

Keystone Investment Trust plc

Half-Yearly Financial Report for the Six Months to 31 March 2017

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

OBJECTIVE OF THE COMPANY

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

Full details of the Company's investment policy, risk and limits can be found in the annual financial report for the year ended 30 September 2016.

PERFORMANCE STATISTICS

SIX MONTHS ENDED 31 MARCH

Total Return Statistics⁽¹⁾

(capital growth with income reinvested)

Net asset value (NAV) per share:

| | 2017 | 2016 |
|----------------------|-------|-------|
| – debt at par | +4.4% | +0.9% |
| – debt at fair value | +4.8% | +1.2% |
| Share price | +0.0% | -3.6% |
| FTSE All-Share Index | +8.1% | +3.5% |

Capital Statistics

NAV per share:

| | 2017 | 2016 |
|-------------------------------------|-------|-------|
| – debt at par | +1.6% | -2.2% |
| – debt at fair value | +1.8% | -2.1% |
| Share price ⁽¹⁾ | -2.4% | -6.0% |
| FTSE All-Share Index ⁽¹⁾ | +6.2% | +1.8% |

(1) Source: Thomson Reuters Datastream.

SIX MONTHS ENDED 31 MARCH

Revenue Statistics

| | 2017 | 2016 |
|-------------------------------------|-------|-------|
| Revenue return per ordinary share | 29.3p | 30.6p |
| Interim dividend per ordinary share | 18.0p | 18.0p |

AT PERIOD END

| | 31 MARCH 2017 | 30 SEPTEMBER 2016 |
|----------------------|------------------|----------------------|
| NAV per share: | | |
| – debt at par | 1990.7p | 1959.8p |
| – debt at fair value | 1929.1p | 1894.9p |
| Share price | 1693.0p | 1735.5p |

Discount of share price to net asset value per share:

| | 2017 | 2016 |
|----------------------|-------|-------|
| – debt at par | 15.0% | 11.4% |
| – debt at fair value | 12.2% | 8.4% |

Gearing from borrowings:

| | 2017 | 2016 |
|---------|-------|-------|
| – gross | 11.9% | 12.1% |
| – net | 4.4% | 6.2% |

INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

Chairman's Statement

Performance

For the six months ended 31 March 2017, the Company delivered a net asset value (NAV) per ordinary share (with debt at market value) total return of 4.8% compared with a return of 8.1% by the Company's benchmark index, the FTSE All-Share Index. This was disappointing and is reflected in the Company's share price total return, which was flat.

The Company's underperformance relative to the benchmark for this period is explained in the Portfolio Manager's Report. However, the Company's long term performance continues to be strong with three, five and ten year share price total returns of 19.8%, 78.5% and 115.1% respectively, compared with total returns of 10.1%, 64.8% and 113.5% for the benchmark.

During the period the discount of the share price relative to NAV with debt at fair value increased from 8.4% to 12.2% and this impacted the share price total return. At the latest practical date prior to the publication of this report, being 12 May 2017, the discount was 10.7%.

Gearing and Investment Guidelines

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. The Board requires that no net purchases be made which would take equity exposure above 107.5% of net assets, and that sales be made if, as a result of market movements, equity exposure goes higher than 115% of net assets. Gearing parameters and levels are reviewed on a regular basis, and were not changed in the period.

Dividend

The Board has declared a first interim dividend of 18p per ordinary share, which will be paid on 23 June 2017 to shareholders on the register on 26 May 2017. The shares will be marked ex-dividend on 25 May 2017.

Management Arrangements

On 17 March 2017, the Company announced that James Goldstone would take over as portfolio manager effective from 1 April 2017. Fourteen years ago the Board took the decision to appoint a talented young individual called Mark Barnett. He has produced outstanding long term returns for shareholders. The Board would like to take this opportunity to thank Mark for his many achievements. Over the last few years Mark's responsibilities have grown significantly and the Board believes that the time is now right for him to pass the baton to one of the rising stars of his team. The Board has been highly impressed by James Goldstone and is confident that he is the right investor to take over management of Keystone from Mark.

James Goldstone is one of the senior members of Invesco Perpetual's UK Equities team, has over 15 years' industry experience and has worked closely alongside Mark for the last four years. The Invesco Perpetual UK equities team is committed to truly active stock picking and James brings his own portfolio construction style to Keystone which the Board believes will give the Company a distinctive position within the investment trust universe and sustain its longstanding attractiveness to discerning investors.

