducing the reserve ratio requirement which finished the period at 13%, down from 17% 18 months earlier. More significantly perhaps, the Renminbi (RMB) weakened to trade through the psychologically important level of RMB 7 to the US dollar for the first time since 2008. Nevertheless, the impact of the trade dispute proved a more powerful negative force and the Chinese economy failed to show progress: retail sales growth finished the period at multi-year lows, infrastructure investment failed to inflect and measures of industrial activity continued to weaken.

Beyond China, the trade dispute also continued to take its toll. With total imports to China down 8.5% in September, Korean exports fell 9% and German export orders for plant and machinery were down 19%. In the US the composite Institute of Supply Management index began a decline from above 60 in September 2018 that saw it finish in September 2019 at 51. The manufacturing component ended at 49, below the critical level of 50 that signals contraction.

Against the background of global economic and political uncertainty and declining real interest rates, the gold price was strong, rising from under \$1,200 in September 2018, to \$1,300 in May 2019 and then to a six year high in early September 2019 above \$1,550. Translated into sterling, which over the year fell from \$1.30 to just above \$1.20, these gains were magnified.

Portfolio Review

AJ Bell was the standout contributor to returns in the twelve months to September. The portfolio took some profits by selling shares in a successful IPO in December 2018 and the remaining position then saw a very significant increase in value as the new shares proved so highly sought after that they trebled in the five months post listing. Once the lock-up had expired, an additional disposal was made but the company remains a large holding in the portfolio reflecting the strength of its customer proposition in a high growth segment of financial services.

JD Sports Fashion made a very strong contribution as it continued its multi-year run of impressive UK like-for-like sales whilst also capitalising on the strength of the relationships with key brand partners to make acquisitions. In recent years the company has acquired distressed businesses in a number of overseas markets and then restructured those companies to bring them in line with the core UK operating model. The acquisition of The Finish Line in June 2018 provided a very attractive entry to the key US market and the progress made in this financial year has vindicated the strategy. The stockmarket has responded favourably to the resultant upgrades to earnings estimates and the shares have enjoyed a re-rating.

Elsewhere in retail, Next also defied the crisis facing many high-street retailers and provided positive returns over the twelve months. Next released a strong trading statement in July which confirmed better-than-expected full price sales for the second quarter. This supported the thesis that growth in the company's online operations can more than offset the structural challenges in UK physical retail and that together the two sides of the business represent a formidable multi-channel operator. Half-year results released in September confirmed double-digit growth in online sales, whilst management reaffirmed its full-year guidance.

Media business Future was another standout performer as the share price trebled in the year. Traditionally a magazine publishing business, Future is transitioning to a predominantly online business model. Management has significantly increased margins by generating new revenue streams via online advertising and e-commerce, augmented by earnings accretive acquisitions. At the end of the period under review, Future issued a strong trading update in which it stated that better-than-expected trading in its core operations would result in earnings "materially ahead of the board's expectations".

The portfolio's gold holdings made a major positive contribution to performance. Both Randgold Resources and Acacia Mining were acquired by Barrick Gold in all-share transactions. After extensive engagement with Barrick at the time of the deals, the holding was maintained and Barrick is now a top ten position in the portfolio. As the gold price made headway and operational and strategic successes were reported, the share prices of all five of the portfolio's gold mining holdings (Barrick, Newmont, Agnico Eagle Mines, Endeavour Mining and Wheaton Precious Metals) responded positively and if viewed as a single position would have accounted for the second biggest contribution in the year, after AJ Bell.

There were also bids for Dairy Crest and BCA Marketplace, in both cases at meaningful premiums to the prevailing share prices. Dairy Crest was sold when the acquisition by Saputo of Canada was completed in May and BCA Marketplace was sold in the market at a level just below the recommended offer from TDR Capital.

STRATEGIC REPORT

MANAGER'S REPORT

continued

McBride made the biggest negative contribution to returns in the year in the wake of three profit warnings. This resulted mainly from the company's inability to pass through input cost inflation, exacerbated by the weakness of sterling, to end customers. The second warning saw the CEO resign. After much consideration the decision was taken to retain the position. I continue to believe that the company's market share should in time confer better pricing power, especially in light of the unsustainable operational and financial weakness of many of the business' competitors. Following the recruitment of an activist investor to the board, the chairman has been replaced and a new CEO with strong relevant industry experience has been announced. At the current valuation no credit is being given for the stabilisation of the company which I believe should be possible.

Elsewhere, the share price of floorings manufacturer Victoria fell very sharply at the end of October 2018, following the release of an unexpected trading update. The company had sought to simplify and extend its debt finance arrangements, and in so doing was obliged to release commentary on trading and near-term strategy. The guidance for lower margins but higher revenues was taken badly by the market and the logic of the proposed bond issue was misunderstood, leaving the shares exposed to heavy short-selling. A meeting with company management provided comfort that the fundamental investment case remained intact. I have since conducted visits to three of the company's manufacturing sites and my conviction in the stock remains. As such I have taken advantage of the significant share price weakness to increase the portfolio's holding by almost half.

Motif Bio also made a significant dent in performance after the Food and Drug Administration (FDA) surprised the market and declined to approve its late stage novel antibiotic product, Iclaprim. Although the position had been reduced before the Complete Response Letter from the FDA had been issued, the value of the residual holding fell very sharply and impacted performance. Further sales were made subsequently such that the position is now *de minimus*.

In financials, a relatively new position in Plus500, a financial trading platform, proved problematic. The company guided downwards on revenues which called into question the quality and sustainability of the business and introduced significant volatility to the outlook for profits. On balance I decided to exit the position.

Strategy and outlook

Clarity and certainty are in very short supply and for now the market continues to favour perceived safe-havens and shun anything considered exposed to the potential downside of leaving the EU without a deal. What has become clear, however, is the potential for a marked rotation in markets should this issue ever be resolved. During phases when the market considers this likely, shares in heavily de-rated domestically focused businesses have risen very sharply and their highly valued, internationally exposed counterparts have fallen back. Any development that enables the stockmarket to move beyond worrying about Brexit should see these so far abortive moves play out in full.

Markets are rightly concerned about Brexit. However, with an election in December and with domestic politics in such a state of upheaval, they have also been fearful of a hard-left socialist government emerging from the chaos. The risk cannot be fully discounted, but at the time of writing Labour has failed to close the gap in the polls versus the Conservatives. Furthermore, the leaders of other smaller parties continue to refuse to countenance a Corbyn-led coalition. The risk has therefore receded in my view.

Looking beyond the UK, China remains a significant worry. There is no sign of a much-needed boost to growth from the recent fiscal and monetary stimulus and the weakness in the exchange rate. With GDP and corporate profits stagnating, the foundations of China's rapidly assembled debt mountain look more unsustainable than ever and corporate defaults are rising. The recently announced phase one trade deal fails to adequately address the critical issues of intellectual property and Huawei and is therefore little more than a fig leaf in the long-running trade dispute with the US. Meanwhile violent protests in Hong Kong continue and the rhetoric from the mainland suggests that patience is almost exhausted. US politicians disagree on most things but both sides seem united in their concern over Hong Kong and in the view that China poses a long-term threat to US interests and needs to be contained. The risk of a more serious US-China disagreement is therefore high.

US growth has likewise been damaged by the trade war but there are also signs that the domestic engine is misfiring with a flattening labour market and subdued housing demand. This is against the backdrop of a US fiscal position that looks unsustainable. Having conceded that interest rates have peaked, the Federal Reserve have now embarked on another round of monetary easing. Ostensibly to deal with

a severe liquidity issue that arose in mid-September in the critically important repo market, the Fed have so far provided circa \$250 billion and promised to provide an additional \$60 billion per month. Markets have not yet made a connection between the fiscal deficit and this recent change to monetary policy but I believe this is the next step. The simple fact is that the US continues to live beyond its means. Overseas holders of treasuries have stopped expanding their holdings and domestic buyers now appear to be saturated too, so the government has run out of buyers of treasuries to fund this overspend. That leaves the Federal Reserve as buyer of last resort and threatens to take US monetary policy into a new realm with direct monetisation of government spending. This threatens the US dollar, both its value and also its status as the world's reserve currency.

Gold has responded well to recent events but if a weaker dollar and yet more unconventional monetary policy do lie ahead, the gold shares in the portfolio should continue to offer protection and diversification to the portfolio and should show further progress. Critically an increase in the gold price is not required to justify holding the shares: all five of the companies held generate enough cash flow at spot gold prices for their valuations to be attractive. Any further upside in the price of the metal will make them more attractive still.

Low growth and low interest rates therefore look set to persist and central banks appear as determined as ever to do "whatever it takes" to avoid a debt deflation. No sooner has unconventional monetary policy been reversed than it is once again being introduced, such that the Japanification of other developed economies is now a regularly discussed theme. In this context Brexit is an immediate and specific issue for the UK but it is not the only challenge.

In fact the UK stockmarket is being affected by a far broader, global phenomenon that has seen Value de-rated very sharply relative to all other styles and factors. Predictability of revenues and earnings has always merited a premium rating and a lack of visibility has always attracted a discount. However, the current climate has produced a divergence in valuations that is extreme, levels only seen twice in the last thirty years in the teeth of stockmarket crashes in 2001 and 2008/9. At the top-end I believe we are now at the limits of the re-rating that has driven share price performance in recent years. The reciprocal of these high multiples is such low earnings yields that even if growth expectations are met, investing in these companies is unlikely to deliver an attractive total return. At the bottom end, earnings yields are so high that they alone deliver a compelling total return. Should these companies grow earnings in the way I believe possible or ever be considered worthy of a re-rating by the market, the total return from this point will be significant. This is not what the market expects. It is an increasingly contrarian approach that has seen underperformance in recent periods. Regardless, now is not the time to compromise on my conviction that valuation does matter.

So I am not changing the shape of the portfolio but have exited positions where conviction had fallen or where I saw some risk of missing earnings forecasts that was not adequately reflected in the valuation. In the process I have taken gearing down from 11.6% to 3.7%. This both reduces risk and creates scope to take advantage of any pronounced market weakness that may emerge in the future. I have also increased the weighting to gold miners to 9%. These holdings should provide insurance against tail risks, both geo-political (Iran/Saudi/US, US/China tensions, loss of the US dollar's reserve currency status) and economic (a global credit event, widening US fiscal deficit, pronounced dollar weakness) and should in theory be inversely correlated with the market in times of stress.

I believe that a low valuation is the ultimate defensive attribute and a stretched valuation is a risk. The stockmarket seems instead to be interpreting a low valuation as evidence of a weak business and a high valuation to be the evidence of a company that can do no wrong. My aim as portfolio manager is "to provide shareholders with an attractive, real, long-term total return". The fund today consists largely of companies that provide that return from the current level of capital generation: if earnings do not grow and current depressed multiples simply persist, I believe that objective can be met. If earnings grow as I anticipate or if a re-rating should occur, it should be exceeded.

James Goldstone, Portfolio Manager

The Strategic Report was approved by the Board of Directors on 28 November 2019.

Invesco Asset Management Limited
Company Secretary

STRATEGIC REPORT

INVESTMENTS IN ORDER OF VALUATION

AT 30 SEPTEMBER 2019

UK listed ordinary shares unless stated otherwise

Investments		MARKET VALUE £'000	% OF PORTFOLIO
COMPANY	SECTOR		
BP	Oil & Gas Producers	13,600	5.1
Barclays	Banks	11,781	4.4
Tesco	Food & Drug Retailers	10,647	4.0
British American Tobacco	Tobacco	9,581	3.6
AJ Bell	Financial Services	9,476	3.5
Royal Dutch Shell – B shares	Oil & Gas Producers	9,455	3.5
Coats	General Industrials	8,260	3.1
Barrick Gold	Mining		
– Canadian listed		4,694	3.1
– UK listed		3,541	
JD Sports Fashion	General Retailers	7,991	3.0
Babcock International	Aerospace & Defence	7,881	2.9
Top Ten Investments		96,907	36.2
Next	General Retailers	7,834	2.9
Royal Bank of Scotland	Banks	7,225	2.7
Melrose Industries	Construction & Materials	5,662	2.1
Johnson Service ^{AIM}	Support Services	5,024	1.9
Legal & General	Life Insurance	4,980	1.9
Future	Media	4,787	1.8
Victoria ^{AIM}	Household Goods & Home Construction	4,720	1.8
PureTech Health	Pharmaceuticals & Biotechnology	4,545	1.7
RELX	Media	4,379	1.6
Endeavour Mining	Mining		
– Canadian listed		4,149	1.5
Top Twenty Investments		150,212	56.1
Agnico Eagle Mines	Mining		
– Canadian listed		4,118	1.5
Ultra Electronics	Aerospace & Defence	4,077	1.5
Hollywood Bowl	Travel & Leisure	4,036	1.5
CVS ^{AIM}	General Retailers	3,949	1.5
Summit Properties	Real Estate Investment & Services	3,935	1.5
MJ Gleeson	Household Goods & Home Construction	3,842	1.4
Secure Trust Bank	Banks	3,650	1.4
easyJet	Travel & Leisure	3,614	1.4
Phoenix Spree Deutschland	Real Estate Investment & Services	3,532	1.3
Newmont Goldcorp – US listed	Mining	3,452	1.3
Top Thirty Investments		188,417	70.4
Sigma Capital ^{AIM}	Financial Services	3,400	1.3
PRS REIT	Real Estate Investment Trusts	3,339	1.2
Bushveld Minerals ^{AIM}	Mining	3,288	1.2
HomeServe	Support Services	3,217	1.2
IWG	Support Services	3,175	1.2
On the Beach	Travel & Leisure	3,149	1.2
Rolls-Royce	Aerospace & Defence	3,075	1.2
Fevertree Drinks ^{AIM}	Beverages	3,058	1.1
Harworth	Real Estate Investment & Services	2,977	1.1
Capita	Support Services	2,954	1.1
Top Forty Investments		220,049	82.2
XPS Pensions	Financial Services	2,922	1.1
Pollen Street Secured Lending			
(formerly P2P Global Investments)	Equity Investment Instruments	2,877	1.1
IAG	Travel & Leisure	2,873	1.1
Essentra	Support Services	2,844	1.1
DS Smith	General Industrials	2,740	1.0
Chesnara	Life Insurance	2,584	1.0
BT	Fixed Line Telecommunications	2,546	1.0
Wheaton Precious Metals	Mining	2,461	0.9
N Brown	General Retailers	2,370	0.9
Burford Capital ^{AIM}	Financial Services	2,211	0.8
Top Fifty Investments		246,477	92.2

COMPANY	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
Pearson	Media	2,203	0.8
Ashtead	Support Services	1,958	0.7
McBride	Household Goods & Home Construction	1,883	0.7
Distribution Finance Capital ^{AIM}	Financial Services	1,868	0.7
Cairn Homes	Household Goods & Home Construction	1,850	0.7
Horizon Discovery ^{AIM}	Pharmaceuticals & Biotechnology	1,739	0.7
Hadrian's Wall Secured Investments	Equity Investment Instruments	1,501	0.6
Marwyn Value Investors	Equity Investment Instruments	1,346	0.5
Sherborne Investors Guernsey C ^{AIM}	Financial Services	1,315	0.5
Tungsten ^{AIM}	Financial Services	1,147	0.4
Top Sixty Investments		263,287	98.5
Alfa Financial Software	Software & Computer Services	1,035	0.4
Safestyle UK ^{AIM}	General Retailers	958	0.4
Balfour Beatty	Construction & Materials	895	0.3
Amigo	Financial Services	763	0.3
TruFin ^{AIM}	Financial Services	207	0.1
Nexxon ^{UQ}	Electronic & Electrical Equipment	83	—
Motif Bio	Pharmaceuticals & Biotechnology		
– ADR		40	}
– AIM listed		16	
– ADR warrants 9 Nov 2021		6	
Countryside	Household Goods & Home Construction	44	—
Eurovestech ^{UQ}	Financial Services	39	—
XTL Biopharmaceuticals – ADR	Pharmaceuticals & Biotechnology	6	—
Top Seventy Investments		267,379	100.0
Lombard Medical – US listed	Health Care Equipment & Services	1	—
Mirada ^{AIM}	Media	—	—
Jaguar Health	Pharmaceuticals & Biotechnology		
– US indemnity shares ^{UQ}		—	—
Total Investments 73 (2018: 87)		267,380	100.0

AIM: Investments quoted on AIM.

UQ: Unquoted investment.

ADR: American Depositary Receipts – are certificates that represent shares in the relevant stock and are issued by a US bank. They are denominated and pay dividends in US dollars.

DIRECTORS

Karen Bradet

Mrs Brade was appointed to the Board on 18 January 2018 and became Chairman of the Board and the Nomination Committee on 22 January 2019. She began her career at Citibank working on multi-national project finance transactions. She was a director at the Commonwealth Development Corporation and Actis, a leading emerging markets private equity firm, where she worked with the investment and portfolio management teams, and subsequently on fund raising and investor development in South Asia and China. Since 2005 she has been an adviser to hedge funds, family offices and private equity houses. Mrs Brade is currently chairman of Aberdeen Japan Investment Trust plc, a UK listed fund investing in Japanese mid cap and large cap stocks and non-executive director of Augmentum Fintech plc. She is also an external member of Albion Capital's Investment Committee.

John Wood†

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

Katrina Hart†

Mrs Hart was appointed to the Board on 18 January 2018. Mrs Hart spent her executive career in investment banking, advising, analysing and commentating on a broad range of businesses. Initially working in corporate finance at ING Barings and Hawkpoint Partners, Mrs Hart then moved into equities research at HSBC, covering the General Financials sector. Latterly, she headed up the Financials research teams at Bridgewell Group plc and Canaccord Genuity, specialising in wealth and asset managers. Mrs Hart is a non-executive director of Premier Miton Group plc. She is also a non-executive director of BlackRock Frontiers Investment Trust plc, Polar Capital Global Financials Trust plc and of AEW UK REIT plc.

Ian Armfield†

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

William Kendall

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

All the directors above served on the Board throughout the year.

Beatrice Hollond retired on 22 January 2019.

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

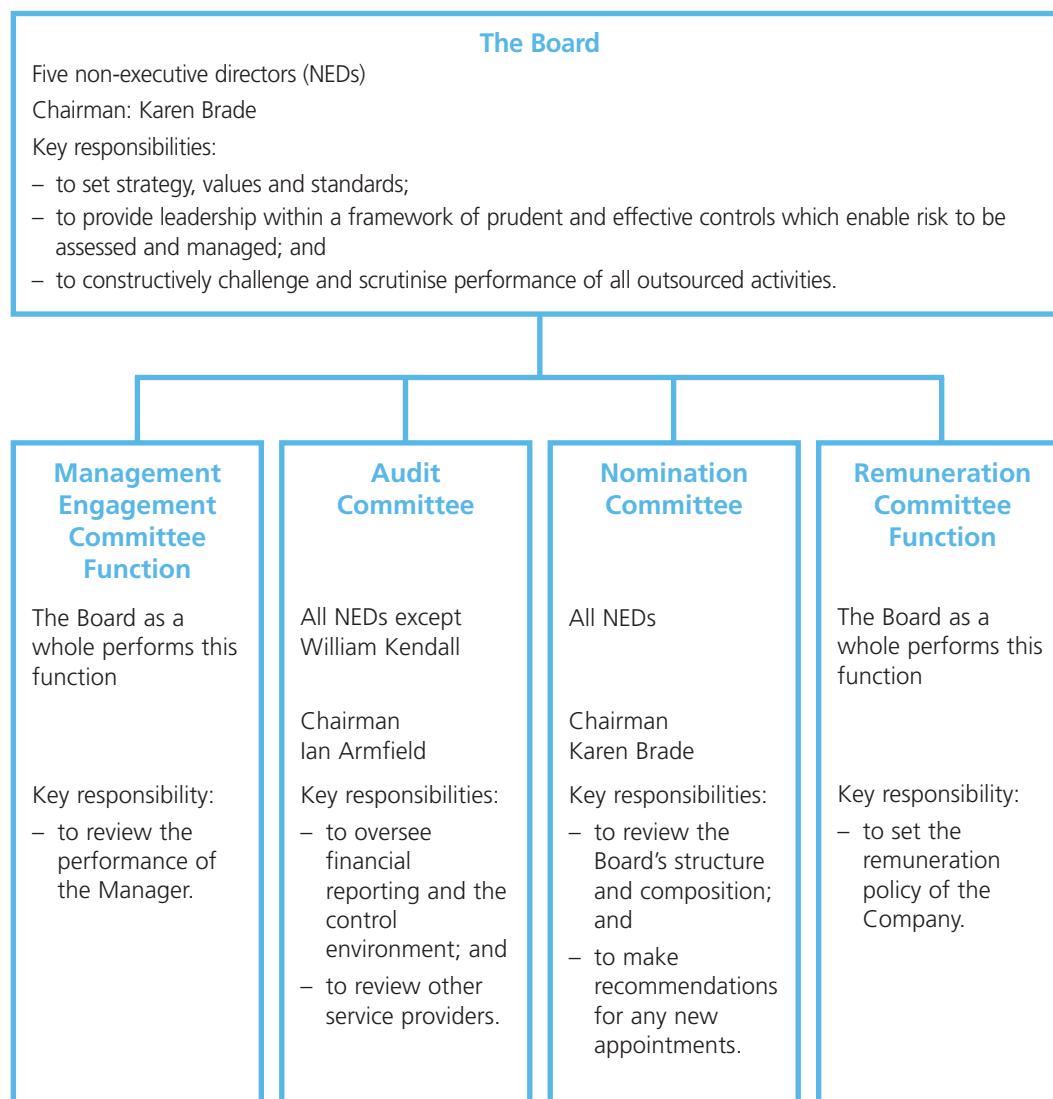
All directors are members of the Nomination Committee.