To coincide with this appointment, the Board also announced a change in the management fee arrangements, also effective from 1 April. Under the new arrangement, Invesco Fund Managers Limited (IFML) will be entitled to a management fee at a rate of 0.45% per annum (previously 0.6%) of the Company's market capitalisation. All other terms relating to fees and notice remain unchanged from the existing management arrangement, including that IFML continues to be entitled to a performance-related fee if the total return from the Company's NAV exceeds that of the FTSE All-Share Index by more than 1.25% per annum over a rolling three-year period.

Beatrice Hollond
Chairman

16 May 2017

Portfolio Manager's Report

Market Review

The UK equity market ended 2016 on a strongly positive note; both equity markets and government bond yields rose in response to the surprise election of Donald Trump as US President and the consequent expectation of higher rates of government spending and lower taxes to provide some tailwinds to US and global economic growth.

Entering 2017, the market continued to focus on foreign exchange (FX) and on the future direction of interest rates. With its high weighting of international companies, the UK's FTSE 100 index surged to an all-time trading high mid-March. This coincided with a high in US 10 year bond yields as the market priced in stronger US and global growth and a weakening of sterling against the US dollar. However, this abated somewhat following dovish comments from the US Federal Reserve that accompanied the March 2017 rate rise, and President Trump's failure to implement healthcare reform raised doubts regarding the likely implementation of elements of his pro-growth agenda.

Sector performance was influenced by a rotation towards industries that would benefit from a rising yield curve, alongside the political environment. Unlike the massive sector rotation seen in markets post the Brexit vote, the triggering of Article 50 on March 29, initiating the nation's formal exit from the European Union, was met with a muted response.

Portfolio Strategy and Review

Against a strong market backdrop, the portfolio delivered a positive return, but failed to match the rise of the index. The portfolio's performance was held back by its zero weighting in the mining sector. The share prices of mining companies rose strongly through the fourth quarter of 2016 in anticipation of increased infrastructure and domestic spending following the US election, while continuing to benefit from sterling weakness.

The holdings in the tobacco sector again delivered a strongly positive contribution to performance – despite a lack of enthusiasm for “bond proxies” (companies offering low stable growth, steady dividends and low volatility) that prevailed through the first half of the period. The sector was boosted by mergers and acquisitions activity during the period, continuing the trend for consolidation among the major global players. Reynolds American accepted a cash and shares offer from British American Tobacco, creating a combined entity well-positioned to exploit next generation products, particularly the US e-cigarette market. The deal is expected to be concluded in the third quarter of 2017.

BAE Systems also contributed positively to performance. The defence conglomerate delivered an encouraging full-year update, highlighted by £1 billion increases in both sales and revenues, rising cash flows and a growing order book. G4S reported strong growth in full-year results during the period; heightened demand, particularly in the US, was the main driver to a 14% rise in pre-tax profits for the security company. Legal & General (L&G) was a beneficiary of the rising yield curve, rising strongly through the period. Full-year results for 2016 confirmed L&G's continued dominance in the UK retirement market. The company wrote £8.5 billion of new business during the year, driving a 16% rise in profits.

Other significant positive contributions to portfolio performance came from the holdings in London Stock Exchange, Thomas Cook, Beazley and Roche.

BT detracted from performance as it struggled to bring an end to the impasse over its Openreach network with the regulator Ofcom. An update on accounting irregularities in the company's Italian division prompted a sharp sell-off in its shares, which worsened after a profit warning highlighted a more challenged outlook for domestic public services contracts. Towards the end of the period, BT was also hit by a record fine for cuts in broadband delay pay-outs.

Babcock International reported a £30.8 billion order book, including a new €500 million contract with the French Air Force and the manufacture of 22 missile launch tube assemblies for the joint US-UK Trident nuclear submarine replacement programme. Towards the end of the period, however, the market reacted negatively to the early termination of a contract with Britain's Nuclear Decommissioning Authority for the clean-up of 12 Magnox reactor sites.

Elsewhere, in the pharmaceutical sector, clinical-stage biopharmaceutical business Motif Bio weighed on performance as the company announced the completion of its US initial public offering, together with a concurrent shares issuance in Europe.