† Member of the Audit 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 Portfolio Manager

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

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

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 corporate governance codes pertinent to the Company during the year under review were the 2016 AIC Code of Corporate Governance (2016 AIC Code) and the 2016 UK Corporate Governance Code (2016 UK Code). As set out below, the Company has reported under these Code versions. The Financial Reporting Council (FRC) in 2018 and the Association of Investment Companies (AIC) in 2019 have, respectively, issued revisions of these codes, both of which apply for the Company's financial year beginning 1 October 2019. Where practical, the Board has chosen to present elements of these later code versions early in preparation for full compliance with the new codes in the next financial year. Both versions of the AIC's code have been endorsed by the FRC and address all the principles set out in the applicable UK Corporate Governance Code version, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies. Both versions of the AIC code are available from the Association of Investment Companies website (www.theaic.co.uk). Both versions of the UK code are available from the Financial Reporting Council website (www.frc.org.uk).

The Company has complied with the recommendations of the 2016 AIC Code and provisions of the 2016 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 52).

For the reasons set out in the 2016 AIC 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 2016 AIC Code, and consequently the 2016 UK Code, follows:

- the composition and operation of the Board and its committees are summarised on page 19, pages 53 to 55, and pages 21 and 23 in respect of the Audit Committee;
- the Board's diversity policy is set out on page 53;
- the Company's approach to internal control and risk management is summarised on page 23;
- the contractual arrangements with, and assessment of, the Manager are summarised on pages 56 and 57;
- the Company's capital structure and voting rights are summarised on pages 57 to 59;
- the most substantial shareholders in the Company are listed on page 59;
- the rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 52. 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

28 November 2019

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

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 auditors. It is chaired by Ian Armfield and the other members during the year under review were William Kendall, John Wood, Karen Brade and Katrina Hart. Mrs Brade stepped down as a member on 22 January 2019. Following the publication of the 2019 AIC Code of Corporate Governance, she was reinstated as a member in May 2019 and Mr Kendall stepped down as a member at the same time. At the discretion of the Audit Committee Chairman, Mr Kendall may be invited to attend Audit Committee meetings as a guest. Mrs Hollond was also a member until her retirement from the Board in January 2019.

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 May 2019. A copy of the terms of reference will be available for inspection at the Annual General Meeting and can be inspected at the registered office of the Company or on the Company's section of the Manager's website at www.invesco.co.uk/keystone.

The Committee is responsible for a range of matters including:

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

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

Two of the meetings were attended by representatives of the external auditors, 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 auditors 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 auditors and the Committee. In this regard the Committee assessed the Manager's services to be good.

AUDIT COMMITTEE REPORT

continued

Accounting Matters and Significant Areas

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

SIGNIFICANT AREA	HOW ADDRESSED
Accuracy of the portfolio valuation	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 38, and all such valuations are carefully reviewed by Invesco's European Unquoted Pricing Committee and the Committee.
The allocation of management fees and finance costs between revenue and capital	The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historic and projected; the objective of the Company; yields; and the latest market practice of peers.

All the above were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditors. Following a thorough review process, the Audit Committee advised the Board that the 2019 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 Auditors' Reappointment

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

The Company's current auditors, PricewaterhouseCoopers LLP, were appointed following a competitive tender process in March 2014 and this year's audit is the sixth they have undertaken for the Company. This is the first year that Colleen Local has served as the audit partner for the Company's audit.

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 auditors. Areas covered by this review included:

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

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

For the 2019 financial year, the Committee was satisfied with the auditors' effectiveness, independence and the objectivity of the audit process. Accordingly, the Committee is satisfied that PricewaterhouseCoopers LLP has fulfilled its obligations to shareholders and as independent auditors to the Company.

A resolution proposing the reappointment of PricewaterhouseCoopers LLP as the Company's auditors for the year to 30 September 2020 and authorising the Audit Committee to determine their remuneration will be put to shareholders at the forthcoming AGM.

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 pages 53 and 54.

Ian Armfield

Chairman of the Audit Committee

28 November 2019

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

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

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

Remuneration Responsibilities

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

Directors' Remuneration Policy

The Directors' Remuneration Policy was last approved by shareholders at the AGM on 24 January 2017 and became effective on that date. 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 62.

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

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

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

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

Annual Statement on Directors' Remuneration

As disclosed in the last annual financial report, the Directors decided last year to increase their fees with effect from 1 February 2019.

Fees paid to Directors up to 31 January 2019 were as follows: Chairman £27,000; Audit Committee Chairman £24,000; other Directors £20,000. Fees from 1 February 2019 were as follows: Chairman £30,000; Audit Committee Chairman £25,000; other Directors £21,000.

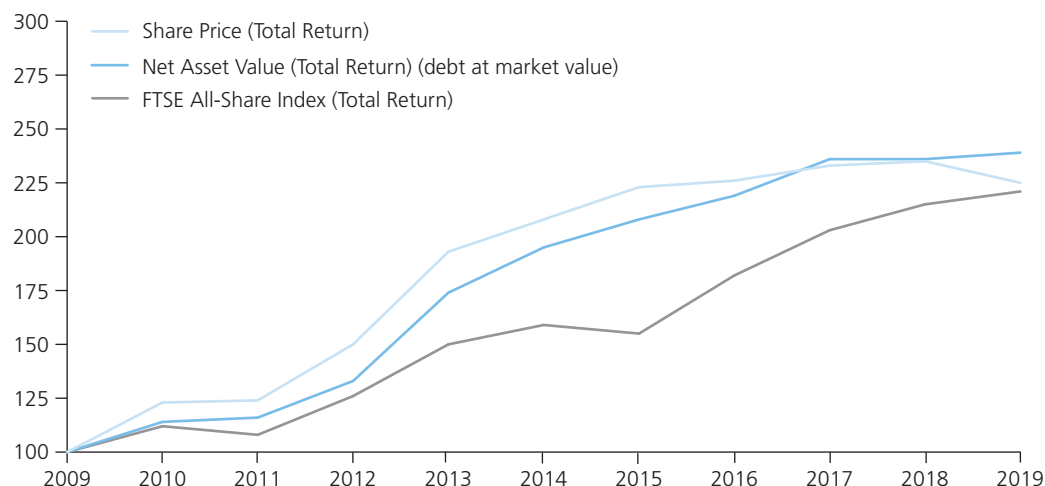
When the Board undertook its regular remuneration review during the year under review it decided that fees should remain unchanged. No additional discretionary payments were made in the year, or in the previous year, and no Director took legal advice at the Company's expense.

Report on Remuneration for the Year Ended 30 September 2019

The Company's Performance

The graph below plots, in annual increments, the net asset value total return and share price total return to ordinary shareholders compared to the total return of the FTSE All-Share Index over the ten years to 30 September 2019. This index is the benchmark adopted by the Company for comparison purposes.

Figures have been rebased to 100 at 30 September 2009. A graph showing the performance over the last ten years plotted daily is shown on page 3.



Source: Refinitiv.

Directors' Emoluments for the Year (Audited)

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

	2019 £	2018 £
Karen Brade (Chairman, from 22 January 2019)	26,890	13,973
Ian Armfield (Audit Committee Chairman)	24,667	24,000
William Kendall	20,667	20,000
John Wood	20,667	20,000
Katrina Hart	20,667	13,973
Beatrice Hollond (retired 22 January 2019)	8,377	27,000
Peter Readman (retired 18 January 2018)	—	6,027
Total	121,935	124,973

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:

	2019	2018
Ian Armfield	—	—
William Kendall	6,250	6,250
John Wood	1,000	1,000
Karen Brade	522	500
Katrina Hart	1,091	1,091

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the ordinary shares, preference shares or debenture stock of the Company during the year. Since the year end, following a dividend re-investment, Mrs Brade's holding has increased to 526 ordinary shares. No connected person interests have been notified.

DIRECTORS' REMUNERATION REPORT

continued

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

Relative Importance of Spend on Pay

The following table compares the remuneration paid to the Directors with aggregate distributions to shareholders in the year to 30 September 2019 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.

	2019 £'000	2018 £'000	CHANGE £'000
Aggregate Directors' Emoluments	122	125	-3
Aggregate Shareholder Distributions	8,067	7,807	+260

Voting at Last Annual General Meeting

At the Annual General Meeting of the Company held on 22 January 2019 an advisory resolution was put to shareholders to approve the Annual Statement and Report on Remuneration. This was passed by a show of hands. The proxy votes registered in respect of this resolution were as follows:

	VOTES FOR	%	VOTES AGAINST	%	VOTES WITHHELD
Annual Statement and Report on Remuneration	2,441,981	99.9	4,227	0.1	379

The Directors' Remuneration Policy was passed at the Annual General Meeting held on 24 January 2017. The proxy votes registered in respect of the resolution were as follows:

	VOTES FOR	%	VOTES AGAINST	%	VOTES WITHHELD
Directors' Remuneration Policy	1,996,006	99.9	2,074	0.1	485

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 28 November 2019.

Karen Brade

Chairman

Signed on behalf of the Board of Directors

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 confirm that:

- in so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

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

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

Karen Brade

Chairman

Signed on behalf of the Board of Directors

28 November 2019

Electronic Publication

The annual financial report is published on www.invesco.co.uk/keystone which is the Company's section of the Manager's website. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KEYSTONE INVESTMENT TRUST PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 30 September 2019 and of its return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Financial Report (the "Annual Report"), which comprise: the Balance Sheet as at 30 September 2019; the Income Statement, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

We have provided no non-audit services to the Company in the period from 1 October 2018 to 30 September 2019.

Our audit approach

Overview



The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of section 1158 of the Corporation Tax Act 2010 (see page 10 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and Chapter 15 of the UK Listing Rules applicable to Closed-Ended Investment Funds. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase net asset value. Audit procedures performed by the engagement team included:

- enquiring of management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- understanding the operating effectiveness of the Administrator's and Management's internal controls designed to prevent and detect irregularities;
- testing the Company's compliance with section 1158 of the Corporation Tax Act 2010 in the current year;
- identifying and testing journal entries, specifically targeting manual journal entries posted by the Administrator during the preparation of the financial statements;
- reviewing financial statement disclosures to underlying supporting documentation;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing for example, targeting transactions that otherwise would be immaterial; and
- reviewing relevant meeting minutes, including those of the Audit Committee.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Valuation and existence of investments</p> <p><i>Refer to the Audit Committee Report (page 22), the Accounting Policies (page 37) and the Notes to the Financial Statements (page 42).</i></p> <p>Listed investments comprise 99.95% of the investments portfolio at the year-end and are valued at £267.3 million.</p> <p>We focused on the valuation and existence of listed investments because listed investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the Financial Statements.</p>	<p>We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources.</p> <p>We tested the existence of the listed investment portfolio by agreeing investment holdings to an independent custodian confirmation.</p> <p>No material issues were identified.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KEYSTONE INVESTMENT TRUST PLC

continued

Key audit matter	How our audit addressed the key audit matter
<p>Accuracy, occurrence and completeness of dividend income</p> <p><i>Refer to the Accounting Policies (page 38) and the Notes to the Financial Statements (page 39).</i></p> <p>We focused on the accuracy, occurrence and completeness of dividend income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover.</p> <p>We also focused on the accounting policy for income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP") as incorrect application could indicate a misstatement in income recognition.</p>	<p>We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>We tested the accuracy of dividend receipts by agreeing the dividend rates for income recognised in the year to independent market data.</p> <p>We tested occurrence by testing, for each investment holding, that all dividends recorded in the year had been declared in the market.</p> <p>To test for completeness, we tested, for all investment holdings in the portfolio, that dividends declared in the market had been recorded.</p> <p>We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions.</p> <p>No material issues were identified.</p>

How we tailored the audit scope

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

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

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

Overall materiality	£2.6 million (2018: £2.7 million).
How we determined it	1% of net assets.
Rationale for the benchmark applied	We applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £128,000 (2018: £133,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	<p>We have nothing material to add or to draw attention to.</p> <p>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.</p>
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report
<p>In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)</p> <p>In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KEYSTONE INVESTMENT TRUST PLC

continued

<p>The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company</p>
<p>We have nothing material to add or draw attention to regarding:</p> <ul style="list-style-type: none"> • The Directors' confirmation on page 23 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. • The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. • The Directors' explanation on pages 10 and 11 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. <p>We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (<i>Listing Rules</i>)</p>
<p>Other Code Provisions</p>
<p>We have nothing to report in respect of our responsibility to report when:</p> <ul style="list-style-type: none"> • The statement given by the Directors, on page 27, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit. • The section of the Annual Report on page 22 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. • The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.
<p>Directors' Remuneration</p>
<p>In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (<i>CA06</i>)</p>

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the Board on 2 June 2014 to audit the financial statements for the year ended 30 September 2014 and by the members for subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 30 September 2014 to 30 September 2019.

Colleen Local (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 November 2019

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	REVENUE £'000	2019 CAPITAL £'000	TOTAL £'000	REVENUE £'000	2018 CAPITAL £'000	TOTAL £'000
Losses on investments	9	—	(3,796)	(3,796)	—	(8,653)	(8,653)
Gains/(losses) on foreign exchange		—	68	68	—	(166)	(166)
Income	2	8,732	279	9,011	8,806	2,499	11,305
Investment management and performance related fees	3	(235)	(704)	(939)	(261)	(785)	(1,046)
Other expenses	4	(392)	—	(392)	(408)	—	(408)
<hr/>							
Net return before finance costs and taxation		8,105	(4,153)	3,952	8,137	(7,105)	1,032
Finance costs	5	(567)	(1,662)	(2,229)	(564)	(1,655)	(2,219)
<hr/>							
Return before taxation		7,538	(5,815)	1,723	7,573	(8,760)	(1,187)
Taxation	6	(22)	—	(22)	(21)	—	(21)
<hr/>							
Return after taxation for the financial year		7,516	(5,815)	1,701	7,552	(8,760)	(1,208)
<hr/>							
Return per ordinary share							
Basic	7	55.6p	(43.0)p	12.6p	55.9p	(64.8)p	(8.9)p

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	CALLED UP SHARE CAPITAL £'000	SHARE PREMIUM ACCOUNT £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 30 September 2017		6,760	3,449	466	253,648	11,064	275,387
Return after taxation		—	—	—	(8,760)	7,552	(1,208)
Dividends paid	8	—	—	—	—	(8,033)	(8,033)
<hr/>							
At 30 September 2018		6,760	3,449	466	244,888	10,583	266,146
Return after taxation		—	—	—	(5,815)	7,516	1,701
Dividends paid	8	—	—	—	—	(10,241)	(10,241)
<hr/>							
At 30 September 2019		6,760	3,449	466	239,073	7,858	257,606

The accompanying notes are an integral part of these statements.

BALANCE SHEET

AT 30 SEPTEMBER

	NOTES	2019 £'000	2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	267,380	296,692
Current assets			
Debtors	10	782	1,663
Cash and cash equivalents		22,557	1,078
		23,339	2,741
Creditors: amounts falling due within one year	11	(1,042)	(1,250)
Net current assets		22,297	1,491
Total assets less current liabilities		289,677	298,183
Creditors: amounts falling due after more than one year	12	(32,071)	(32,037)
Net assets		257,606	266,146
Capital and reserves			
Called up share capital	13	6,760	6,760
Share premium account	14	3,449	3,449
Capital redemption reserve	14	466	466
Capital reserve	14	239,073	244,888
Revenue reserve	14	7,858	10,583
Total shareholders' funds		257,606	266,146
Net asset value per ordinary share – basic			
– debt at par	15	1,905.5p	1,968.7p
– debt at market value	15	1,862.4p	1,921.7p

The financial statements on pages 34 to 51 were approved and authorised for issue by the Board of Directors on 28 November 2019.

Signed on behalf of the Board of Directors

Karen Brade
Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2019 £'000	2018 £'000
Cash flow from operating activities			
Net return before finance costs and taxation		3,952	1,032
Tax on overseas income	6	(22)	(21)
Adjustments for:			
Purchase of investments		(57,894)	(111,227)
Sale of investments		84,268	99,172
		26,374	(12,055)
Scrip dividends		(211)	(114)
Losses on investments held at fair value		3,796	8,653
Net cash movement from derivative instruments			
– currency hedges		(28)	87
Decrease in debtors		30	8
Decrease in creditors		(13)	(12)
Net cash inflow/(outflow) from operating activities		33,878	(2,422)
Cash flow from financing activities			
Interest and facility fee paid on overdraft		(18)	(8)
Interest paid on debenture stocks		(2,165)	(2,165)
Preference dividends paid		(12)	(12)
Net equity dividends paid	8	(10,241)	(8,070)
Return of unclaimed dividends	8	37	—
Net cash outflow from financing activities		(12,399)	(10,255)
Net increase/(decrease) in cash and cash equivalents		21,479	(12,677)
Cash and cash equivalents at start of the year		1,078	13,755
Cash and cash equivalents at the end of the year		22,557	1,078
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:			
Cash at custodian		107	1,078
Short-Term Investment Company (Global Series) plc, money market fund		22,450	—
Cash and cash equivalents		22,557	1,078
Cash flow from operating activities includes:			
Dividends received		8,615	10,933
Interest received		172	172
Changes in liabilities arising from financing activities:			
Opening balance on debenture stock and preference shares		32,037	32,003
Increase due to amortisation of discount and issue expenses on debenture stock in the year		34	34
Closing balance as at 30 September		32,071	32,037

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

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

A summary of the principal accounting policies adopted by the Company is set out below.

(a) Basis of Preparation

(i) *Accounting Standards applied*

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the measurement at fair value of investments and derivatives, in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', the Companies Act 2006 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 October 2019 (SORP).

The revised SORP issued in October 2019 is applicable for accounting periods beginning on or after 1 January 2019 and early adoption is encouraged. The Company has chosen to early adopt the revised SORP. As a result, the presentation of gains and losses arising from disposals of investments and gains and losses on revaluation of investments have now been combined, as shown in note 9. The result of this change has no impact on the net asset value or total return for both the current year and prior year. No other accounting policies or disclosures have changed as a result of the revised SORP.

(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.

(iii) *Significant Accounting Estimates and Judgements*

The preparation of the financial statements may require the Directors to make estimations where uncertainty exists. It also requires the Directors to make judgements, estimates and assumptions, in the process of applying the accounting policies. There have been no significant judgements, estimates or assumptions for the current or preceding year.

(b) Financial Instruments

The Company has chosen to apply the provisions of sections 11 and 12 of FRS 102 in full in respect of financial instruments.

(i) *Recognition of financial assets and financial liabilities*

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

(ii) *Derecognition of financial assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

(iii) *Derecognition of financial liabilities*

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

(iv) *Trade date accounting*

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

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

Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

continued

1. Accounting Policies (continued)

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

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

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

Financial liabilities

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

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

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

(d) **Cash and cash equivalents**

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

(e) **Income**

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

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

Investment management fees are recognised on an accruals basis and are charged 75% to capital and 25% to revenue. This is in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

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

(g) **Expenses and Finance costs**

Expenses are recognised on an accruals basis and finance costs are recognised using the effective interest method, with the debentures being held at amortised cost. The finance costs of debt are

allocated 75% to capital and 25% to revenue for the reasons outlined in (f) above. The 5% cumulative preference shares are classified as a liability and therefore the dividends payable on these shares are classified as finance costs and charged to revenue in the income statement.