Other holdings to deliver negative share price performance included Secure Trust Bank, PureTech Health and IP Group.

In terms of portfolio activity during the period, new investments were made in Aviva and Chesnara, both life insurance companies, and McBride. The holdings in Smith & Nephew and Doric Nimrod Air were sold.

Change of Portfolio Manager and Portfolio Movements Post the Period End

As explained in the Chairman's Statement, James Goldstone took over as portfolio manager on 1 April 2017. As a result, there have been changes to the portfolio reflecting James' views on the UK economic outlook amid wider political uncertainty.

Most significant among these changes has been the addition of major UK banks Barclays and Lloyds to the portfolio. These domestic banks trade on attractive valuations and offer the prospect of good dividend growth. Other additions include Tullett Prebon (now TP ICAP). The market seems to be under-pricing the synergy opportunities following its 2016 acquisition of ICAP's voice broking business. Another purchase, Saga, is viewed by the market as a car insurer but increasingly looks like a lifestyle brand and appears to be undervalued. Its business now looks set to exploit its considerable dataset. Other recent domestic additions are Mears, Just Eat and Hollywood Bowl.

In the pharmaceutical sector Shire has been added. This is valued at a significant discount to the sector and does not have the patent expiry and approval risks of many of its peers. Coats, global leader in threads, presented another valuation opportunity; there is good visibility of the pensions legacy which is nearing resolution and while the shares have reacted, the company is still priced at a discount to the wider market, despite strong growth and very significant barriers to entry.

Lastly, some exposure to gold via Acacia Mining has been added - the portfolio's only position in the resources sector - and a new position in house builder Cairn Homes which is well positioned to benefit from a likely increase in volume and demand in the prime Dublin housing market.

Portfolio holdings disposed of include Beazley, Bunzl, Centrica, G4S, Lancashire, New River REIT and Shaftesbury.

Outlook

Despite the ongoing rally, the UK equity market valuation looks reasonable at a headline level and is currently trading at around 14 times 12-month forward earnings. At both stock and sector level there appear to still be a number of valuation-driven opportunities, particularly in domestic cyclical and the portfolio has been tilted in that direction.

The consumption component of GDP has surprised on the upside since the EU referendum, but it will be interesting to see how this trend fares against a backdrop of higher headline inflation resulting from sterling weakness. It has been assumed that wage growth would keep pace with and mitigate headline CPI, preserving disposable incomes; however, recent months' wage data has fallen behind and it is fair to say that this has started to become a cause for some concern.

In this regard, the bounce in the pound in response to the Government's call for a snap general election has brought some relief as strengthened sterling will alleviate some pressure from imported food and energy prices, reducing the onus on wage growth to preserve consumers' spending power.

At the same time, a strong pound, if sustained, could present some headwinds for sectors which have benefited from FX-related upgrades since the referendum, such as mining and energy. The portfolio is underweight in these areas, but sterling will remain the key macro development to watch in the near term.

Beyond the UK, the outlook for US interest rates and economic growth remains uncertain as President Trump struggles to enact the pro-growth elements of his agenda necessary to free up budget for tax cuts. Against that, his recent interaction with President Xi of China appears to have been successful, which may alleviate some concerns around trade.

There appears to be no shortage of opportunities to invest in undervalued companies with strong balance sheets, strong performance track records and established market positions, which are well-equipped to weather further uncertainty ahead.

Portfolio Managers

Mark Barnett

To 31 March 2017

James Goldstone

From 1 April 2017

Related Party Transactions and Transactions with the Manager

Under United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), the Company has identified the Directors as related parties. No other related parties have been identified. No transactions with related parties have taken place which have materially affected the financial position or the performance of the Company. Regarding transactions with the Manager, please refer to note 4.

Principal Risks and Uncertainties

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

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

A detailed explanation of these principal risks and uncertainties can be found on pages 8 to 10 of the 2016 annual financial report, which is available on the Company's section of the Manager's website.

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

INVESTMENTS IN ORDER OF VALUATION AT 31 MARCH 2017

UK listed ordinary shares unless otherwise stated

| Equity investments | | | | MARKET VALUE £'000 % OF PORTFOLIO | | | |
|--|-------------------------------------|--------------------|----------------|---|-----------------------------------|--------------------|-----------------------------------|
| ISSUER | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO | ISSUER | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO |
| Reynolds American – <i>US common stock</i> | Tobacco | 16,260 | 5.8 | P2P Global Investments | Equity Investment Instruments | 2,551 | 0.9 |
| British American Tobacco | Tobacco | 13,900 | 5.0 | Thomas Cook | Travel & Leisure | 2,514 | 0.9 |
| BP | Oil & Gas Producers | 11,345 | 4.0 | Secure Trust Bank | Banks | 2,473 | 0.9 |
| AstraZeneca | Pharmaceuticals & Biotechnology | 10,473 | 3.7 | Touchstone Innovations | Financial Services | 2,404 | 0.9 |
| BAE Systems | Aerospace & Defence | 9,940 | 3.5 | TalkTalk Telecom | Fixed Line Telecommunications | 2,307 | 0.8 |
| Imperial Brands | Tobacco | 9,635 | 3.4 | Motif Bio | Pharmaceuticals & Biotechnology | 1,093 | 0.7 |
| Provident Financial | Financial Services | 9,312 | 3.3 | – ADR | | 835 | |
| Legal & General | Life Insurance | 8,448 | 3.0 | – ADR Warrants 9 Nov 2021 | | 94 | |
| Roche – <i>Swiss common stock</i> | Pharmaceuticals & Biotechnology | 7,792 | 2.8 | Top Fifty Investments | | 256,321 | 91.4 |
| BT | Fixed Line Telecommunications | 7,563 | 2.7 | Vectura | Pharmaceuticals & Biotechnology | 1,987 | 0.7 |
| Top Ten Investments | | 104,668 | 37.2 | Horizon Discovery | Pharmaceuticals & Biotechnology | 1,970 | 0.7 |
| RELX | Media | 6,691 | 2.4 | Chesnara | Life Insurance | 1,882 | 0.7 |
| NewRiver REIT | Real Estate Investment Trusts | 5,969 | 2.1 | Hadrians Wall Secured Investments | Equity Investment Instruments | 1,863 | 0.7 |
| Rentokil Initial | Support Services | 5,812 | 2.1 | Macau Property Opportunities Fund | Real Estate Investment & Services | 1,788 | 0.7 |
| Babcock International | Support Services | 5,439 | 2.0 | Diurnal | Pharmaceuticals & Biotechnology | 1,750 | 0.6 |
| Compass | Travel & Leisure | 5,416 | 2.0 | CLS | Real Estate Investment & Services | 1,742 | 0.6 |
| Hiscox | Non-life Insurance | 5,375 | 1.9 | PureTech Health | Health Care Equipment & Services | 1,735 | 0.6 |
| Novartis – <i>Swiss common stock</i> | Pharmaceuticals & Biotechnology | 5,334 | 1.9 | Marwyn Value Investors | Equity Investment Instruments | 1,454 | 0.5 |
| G4S | Support Services | 5,311 | 1.9 | N Brown | General Retailers | 1,227 | 0.4 |
| London Stock Exchange | Financial Services | 5,293 | 1.9 | Top Sixty Investments | | 273,719 | 97.6 |
| Beazley | Non-life Insurance | 5,090 | 1.8 | VPC Speciality Lending Investments | Financial Services | 966 | 0.4 |
| Top Twenty Investments | | 160,398 | 57.2 | Nexeon ^{UQ} | Electronic & Electrical Equipment | 942 | 0.3 |
| Aviva | Life Insurance | 5,006 | 1.8 | Realm Therapeutics | Health Care Equipment & Services | 871 | 0.3 |
| BTG | Pharmaceuticals & Biotechnology | 4,809 | 1.7 | MayAir | Industrial Engineering | 859 | 0.3 |
| Shaftesbury | Real Estate Investment Trusts | 4,402 | 1.6 | Silence Therapeutics | Pharmaceuticals & Biotechnology | 740 | 0.3 |
| SSE | Electricity | 4,385 | 1.6 | GAME Digital | General Retailers | 698 | 0.3 |
| Bunzl | Support Services | 4,201 | 1.5 | Funding Circle SME | Equity Investment Instruments | 568 | 0.2 |
| Capita | Support Services | 4,166 | 1.5 | Damille Investments II | Equity Investment Instruments | 503 | 0.2 |
| Next | General Retailers | 4,134 | 1.4 | Lombard Medical – <i>US common stock</i> | Health Care Equipment & Services | 278 | 0.1 |
| BCA Marketplace | Financial Services | 3,938 | 1.4 | Napo Pharmaceuticals – <i>US common stock</i> ^{UQ} | Pharmaceuticals & Biotechnology | 80 | — |
| Derwent London | Real Estate Investment Trusts | 3,912 | 1.4 | Top Seventy Investments | | 280,224 | 100.0 |
| HomeServe | Support Services | 3,895 | 1.4 | HaloSource | Chemicals | 69 | — |
| Top Thirty Investments | | 203,246 | 72.5 | Nimrod Sea Assets | Equity Investment Instruments | 56 | — |
| A J Bell ^{UQ} | Financial Services | 3,834 | 1.4 | XTL Biopharmaceuticals – ADR | Pharmaceuticals & Biotechnology | 11 | — |
| easyJet | Travel & Leisure | 3,834 | 1.4 | Mirada | Media | 1 | — |
| Oxford Sciences Innovation ^{UQ} | Financial Services | 3,746 | 1.3 | Total Equity Investments (74) | | 280,361 | 100.0 |
| Drax | Electricity | 3,685 | 1.3 | Other investments | | | |
| McBride | Household Goods & Home Construction | 3,660 | 1.3 | ISSUER AND ISSUE | SECTOR | MOODY/S&P RATING | MARKET VALUE £'000 % OF PORTFOLIO |
| IP Group | Financial Services | 3,311 | 1.2 | Barclays Bank – <i>Nuclear Power Notes 28 Feb 2019</i> | Non-Equity Investment Instruments | NR/NR | 4 |
| Lancashire | Non-life Insurance | 2,908 | 1.0 | Total Investments (75) | | | 280,365 |
| Sherborne Investors | Financial Services | 2,907 | 1.0 | | | | |
| KCOM | Fixed Line Telecommunications | 2,823 | 1.0 | | | | |
| Centrica | Gas, Water & Multiutilities | 2,774 | 1.0 | | | | |
| Top Forty Investments | | 236,728 | 84.4 | | | | |
| Real Estate Investors | Real Estate Investment Trusts | 2,679 | 1.0 | | | | |
| Harworth | Real Estate Investment & Services | 2,643 | 0.9 | | | | |