(h) Hedging

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are included in capital.

(i) Foreign Currency Translation

Transactions in foreign currency, whether of a revenue or capital nature, are translated to Sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities are translated to Sterling at the rates of exchange ruling at the balance sheet date. Any gains or losses, whether realised or unrealised, are taken to capital or to revenue, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the income statement.

(j) Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred taxation assets are recognised where, in the opinion of the Directors, it is more likely than not that these amounts will be realised in future periods.

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

(k) Dividends Payable

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

2. Income

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

	2019 £'000	2018 £'000
Income from investments		
UK dividends	7,224	7,522
UK special dividends	497	236
Income from interest distributions	171	171
Overseas dividends	593	716
Scrip dividends	211	114
	8,696	8,759
Other income		
Deposit interest	1	1
Other	35	46
	36	47
	8,732	8,806

Special dividends of £279,000 were recognised in capital during the year (2018: £2,499,000).

NOTES TO THE FINANCIAL STATEMENTS

continued

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.

	2019			2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	235	704	939	261	785	1,046
Performance-related fee	—	—	—	—	—	—
	235	704	939	261	785	1,046

Details of the investment management agreement are given on page 56 in the Directors' Report.

At 30 September 2019, £236,000 (2018: £256,000) was accrued in respect of the investment management fee. There was no performance-related fee provision for the year (2018: £nil).

4. Other Expenses

The other expenses of the Company are presented below.

	2019 £'000	2018 £'000
Directors' remuneration ⁽ⁱ⁾	122	125
Auditors' fees ⁽ⁱⁱ⁾ :		
– for audit of the Company's annual financial statements	26	26
Other expenses ⁽ⁱⁱⁱ⁾	244	257
	392	408

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

(ii) Auditors' fees include expenses but excludes VAT. VAT is included in other expenses.

(iii) Other expenses include: £9,400 (2018: £7,700) of employer's National Insurance payable on Directors' remuneration. As at 30 September 2019, the amounts outstanding on Directors' remuneration and employer's National Insurance was £9,800 (2018: £10,100).

5. Finance Costs

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

	2019			2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Interest payable on borrowings repayable not by instalment:						
Fees due on overdraft facility	3	7	10	—	—	—
Payable on bank borrowings	2	6	8	2	6	8
Debenture stock repayable in 1 to 3 years	136	407	543	136	407	543
Debenture stock repayable after 3 years	414	1,242	1,656	414	1,242	1,656
	555	1,662	2,217	552	1,655	2,207
Dividends on 5% cumulative preference shares	12	—	12	12	—	12
	567	1,662	2,229	564	1,655	2,219

6. Taxation

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

	2019 REVENUE £'000	2018 REVENUE £'000
Overseas tax	22	21

(b) Reconciliation of Total Tax Charge

	2019 £'000	2018 £'000
Total return before taxation	1,723	(1,187)
UK Corporation Tax effective rate of 19% (2018: 19%)	327	(226)
Effect of:		
– Non-taxable UK dividends	(1,492)	(1,931)
– Non taxable scrip dividends	(40)	(22)
– Non-taxable overseas dividends	(110)	(141)
– Non-taxable losses on investments	721	1,644
– Non-taxable (gains)/losses on foreign exchange	(13)	32
– Excess of allowable expenses over taxable income	607	642
– Disallowable expenses	—	2
– Overseas taxation	22	21
Total Tax charge for the year	22	21

(c) Factors that may Affect Future Tax Changes

The Company has cumulative excess management expenses of £78,482,000 (2018: £75,291,000) that are available to offset future taxable revenue.

A deferred tax asset of £13,342,000 (2018: £12,800,000) at 17% (2018: 17%) has not been recognised in respect of these expenses since the Directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset.

7. Return per Ordinary Share

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

The basic revenue, capital and total return per ordinary share is based on each of the returns after taxation and on 13,518,799 (2018: 13,518,799) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

continued

8. Dividends

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

	2019		2018	
	PENCE	£'000	PENCE	£'000
Dividends paid and recognised in the year:				
Second interim dividend (prior year)	38.00	5,137	37.00	5,002
Special dividend (prior year)	1.75	237	4.70	635
First interim dividend	24.00	3,245	18.00	2,433
Second interim dividend	12.00	1,622	—	—
	75.75	10,241	59.70	8,070
Return of unclaimed dividends from previous years		—		(37)
	75.75	10,241	59.70	8,033

	2019		2018	
	PENCE	£'000	PENCE	£'000
Dividends payable in respect of the year:				
First interim dividend	24.00	3,245	18.00	2,433
Second interim dividend	12.00	1,622	38.00	5,137
Third interim dividend	20.00	2,704	—	—
	56.00	7,571	56.00	7,570
Special dividend	3.67	496	1.75	237
	59.67	8,067	57.75	7,807

The Company has moved to a quarterly dividends model and, as a consequence of the timing of this decision, will pay three interim dividends this year: June, September and December, the third interim being in lieu of a final dividend (2018 second interim being in lieu of final dividend).

9. Investments

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

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

(a) Analysis of Investments by Listing Status

	2019 £'000	2018 £'000
Investments listed on a recognised stock exchange	267,258	285,654
Unlisted investments	122	11,038
	267,380	296,692

(b) Analysis of Investment Gains and Losses

	LISTED £'000	2019 UNLISTED £'000	TOTAL £'000	2018 TOTAL £'000
Opening book cost	294,910	8,624	303,534	277,620
Opening investment holding (losses)/gains	(9,256)	2,414	(6,842)	17,158
Opening valuation	285,654	11,038	296,692	294,778
Analysis of transactions made during the year				
Purchases at cost	57,910	—	57,910	110,727
Sales proceeds received	(79,602)	(3,824)	(83,426)	(100,160)
Losses on investments	(3,772)	(24)	(3,796)	(8,653)*
Transfer between listed and unlisted	7,068	(7,068)	—	—
Closing valuation	267,258	122	267,380	296,692
Closing book cost	267,543	4,155	271,698	303,534
Closing investment holding losses	(285)	(4,033)	(4,318)	(6,842)
Closing valuation	267,258	122	267,380	296,692

The Company received £83,426,000 (2018: £100,160,000) from investments sold in the year. The book cost of these investments when they were purchased was £89,778,000 (2018: £84,813,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

*Due to the early adoption of the revised SORP issued in October 2019 (see Accounting Policies note 1(a)(i) on page 37). The losses on investments figure for the year ended 30 September 2018 is constituted of the following:

	£'000
Net realised gains on sales	15,347
Investment holding losses in the year	(24,000)
Losses on investments	(8,653)

(c) Transaction Costs

Transaction costs on purchases of £198,000 (2018: £410,000) and on sales of £227,000 (2018: £72,000) are included within gains and losses on investments in the income statement.

10. Debtors

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

	2019 £'000	2018 £'000
Amounts due from brokers	146	988
Overseas withholding tax recoverable	286	275
Unrealised profit on forward currency contracts	98	70
Prepayments and accrued income	252	293
Unclaimed dividends from previous years recoverable	—	37
	782	1,663

NOTES TO THE FINANCIAL STATEMENTS

continued

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 auditors, and bank overdraft.

	2019 £'000	2018 £'000
Amounts due to brokers	—	195
Accruals	1,042	1,055
	1,042	1,250

The Company has an uncommitted bank overdraft facility of up to £15 million, renewable on 18 September 2020. Interest payable on the facility is at a margin over base rate. The covenant under the facility requires total assets not to fall below £100 million.

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

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

	2019 £'000	2018 £'000
Debt 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 debt stock	(147)	(181)
	31,821	31,787
5% cumulative preference shares of £1 each	250	250
	32,071	32,037

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 debt stocks both pay interest twice a year; the 7.75% Debt Stock 2020 for the six months ended 31 March and 30 September, and the 6.5% Debt Stock 2023 for the six months to 27 April and 27 October. Both debt 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.

	2019		2018	
	NUMBER	£'000	NUMBER	£'000
Allotted, called-up and fully paid:				
Ordinary shares of 50p each	13,518,799	6,760	13,518,799	6,760

The Company is limited by shares. 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 (2018: 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 account 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 account, 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 and cumulative realised gains/(losses) on the disposal of investments. Capital investment gains and losses are shown in note 9(b) and form part of the capital reserve. Share buy backs can be funded from the capital reserve.

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

15. Net Asset Value

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

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

	2019 SHAREHOLDERS' FUNDS £'000	NAV PER SHARE PENCE	2018 SHAREHOLDERS' FUNDS £'000	NAV PER SHARE PENCE
NAV – debt at par	257,606	1,905.5	266,146	1,968.7
Add back: debt at par, after amortised costs (note 12)	32,071	237.2	32,037	237.0
Deduct: debt at market value (note 17)	(37,905)	(280.3)	(38,392)	(284.0)
NAV – debt at market value	251,772	1,862.4	259,791	1,921.7

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

16. Financial Instruments

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

The Company's financial instruments comprise its investment portfolio (as shown on pages 16 to 17), derivatives, cash, borrowings, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured. The Company did not have any exposure to other derivatives during the year apart from the use of forward currency contracts to hedge the Euro exposure (2018: same).

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 under Board Responsibilities on page 54. No derivatives or hedging instruments are utilised to manage market risk. Borrowings are used to enhance returns, however, this increases the Company's exposure to market risk and volatility.

Currency risk

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

Management of the currency risk

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

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 2019			
	CANADIAN DOLLAR £'000	EURO £'000	SWISS FRANC £'000	US DOLLAR £'000
Debtors (due from brokers and dividends)	—	44	282	1
Forward currency contracts	—	(5,799)	—	—
Foreign currency exposure on net monetary items	—	(5,755)	282	1
Investments at fair value through profit or loss that are equities	8,843	5,785	—	10,084
Total net foreign currency exposure	8,843	30	282	10,085

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

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.

	2019	2018
£/Canadian dollar	±2.7%	±2.6%
£/Euro	±2.0%	±0.9%
£/Swiss franc	±3.2%	±2.2%
£/US dollar	±2.5%	±3.0%

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

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

NOTES TO THE FINANCIAL STATEMENTS

continued

16. Financial Instruments (continued)

Risk Management Policies and Procedures (continued)

Market risk (continued)

	30 SEPTEMBER 2019			
	CANADIAN DOLLAR £'000	EURO £'000	SWISS FRANC £'000	US DOLLAR £'000
Income statement – return after taxation				
Revenue return	—	1	9	5
Capital return	239	—	—	252
Total return after taxation for the year	239	1	9	257
Effect on net asset value	0.1%	0.0%	0.0%	0.1%

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

If sterling were to strengthen by the same amounts, the effect would be the converse.