NR is non-rated.

UQ is unquoted.

CONDENSED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | SHARE CAPITAL £'000 | SHARE PREMIUM £'000 | CAPITAL REDEMPTION RESERVE £'000 | CAPITAL RESERVE £'000 | REVENUE RESERVE £'000 | TOTAL £'000 |
|---|---------------------|---------------------|----------------------------------|-----------------------|-----------------------|----------------|
| For the six months ended 31 March 2017 | | | | | | |
| At 30 September 2016 | 6,760 | 3,449 | 466 | 243,643 | 10,629 | 264,947 |
| Dividends paid – note 8 | — | — | — | — | (5,448) | (5,448) |
| Net return on ordinary activities | — | — | — | 5,661 | 3,964 | 9,625 |
| At 31 March 2017 | 6,760 | 3,449 | 466 | 249,304 | 9,145 | 269,124 |
| For the six months ended 31 March 2016 | | | | | | |
| At 30 September 2015 | 6,760 | 3,449 | 466 | 238,150 | 10,800 | 259,625 |
| Dividends paid – note 8 | — | — | — | — | (6,124) | (6,124) |
| Net return on ordinary activities | — | — | — | (3,750) | 4,138 | 388 |
| At 31 March 2016 | 6,760 | 3,449 | 466 | 234,400 | 8,814 | 253,889 |

CONDENSED BALANCE SHEET

Registered number 538179

| | NOTES | AT 31 MARCH 2017 £'000 | AT 30 SEPTEMBER 2016 £'000 |
|--|-------|---------------------------------|-------------------------------------|
| Fixed assets | | | |
| Investments held at fair value through profit or loss | 6 | 280,365 | 281,835 |
| Current assets | | | |
| Amounts due from brokers | | 869 | 215 |
| Prepayments and accrued income | | 590 | 281 |
| Tax recoverable | | 336 | 228 |
| Cash and cash equivalents | | 20,163 | 15,597 |
| | | 21,958 | 16,321 |
| Creditors: amounts falling due within one year | | | |
| Amounts due to brokers | | (96) | (19) |
| Accruals | | (1,116) | (1,153) |
| Performance-related fee | 4 | — | (65) |
| | | (1,212) | (1,237) |
| Net current assets | | 20,746 | 15,084 |
| Total assets less current liabilities | | 301,111 | 296,919 |
| Creditors: amounts falling due after more than one year | | | |
| Debenture stock | 7 | (31,737) | (31,722) |
| Cumulative preference shares | | (250) | (250) |
| Net assets | | 269,124 | 264,947 |
| Capital and reserves | | | |
| Called up share capital | | 6,760 | 6,760 |
| Share premium | | 3,449 | 3,449 |
| Capital redemption reserve | | 466 | 466 |
| Capital reserve | | 249,304 | 243,643 |
| Revenue reserve | | 9,145 | 10,629 |
| Shareholders' funds | | 269,124 | 264,947 |
| Net asset value per ordinary share – basic | | 1990.7p | 1959.8p |
| Number of 5p ordinary shares in issue at the period end | | 13,518,799 | 13,518,799 |

CONDENSED STATEMENT OF CASH FLOWS

| | SIX MONTHS TO 31 MARCH 2017 £'000 | SIX MONTHS TO 31 MARCH 2016 £'000 |
|---|--|--|
| Operating activities | | |
| Net return before finance costs and taxation | 10,840 | 1,587 |
| Tax on overseas income | (111) | (96) |
| Adjustments for: | | |
| Purchases of investments | (18,351) | (22,642) |
| Sales of investments | 26,216 | 29,389 |
| | 7,865 | 6,747 |
| (Gains)/losses on investments | (6,972) | 1,712 |
| Increase in debtors | (417) | (485) |
| Decrease in creditors | (102) | (1,895) |
| Scrip dividends | — | (39) |
| Exchange differences | 16 | (5) |
| Net cash inflow from operating activities | 11,119 | 7,526 |
| Financing activities | | |
| Interest paid on debenture stocks | (1,083) | (1,082) |
| Preference dividends paid | (6) | (6) |
| Equity dividends paid – note 8 | (5,448) | (6,124) |
| Net cash outflow from financing activities | (6,537) | (7,212) |
| Net increase in cash and cash equivalents | 4,582 | 314 |
| Cash and cash equivalents at start of the period | 15,597 | 20,398 |
| Exchange differences | (16) | 5 |
| Cash and cash equivalents at the end of the period | 20,163 | 20,717 |
| Cash flow from operating activities includes: | | |
| Interest received | 74 | 89 |
| Dividends received | 4,096 | 4,249 |

CONDENSED INCOME STATEMENT

| NOTE | SIX MONTHS TO 31 MARCH 2017 | | | SIX MONTHS TO 31 MARCH 2016 | | |
|---|-----------------------------|------------------|----------------|-----------------------------|------------------|----------------|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Gains/(losses) on investments at fair value | — | 6,972 | 6,972 | — | (1,712) | (1,712) |
| Foreign exchange gains/(losses) | 2 | — | 16 | — | (5) | (5) |
| Income | 3 | 4,700 | 4,700 | 4,867 | — | 4,867 |
| | | 4,700 | 11,688 | 4,867 | (1,717) | 3,150 |
| Investment management fee | 4 | (168) | (671) | (174) | (522) | (696) |
| Performance-related fee | 4 | — | — | — | (688) | (688) |
| Other expenses | | (177) | (177) | (179) | — | (179) |
| Net return before finance costs and taxation | | 4,355 | 10,840 | 4,514 | (2,927) | 1,587 |
| Finance costs | | | | | | |
| Interest payable | 4 | (274) | (1,098) | (274) | (823) | (1,097) |
| Distributions in respect of preference shares | 4 | (6) | (6) | (6) | — | (6) |
| Return on ordinary activities before taxation | | 4,075 | 9,736 | 4,234 | (3,750) | 484 |
| Taxation on ordinary activities | 5 | (111) | (111) | (96) | — | (96) |
| Net return on ordinary activities after taxation | | 3,964 | 9,625 | 4,138 | (3,750) | 388 |
| Return per ordinary share – basic | | 29.3p | 71.2p | 30.6p | (27.7)p | 2.9p |
| Number of ordinary shares in issue | | | 13,518,799 | | | 13,518,799 |

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Accounting Policies

The condensed financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, FRS 104 *Interim Financial Reporting and the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts*, issued by the Association of Investment Companies in November 2014, as amended in January 2017. The financial statements are issued on a going concern basis.