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

Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the variable rate borrowings. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the custodian. The Company has an uncommitted overdraft facility of up to £15 million available for investment and settlement purposes, details are shown in note 11. Use of the overdraft has been infrequent over the two years being reported on and at the year end none was drawn down (2018: none).

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

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

Other price risk

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

Management of other price risk

The Directors manage the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis the Manager's compliance with the Company's stated objectives and policies and to review investment performance.

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

Based on the equity portfolio value of £267,380,000 (2018: £296,692,000), 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 £2.67 million (2018: £2.97 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:

	2019				2018			
	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	4,870	7,035	811	1,354	7,035	9,200
Amounts due to brokers	—	—	—	—	195	—	—	195
Other creditors and accruals	337	—	—	337	351	—	—	351
	1,148	1,354	36,838	39,340	1,357	1,354	39,003	41,714

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

Credit risk

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered, and cash balances. Counterparty risk is minimised by using only approved and appropriately regulated counterparties. During the year cash balances were limited to a maximum of 6% of gross assets with any one deposit taker and 12.5% of gross assets for holdings in the Short-Term Investments Company (Global Series) plc (STIC), a triple A rated money market fund 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 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.

NOTES TO THE FINANCIAL STATEMENTS

continued

17. Fair Value

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

Fair Value Hierarchy Disclosures

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

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

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

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

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

	2019				2018			
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:								
Quoted investments:								
Equities	267,252	—	—	267,252	285,480	—	—	285,480
Other securities	—	6	—	6	—	174	—	174
Unquoted investments:								
Equities	—	—	122	122	—	—	11,038	11,038
Derivative financial instruments:								
Currency hedges	—	98	—	98	—	70	—	70
Total for financial assets	267,252	104	122	267,478	285,480	244	11,038	296,762

During the year AJ Bell was admitted to the Main Market of the London Stock Exchange and was transferred from Level 3 (unquoted) to Level 1 (2018: £7,068,000). In addition, Oxford Sciences Innovation, previously included in Level 3, was sold (2018: £3,746,000) and Halosource (2018: £19,000) was also transferred to Level 3 and subsequently written off.

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

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

	BOOK COST 2019 £'000	FAIR VALUE 2019 £'000	BOOK COST 2018 £'000	FAIR VALUE 2018 £'000
Debentures payable in less than 5 years:				
7.75% Debenture Stock 2020	7,000	7,491	7,000	7,946
6.5% Debenture Stock 2023	24,968	30,168	24,968	30,200
Discount on issue of debentures	(147)	—	(181)	—
	31,821	37,659	31,787	38,146
5% Cumulative preference shares of £1 each	250	246	250	246
	32,071	37,905	32,037	38,392

18. Capital Management

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

The Company's total capital employed at 30 September 2019 was £289,677,000 (2018: £298,183,000) comprising borrowings of £32,071,000 (2018: £32,037,000) and equity share capital and other reserves of £257,606,000 (2018: £266,146,000).

The Company's total capital employed is managed to achieve the Company's investment objective and policy as set out on page 6, including that borrowings may be used to provide gearing of the equity portfolio. At the balance sheet date, net gearing, with debt at par, was 3.7% (2018: 11.6%). The Company's policies and processes for managing capital are unchanged from the preceding year.

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

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

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

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

19. Contingencies, Guarantees and Financial Commitments

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

There were no contingencies, guarantees or other financial commitments of the Company at the year end (2018: £nil).

20. Related Party Transactions and Transactions with the Manager

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

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

Details of the Manager's services and fees are disclosed in the Directors' Report on pages 56 and 57 and in note 3.

21. Post Balance Sheet Events

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

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 21 to 23 and on page 53.

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 Karen Brade, a non-executive and independent Director who has no conflicting relationships. Mrs Brade joined the Board as a director in 2018 and succeeded Beatrice Hollond as Chairman on 22 January 2019.

Senior Independent Director/Deputy Chairman

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

Appointment, Re-election and Tenure of Directors

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

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are continually updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from key members of the Manager's staff and which ensure that Directors can keep up to date with new legislation and changing risks.

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

The Articles of Association do not limit Directors' tenure. However, they provide that the Directors may, by notice in writing, remove any Director from the Board. In accordance with the UK Code of Corporate Governance, the Board has resolved that the Chairman's tenure is limited to nine years from their first appointment to the Board. The Board considers that this policy encourages its regular refreshment.

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 Balance and Independence

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

The Board believes that this balance, both as currently constituted and in its prospective form following the AGM, is appropriate for the effective direction of the Company. The current Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company. Brief biographical details of the members of the Board are shown on page 18.

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

The Board considers that all of the current Directors are independent of the Company's Manager. The Board considers that Mr Kendall who has served on the Board for more than nine years, remains independent in character and judgement from the Company's Manager, a view which has been demonstrated by his 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 21 to 23, which is included in this Directors' Report by reference.

Nomination Committee

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

The Nomination Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. They will be available for inspection at the AGM and can be inspected at the Registered Office of the Company as well as on the Company's section of the Manager's website.

The Board has due regard for the benefits of diversity in its membership and seeks to ensure that its structure, size and composition, including the skills, knowledge, gender and experience of the Directors, is sufficient for the effective direction and control of the Company. In particular, the Board believes that the Company benefits from a balance of Board members with different tenures. The Board has not set any measurable objectives in respect of this policy. The Board is mindful of the importance of having a suitable mapped board succession and renewal process in line with corporate governance best practice and the Nomination Committee keeps succession planning under review.

Board, Committees and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendations in respect of evaluating the performance of the Board as a whole, the Audit Committee and individual Directors.

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

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

DIRECTORS' REPORT

continued

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

The Board recommends to shareholders the approval of resolutions 6 to 10 in the notice of meeting for the AGM relating to the re-election of Directors.

Attendance at Board and Committee Meetings

The Board meets on a regular basis at least five times each year. The following table sets out the number of scheduled Board, Audit Committee and Nomination Committee meetings held during the year to 30 September 2019 and the number of meetings attended by each Director.

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

⁽¹⁾ Mrs Hollond retired from the Board on 22 January 2019.

⁽²⁾ Mr Kendall is not a member of the Audit Committee, but attended the meetings by invitation.

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

Board Responsibilities

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

In order to promote the success 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.invesco.co.uk/keystone.

The main responsibilities of the Board include: setting the Company's objectives, policies and standards, ensuring that the Company's obligations to shareholders and others are understood and complied with, approving accounting and dividend policies, managing the capital structure, setting long-term objectives and strategy, assessing and managing risk, reviewing investment performance and the Company's financial position, reviewing Directors' remuneration, undertaking nomination responsibilities and assessing the Manager on an ongoing basis.

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

The Board also seeks to ensure that shareholders are provided with sufficient information in order to understand the risk/reward balance to which they are exposed by holding their shares, through the information given in the annual and half-year financial reports, factsheets and daily net asset value disclosures.

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

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 57.
- *Remuneration*
The Board as a whole operates as a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report on pages 24 to 26.

Corporate Governance

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

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are 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 auditors are 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.

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 and for advising the Board through the Chairman on all governance matters. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports, that the statutory obligations of the Company are met and acts as a contact for shareholders. The Company Secretary ensures that all non-spam correspondence addressed to the Company is reported to the Board and dealt with in a timely manner. The appointment and ongoing assessment and review of the Company Secretary are matters for the Board as a whole.

Directors

Directors' Interests in Shares

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

Disclosable Interests

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

Conflicts of Interest

A Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests.

DIRECTORS' REPORT

continued

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 executed on behalf of the Company for each of the Directors under the Company's Articles of Association, and they continue to apply. Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

The Manager

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

The Manager's Responsibilities

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

Investment Management Agreement

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

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

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

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

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

Assessment of the Investment Manager

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

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

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as twelve months after the signing of the balance sheet. This conclusion is consistent with the longer term viability statement on pages 10 and 11. 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

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

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 present in person or by proxy 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

DIRECTORS' REPORT

continued

(and dividends) where shareholders fail to provide information in respect of interests in voting rights when so requested.

Sub-division of Existing Ordinary Shares

At the Annual General Meeting the Directors will seek authority to sub-divide each existing ordinary share of 50 pence each (the 'Existing Ordinary Shares') into five new ordinary shares of 10 pence each (the 'New Ordinary Shares'). The full text of this resolution is set out on page 60. The resolution is conditional upon the New Ordinary Shares being listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange. Application will be made for such listing and admission.

If resolution 11 is passed at the Annual General Meeting and the conditions attaching to the resolution are fulfilled there will be 67,593,995 New Ordinary Shares in issue immediately following completion of the sub-division (on the basis that there are currently 13,518,799 Existing Ordinary Shares in issue). The Directors consider the sub-division to be in the best interests of shareholders as a whole as lowering the price at which the shares are traded should improve their marketability and make it easier for investors to make small or regular investments.

The New Ordinary Shares will rank *pari passu* with each other and will be subject to the same rights and restrictions as the Existing Ordinary Shares, including the same rights to participate in dividends or income of the Company. Mandates and other instructions for the payment of dividends in paper form or via CREST, will, unless and until revised, continue to apply to the New Ordinary Shares. A holding of New Ordinary Shares following the sub-division will represent the same proportion of the issued ordinary share capital of the Company as the corresponding holding of Existing Ordinary Shares.

If resolution 11 is approved at the Annual General Meeting it is expected that:

- (i) dealings in Existing Ordinary Shares will cease as at close of business on 12 February 2020 and that admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange and dealings will commence in the New Ordinary Shares on 13 February 2020;
- (ii) where Existing Ordinary Shares are held in certificated form, share certificates will cease to be valid from 12 February 2020. Certificates in respect of the New Ordinary Shares will be posted, at the risk of shareholders, by 28 February 2020 (these will replace existing certificates which should be destroyed); and
- (iii) shareholders who hold their Existing Ordinary Shares in uncertificated form will have their CREST accounts credited with the relevant entitlements to New Ordinary Shares on 13 February 2020.