The accounting policies applied to these condensed financial statements are consistent with those applied in the financial statements for the year ended 30 September 2016.

2. Foreign Currency and Forward Currency Contracts

The equity portfolio includes £30,741,000 (30 September 2016: £30,350,000; 31 March 2016: £29,039,000) of equities denominated in currencies other than pounds sterling. In order to manage the currency risk, the Manager may hedge part of the currency exposure into sterling through the use of forward foreign exchange contracts. If used, foreign exchange contracts are designated as fair value hedges through profit or loss. At the period end no forward foreign exchange contracts were held.

3. Income

| | SIX MONTHS TO 31 MARCH | |
|--------------------------------|------------------------|---------------|
| | 2017 £'000 | 2016 £'000 |
| Income from investments | | |
| UK dividends – ordinary | 3,205 | 2,889 |
| – special | 413 | 305 |
| Overseas dividends – ordinary | 951 | 1,110 |
| – special | — | 416 |
| Unfranked investment income | 111 | 98 |
| Scrip dividends | — | 39 |
| | 4,680 | 4,857 |
| Other Income | | |
| Deposit interest | — | 10 |
| Underwriting commission | 1 | — |
| Other | 19 | — |
| | 4,700 | 4,867 |

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

The base management fee is allocated 75% to capital and 25% to revenue and is calculated at a rate of 0.15% of the 10 day average mid-market capital of the Company at each quarter end date. With effect from 1 April 2017, the base management fee rate was reduced to 0.1125%, with other terms of the management agreement remaining unchanged.

The performance-related fee is allocated wholly to capital. The performance-related fee is due when the Company's annualised total return over the previous three years exceeds the annualised return of the benchmark over the same period plus the hurdle of 1.25%. There was no performance-related fee provision for the six months ended 31 March 2017 (31 March 2016: £688,000). A performance fee of £65,000 in respect of the year ended 30 September 2016 was paid during the period.

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

5. Tax

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

6. Classification under Fair Value Hierarchy

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

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

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

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

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

| | AT 31 MARCH 2017 £'000 | AT 30 SEPTEMBER 2016 £'000 |
|---|---------------------------------|-------------------------------------|
| Financial assets designated at fair value through profit or loss: | | |
| Level 1 | 271,665 | 273,458 |
| Level 2 | 98 | 4 |
| Level 3 | 8,602 | 8,373 |
| Total for financial assets | 280,365 | 281,835 |

7. Debenture Stock

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

| | AT 31 MARCH 2017 £'000 | AT 30 SEPTEMBER 2016 £'000 |
|--|---------------------------------|-------------------------------------|
| 7.75% debenture stock 2020 | 7,000 | 7,000 |
| 6.5% debenture stock 2023 | 24,968 | 24,968 |
| Total | 31,968 | 31,968 |
| Discount and issue expenses on debenture stock | (231) | (246) |
| | 31,737 | 31,722 |

8. Dividends Paid

| | SIX MONTHS TO 31 MARCH | |
|-------------------------------------|------------------------|---------------|
| | 2017 £'000 | 2016 £'000 |
| Second interim 35p (2015: 33p) | 4,732 | 4,461 |
| Special dividend 5.3p (2015: 12.3p) | 716 | 1,663 |
| Total paid | 5,448 | 6,124 |

The Company pays two interim dividends a year, the second interim being in lieu of a final dividend. The first interim dividend of 18p will be paid on 23 June 2017 to shareholders on the register on 26 May 2017.

9. Investment Trust Status

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

10. Status of Half-Yearly Financial Report

The financial information contained in this half-yearly financial report, which has not been reviewed or audited by the independent auditors, does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information for the half-years ended 31 March 2016 and 31 March 2017 has not been audited. The figures and financial information for the year ended 30 September 2016 are extracted and abridged from the latest published accounts and do not constitute the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and include the Independent Auditor's Report, which was unqualified and did not include a statement under section 498 of the Companies Act 2006.

By order of the Board
Invesco Asset Management Limited
Company Secretary

16 May 2017