The New Ordinary Shares have been allocated new stock identification codes as follows: SEDOL Code BK96BB6; and ISIN Code: GB00BK96BB68, to be effective from the date of Admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange, expected to be 13 February 2020. The share split will not itself give rise to any liability to UK income tax (or corporation tax on income) for shareholders. For the purposes of UK capital gains tax and corporation tax on chargeable gains, the receipt of the New Ordinary Shares from the share split will be a reorganisation of the share capital of the Company. Accordingly, a shareholder's holding of New Ordinary Shares will be treated as the same asset as a shareholder's holding of Existing Ordinary Shares and as having been acquired at the same time and for the same consideration, as that holding of Existing Ordinary Shares.

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

Restrictions on the Transfer of Ordinary or Preference Shares

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. As at 30 September 2019, the Company's issued share capital did not include any ordinary or preference shares that were not fully paid.

The Directors may refuse to register any transfer of a share in favour of more than four persons jointly. The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example insider trading laws). The Company is also not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Substantial Holdings in the Company

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

	AS AT 31 OCTOBER 2019		AS AT 30 SEPTEMBER 2019	
	HOLDING	%	HOLDING	%
1607 Capital Partners	1,774,681	13.1	1,708,111	12.6
Wells Capital	1,514,548	11.2	1,610,120	11.9
Rathbones	1,470,851	10.9	1,477,892	10.9
Investec Wealth & Investment	968,068	7.2	1,004,048	7.4
Brewin Dolphin	604,264	4.5	614,887	4.6
Charles Stanley	481,338	3.6	435,850	3.2
Close Brothers	472,113	3.5	—	—
J.P. Morgan Securities	439,405	3.3	702,383	5.2

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. The Chairman and the Company's corporate broker, Numis Securities Limited, have also engaged with major shareholders during the year. All meetings between the Manager and institutional and other shareholders are reported to the Board.

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 68. At other times, the Company responds to any letters from shareholders. Shareholders can also visit the Company's section of the Manager's investment trust website: www.invesco.co.uk/keystone in order to access copies of half-year and annual financial reports; shareholder circulars; Company factsheets; and regulatory announcements. Shareholders are also able to access copies of the schedule of matters reserved for the Board and the terms of reference of Board Committees, Directors' letters of appointment and any proxy voting results.

DIRECTORS' REPORT

continued

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 11 February 2020 at 12.30 pm. The notice of the AGM and related notes can be found on pages 62 to 66. All resolutions are ordinary resolutions unless otherwise identified.

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

Resolution 2 is to approve the Directors' Remuneration Policy. The Directors' Remuneration Policy is set out on page 24 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 24 to 26 of this Annual Financial Report.

Resolution 4 is for members to approve the Company's Dividend Payment Policy which is set out on page 8. This is an advisory vote.

Resolution 5 is to re-appoint the Auditors and to authorise the Audit Committee to determine the Auditors' remuneration. PricewaterhouseCoopers LLP have expressed their willingness to continue to hold office until the conclusion of the next annual general meeting of the Company.

Resolution 6 is to re-elect Karen Brade a Director of the Company. Mrs Brade has over 25 years of investment experience across a range of sectors and markets. She has served as a non-executive director of listed venture capital and investment trusts. She has a deep understanding of investment performance, market risk and corporate governance requirements. Her experience and independence from the Manager allow her leadership of the Board to be effective.

Resolution 7 is to re-elect Ian Armfield a Director of the Company. Mr Armfield has many years of experience in the asset management and wider financial services industry. His deep expertise in auditing, risks and internal controls provides relevant, constructive oversight and challenge to the delivery of the Company's strategic goals.

Resolution 8 is to re-elect Katrina Hart a Director of the Company. Mrs Hart has extensive knowledge of the UK retail investment market and serves on boards of an asset management operating company and several investment trust companies. This, along with her long standing and varied experience of engaging with fund managers, brokers and shareholders, benefits the activities of the Company.

Resolution 9 is to re-elect William Kendall a Director of the Company. Mr Kendall brings extensive experience of business, governance and consumer related matters outside of the financial services industry, which together with his length of service, broadens and complements the other Directors in their oversight of investment and marketing activities of the Company.

Resolution 10 is to re-elect John Wood a Director of the Company. Mr Wood contributes to the Company's long-term sustainable success by drawing on his considerable experience of the investment management industry and asset markets.

Biographical details of all the Directors are set out on page 18.

Special Business

Resolution 11 is to approve the sub-division of each of the issued ordinary shares of 50 pence each in the capital of the Company into five ordinary shares of 10 pence each (the 'New Ordinary Shares') having the rights and being subject to the restrictions and obligations set out in the articles of association of the Company, such sub-division to be conditional on the New Ordinary Shares being admitted to the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange (expected to be 8.00 a.m. on 13 February 2020).

Resolution 12 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 27 November 2019). This will allow Directors to issue shares within the prescribed limits should opportunities to do so arise that they consider would be in shareholders' interests. This authority will expire at the AGM in 2020.

Special Resolution 13 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 27 November 2019), 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 market value) and will expire at the AGM in 2020.

Special Resolution 14 is to renew the authority for the Company to purchase its own shares, which expires at this AGM. Your Directors are seeking authority for the purchase of up to 14.99% of the Company's issued ordinary share capital as at the date of the AGM, subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2020. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders. The current authority (to buy back up to 2,026,467 shares or 10,132,335 shares should resolution 11 be passed) 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 15 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

28 November 2019

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Keystone Investment Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting of Keystone Investment Trust plc will be held at the offices of Invesco at 43-45 Portman Square, London W1H 6LY at 12.30pm on 11 February 2020 for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 30 September 2019.
2. To approve the Directors' Remuneration Policy.
3. To approve the Annual Statement and Report on Remuneration.
4. To approve the Company's Dividend Payment Policy to declare four dividends in respect of each accounting year, with one payment in respect of each calendar quarter.
5. To reappoint PricewaterhouseCoopers LLP as auditors to the Company and authorise the Audit Committee to determine their remuneration.
6. To re-elect Mrs Karen Brade a Director of the Company.
7. To re-elect Mr Ian Armfield a Director of the Company.
8. To re-elect Mrs Katrina Hart a Director of the Company.
9. To re-elect Mr William Kendall a Director of the Company.
10. To re-elect Mr John Wood a Director of the Company.

Special Business

To consider and, if thought fit, pass the following resolutions of which Resolutions 11 and 12 will be proposed as Ordinary Resolutions and Resolutions 13, 14 and 15 will be proposed as Special Resolutions.

Ordinary Resolution

11. THAT:

each of the issued ordinary shares of 50 pence each in the capital of the Company be sub-divided into five ordinary shares of 10 pence each (the 'New Ordinary Shares') having the rights and being subject to the restrictions and obligations set out in the articles of association of the Company, such sub-division to be conditional on the New Ordinary Shares being admitted to the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange (expected to be 8.00a.m. on 13 February 2020).

12. 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 fifteen 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.

13. 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 12 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 market 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.

14. 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 ('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 11 February 2020, being the date of the Annual General Meeting (equivalent to 2,026,467 shares at 27 November 2019 or 10,132,335 shares should resolution 11 be passed);
- (b) the minimum price which may be paid for a Share shall be its nominal value;
- (c) the maximum price which may be paid for a Share must not be more than the higher of:
 - (a) 5% above the average of the mid-market values of the Shares for the five business days before the purchase is made; and
 - (b) the higher of the price of the last independent trade in the Shares and the highest then current independent bid for the Shares on the London Stock Exchange;
- (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 fifteen 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.

NOTICE OF ANNUAL GENERAL MEETING

continued

- (g) any shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of Sections 724 to 731 of the Act and any applicable regulations of the United Kingdom Listing Authority, be held (or otherwise dealt with in accordance with Section 727 or 729 of the Act) as treasury shares.
15. THAT:
the period of notice required for general meetings of the Company (other than AGMs) shall be not less than fourteen clear days.

Please refer to the Directors' Report on pages 60 and 61 for further explanations of all the Resolutions.

Dated this 28th November 2019

By order of the Board

Invesco Asset Management Limited

Company Secretary

Notes:

1. A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:
 - via Link Asset Services' website www.signalshares.com; or
 - in hard copy form by post, by courier or by hand to the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; or
 - In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

and in each case to be received by the Company not less than 48 hours before the time of the meeting.
2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in this document. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s), such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
3. A form of appointment of proxy is enclosed. Appointment of a proxy (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST proxy instruction) does not prevent a member from attending and voting at this meeting.

To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, by not later than 12.30pm on 7 February 2020.

4. A person entered on the Register of Members at close of business on 7 February 2020 ('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.

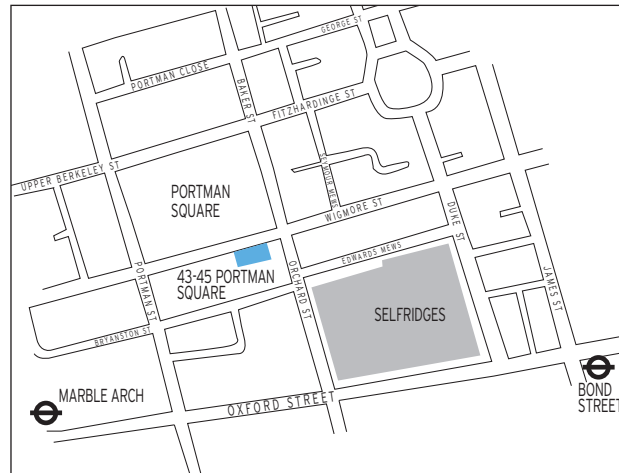
8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
9. Any member attending the AGM has the right to ask questions. The Company must cause to 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 27 November 2019 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 13,518,799 ordinary shares of 50p each carrying one vote for every £1 nominal held; and 250,000 5% Cumulative Preference Shares of £1 each carrying no voting rights.
12. This notice is sent for information only to the holders of the 7.75% Debenture Stock (redeemable 1 October 2020), 6.5% Debenture Stock (redeemable 27 April 2023) and 5% Cumulative Preference Shares, who are not entitled to attend and vote at the meeting.
13. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at www.invesco.co.uk/keystone
14. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006 (the '2006 Act'), the company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 October 2018; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 October 2018 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 auditors 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.

NOTICE OF ANNUAL GENERAL MEETING

continued

The Annual General Meeting will be held at 12.30pm on 11 February 2020 the offices of Invesco at 43-45 Portman Square, London W1H 6LY. The Manager will be giving a presentation following the Annual General Meeting, and shareholders are cordially invited to stay for a buffet lunch afterwards.

Map of venue



SHAREHOLDER INFORMATION

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

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

Website

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

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

How to invest in the Company

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

Share Price Listings

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

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

General Data Protection Regulation (GDPR)

The Company's privacy notice, which sets out what personal data is collected, and how and why it is used, can be found at www.invesco.co.uk/keystone in the 'Literature' section, or a copy can be obtained from the company secretary whose correspondence address is shown on page 68.

Net Asset Value (NAV) Publication

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

Financial Calendar

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

November

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

December

Third interim dividend paid.

February

Annual General Meeting and first interim dividend announced.

March

First interim dividend paid.

May

Half-year figures and second interim dividend announced, half-year financial report published.

June

Second interim dividend paid.

August

Third interim dividend announced.

September

Third interim dividend paid.

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

Kepler Partners LLP

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

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

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

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

Be ScamSmart

Investment scams are designed to look like genuine investments

Spot the warning signs

Have you been:

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

If so, you might have been contacted by fraudsters.

Avoid investment fraud

1 Reject cold calls

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

2 Check the FCA Warning List

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

3 Get impartial advice

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

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

Report a Scam

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

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

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



ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Registered Office and Company Number

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

Registered in England and Wales.
Number: 538179.

Alternative Investment Fund Manager (Manager)

Invesco Fund Managers Limited

Company Secretary

Invesco Asset Management Limited
Company Secretarial Contact: Shilla Pindoria.

Correspondence Address

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

The Association of Investment Companies

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

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

Depository, Custodian & Banker

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

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT.

Invesco Client Services

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

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

Corporate Broker

Numis Securities Limited
10 Paternoster Square
London EC4M 7LT.

Registrar

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

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

☎ 0371 664 0300.

Calls are charged at the standard geographic rate and will vary by provider.

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

Link Asset Services provides an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.linksharedeal.com or ☎ 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider.

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

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

Investor Warning

The Company, Invesco and the Registrar would never contact members of the public to offer services, or require any type of upfront payment. If you suspect you have been approached by fraudsters, please contact the FCA Consumer Helpline on 0800 111 6768 and Action Fraud on 0300 123 2040. Further details for reporting frauds, or attempted frauds, can be found on page 67 of the 2019 annual report.

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measure (APM)

An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. The calculations shown in the corresponding tables are for the years ended 30 September 2019 and 2018. The APMs listed here are widely used in reporting within the investment company sector and consequently aid comparability.

Benchmark (or Benchmark Index)

A standard against which performance can be measured, usually an index that averages the performance of companies in a stock market or a segment of the market. The benchmark used in these accounts is the FTSE All-Share Index.

Premium/(Discount) (APM)

Discount is a measure of the amount by which the mid-market price of an investment company share is lower than the underlying net asset value (NAV) of that share. Conversely, premium is a measure of the amount by which the mid-market price of an investment company share is higher than the underlying net asset value of that share. In this annual financial report the discount is expressed as a percentage of the net asset value per share, with debt at market value, and is calculated according to the formula set out below. If the shares are trading at a premium the result of the below calculation will be positive and if they are trading at a discount it will be negative.

	PAGE		2019	2018
Share price	2	a	1,540.0p	1,685.0p
Net asset value per share				
– debt at market value (note 15)	45	b	1,862.4p	1,921.7p
Discount		c = (a-b)/b	(17.3)%	(12.3)%

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which net assets, or shareholders' funds, would move if the value of a company's investments were to rise or fall. A positive percentage indicates the extent to which net assets are geared; a nil gearing percentage, or 'nil', shows a company is ungeared. A negative percentage indicates that a company is not fully invested and is holding net cash as described below.

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

Gross Gearing (APM)

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of net assets.

	PAGE		2019 DEBT AT MARKET DEBT AT PAR £'000	2019 (FAIR) VALUE £'000	2018 DEBT AT MARKET DEBT AT PAR £'000	2018 (FAIR) VALUE £'000
Bank overdraft	35		—	—	—	—
Debenture stock	44		31,821	37,659	31,787	38,146
5% cumulative preference shares of £1 each	44		250	246	250	246
Gross borrowings		a	32,071	37,905	32,037	38,392
Net asset value	45	b	257,606	251,772	266,146	259,791
Gross gearing		c = a/b	12.4%	15.1%	12.0%	14.8%

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES continued

Net Gearing or Net Cash (APM)

Net gearing reflects the amount of net borrowings invested, i.e. borrowings less cash and cash equivalents (incl. investments in money market funds). It is based on net borrowings as a percentage of net assets. Net cash reflects the net exposure to cash and cash equivalents, as a percentage of net assets, after any offset against total borrowings

	PAGE	2019 DEBT AT MARKET (FAIR) DEBT AT PAR £'000 VALUE £'000		2018 DEBT AT MARKET (FAIR) DEBT AT PAR £'000 VALUE £'000	
Bank overdraft	35	—	—	—	—
Debenture stock	44	31,821	37,659	31,787	38,146
5% cumulative preference shares of £1 each	44	250	246	250	246
Less cash and cash equivalents	35	(22,557)	(22,557)	(1,078)	(1,078)
Net borrowings	a	9,514	15,348	30,959	37,314
Net asset value	45 b	257,606	251,772	266,146	259,791
Net gearing	c = a/b	3.7%	6.1%	11.6%	14.4%

Leverage

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

Net Asset Value (NAV)

Also described as shareholders' funds, the NAV is a value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The NAV per share is calculated by dividing the net asset value by the number of ordinary shares in issue. For accounting purposes assets are valued at fair (usually market) value and liabilities are valued at par (their repayment – often nominal – value). An alternative, NAV with debt at market value, values long term liabilities at their market (fair) value and is shown in note 15.

Ongoing Charges Ratio (APM)

The ongoing administrative costs of operating the Company are encapsulated in the ongoing charges ratio, which is calculated in accordance with guidance issued by the AIC. The calculation incorporates charges allocated to capital in the financial statements as well as those allocated to revenue, but excludes non-recurring costs, transaction costs of investments, finance costs, taxation, and the costs of buying back or issuing shares. The ongoing charges ratio is the aggregate of these costs expressed as a percentage of the daily average net asset value (debt at market value) reported in the year.

	PAGE	2019 £'000	2018 £'000
Investment management fee	34	939	1,046
Other expenses	34	392	408
Less: costs in relation to custody dealing charges and one off legal costs		(4)	(4)
Total recurring expenses	a	1,327	1,450
Average daily net assets	b	244,207	266,216
Ongoing charges ratio %	c = a/b	0.54%	0.54%

Return

The return generated in a period from the investments.

Capital Return

Reflects the return on NAV, excluding any dividends reinvested.

Total Return

Total return is the theoretical return to shareholders that measures the combined effect of any dividends paid, together with the rise or fall in the share price or NAV. In this annual financial report these return figures have been sourced from Refinitiv who calculate returns on an industry comparative basis.

Net Asset Value Total Return (APM)

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

Share Price Total Return (APM)

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

	PAGE		NET ASSET VALUE	SHARE PRICE
As at 30 September 2019	45 (note 15) and 2		1,862.4p	1,540.0p
As at 30 September 2018	45 (note 15) and 2		1,921.7p	1,685.0p
Change in year		a	-3.1%	-8.6%
Impact of dividend reinvestments	see (1) below	b	4.2%	4.5%
Total return for the year		c = a+b	1.1%	-4.1%

	PAGE		NET ASSET VALUE	SHARE PRICE
As at 30 September 2018	45 (note 15) and 2		1,921.7p	1,685.0p
As at 30 September 2017	3		1,979.9p	1,730.0p
Change in year		a	-2.9%	-2.6%
Impact of dividend reinvestments	see (1) below	b	2.9%	3.4%
Total return for the year		c = a+b	0.0%	0.8%

(1) Total dividends paid during the year of 75.75p (2018: 59.70p) reinvested at the NAV or share price on the ex-dividend date. NAV or share price falls subsequent to the reinvestment date consequently further reduce the returns, vice versa if the NAV or share price rises.

Benchmark

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

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURE

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

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

Amongst other things, the AIFMD requires certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invesco.co.uk/keystone) in a downloadable document entitled 'AIFMD Investor Information'. There has been no material change to this document in the year. 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 70) to be made available to investors.

Accordingly:

- the leverage calculated for the Company at its year end was 106% for gross and 104% for commitment (2018: 117% for gross and 112% for commitment). The limits the AIFM has set for the Company remain unchanged at 250% and 200%, respectively;
- the AIFM summary remuneration policy is available from the corporate policies section of the Manager's website (www.invesco.co.uk) and from the Company's company secretary, on request (see contact details on page 68); and
- the AIFM remuneration paid for the year to 31 December 2018 is set out below.

AIFM Remuneration

The AIFM remuneration paid is based on the financial year of the AIFM, which is 31 December 2018.

The aggregate total remuneration of Invesco staff involved in AIF related activities of the Manager in respect of performance year (1 January 2018 to 31 December 2018) is £6.54 million of which £3.84 million is fixed remuneration and £2.70 million is variable remuneration. The number of beneficiaries is 33.

The Manager has identified individuals considered to have a material impact on the risk profile of the Manager or the AIF it manages ('Identified Staff'), who include board members of the Manager, senior management, heads of control functions, other risk takers and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers. Identified Staff of the Manager are employed by Invesco.

The aggregate total remuneration paid to the Identified Staff of the Manager for AIF related activities for the performance year (1 January 2018 to 31 December 2018) is £1.34 million of which £0.31 million is paid to Senior Management and £1.03 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates (all delegates are employed by various entities of the Invesco Ltd. Group).

Invesco's summary remuneration policy is available from the corporate policies section of its website (www.invesco.co.uk). Paper copies of the full remuneration policy can be obtained for free from the registered office of the Manager, Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, UK upon request.



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 \$1,195.2 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 2019.

INVESTMENT COMPANIES MANAGED BY INVESCO

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

City Merchants High Yield Trust Limited Allocation

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

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 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 produce an appropriate level of income return combined with a high degree of security. The portfolio invests in a range of sterling based or related high quality debt securities and similar assets either directly or indirectly through authorised funds.

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 and, in addition, may use bank borrowings.

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 market. The Company has secured loan notes 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 in issue and, in addition, may use bank borrowings.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

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

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

Investing Internationally

Invesco Asia Trust plc

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

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

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

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Allocation Portfolio

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

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

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

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

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

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