

# Keystone Investment Trust plc

## Half-Yearly Financial Report for the Six Months to 31 March 2019

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 2018.

### PERFORMANCE STATISTICS

SIX MONTHS ENDED 31 MARCH	2019	2018
<b>Total Return<sup>(1)(3)</sup> (dividends reinvested)</b>		
Net asset value (NAV) <sup>(2)(3)</sup>	-4.2%	-4.2%
Share price	-4.7%	-0.8%
FTSE All-Share Index <sup>(4)</sup>	-1.8%	-2.3%
<b>Capital Statistics</b>		
NAV <sup>(2)(3)</sup> per share	-6.3%	-6.3%
Share price <sup>(1)</sup>	-7.1%	-3.2%
FTSE All-Share Index <sup>(4)</sup>	-3.6%	-3.8%
<b>Revenue Statistics</b>		
Revenue return per ordinary share	22.5p	19.4p
Interim dividend per ordinary share	24.0p	18.0p
	31 MARCH	30 SEPTEMBER
<b>AT PERIOD END</b>	2019	2018
NAV <sup>(2)</sup> per share	1,800.6p	1,921.7p
Share price	1,565.0p	1,685.0p
Discount of share price to NAV <sup>(2)</sup> per share	13.1%	12.3%
Gearing from borrowings <sup>(3)</sup> :		
– gross	12.8%	12.0%
– net	9.9%	11.6%

(1) Source: Refinitiv.

(2) Figures with debt at market value.

(3) Defined in the Glossary of Terms and Alternative Performance Measures in the 2018 annual financial report.

(4) The benchmark index of the Company.

### INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

#### Chairman's Statement

##### Performance

For the six months ended 31 March 2019, the Company delivered a net asset value per ordinary share (with debt at market value) (NAV) total return of -4.2% compared with a return of -1.8% for the Company's benchmark index, the FTSE All-Share Index. The share price total return was -4.7% for the period reflecting a widening of the discount at which the shares traded relative to the NAV from 12.3% to 13.1%. The Company's underperformance is disappointing and the factors contributing to the portfolio's performance over the period are explained in the portfolio manager's report, which follows. The Board is supportive of James Goldstone's contrarian and unconstrained investment approach in seeking companies which are truly undervalued and have the potential to generate significant gains in the medium term. The Board, with support from Invesco, is committed to broadening the investor base through a variety of means.

##### 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 the level of net gearing 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. Gearing parameters and levels are reviewed on a regular basis and were not changed in the period. In light of the recent strength in equities, the Manager took the opportunity to reduce gearing slightly so that net gearing stood at 9.9% at 31 March 2019 compared with 11.6% at 30 September 2018.

#### Dividend

As announced on 9 May 2019, the Board is pleased to confirm it has made the decision to change the frequency and relative proportions of the Company's dividend payments. The Board believes that paying quarterly dividends will provide shareholders with a more attractive flow of income. The Board has declared a first interim dividend of 24p per ordinary share, which will be paid on 14 June 2019 to shareholders on the register on 17 May 2019. The shares will be marked ex-dividend on 16 May 2019. This first interim dividend reflects payment of two quarters under the new quarterly model. In the absence of unexpected circumstances, it is expected that the total ordinary dividend for the financial year to 30 September 2019, excluding any special dividend, will be similar to, but not less than, last year's ordinary dividend.

#### The Board

Following the AGM in January 2019, I succeeded Beatrice Hollond as Chairman of the Company. Mrs Hollond served on the Board as a non-executive Director from 2003 and Chairman from 2010. The Board extends its gratitude for her long and dedicated service.

**Karen Brade**

Chairman

9 May 2019

#### Portfolio Manager's Report

##### Market Review

This six month period was one of extreme volatility in equity markets. The final quarter of 2018 saw the FTSE All-Share Index fall 11%. Half the fall occurred in the first ten days of October and the other half in an unusually frenetic December in which global equity indices suffered steep losses – it was the weakest December for the S&P500 since 1931. Markets then rallied very sharply after the turn of the year and recovered two thirds of those losses in the first quarter of 2019.

The sell-off had numerous causes. Trade tensions between the US and China had been escalating for some months but around the start of the period under review these tensions started to be seen as a threat to global economic growth as global Purchasing Managers Indices (PMIs) declined. As the outlook for global growth worsened, hawkish comments from the US Federal Reserve gave the impression it was determined to continue to raise interest rates and reverse QE (via quantitative tightening) regardless of this weaker data. Additionally, a sharp fall in the oil price from US\$85 in October to just above US\$50 in December added to the narrative that growth was slowing.

Just as the global picture deteriorated, the UK and EU's Brexit negotiations reached a critical stage. The strength of sterling versus the US dollar and Euro continued to act as a barometer for the perceived success of those negotiations and when the UK Government secured a withdrawal agreement with the European Union, later ratified by all EU nation states, sterling rallied. These gains were short lived, however, as the Prime Minister suffered a wave of high profile resignations from her cabinet and public calls for her to step down from office due to the terms of the deal and specifically the terms of the Irish back-stop. In December the Prime Minister delayed Parliament's vote on the deal, fuelling fears of a no-deal Brexit scenario. That news saw sterling fall to a twenty-month low versus the US dollar.

In December, the Bank of England (BoE) cut its growth forecast for Q4 and highlighted the risks to the economy in 2019 of a no-deal exit from the EU. Industrial production data missed forecasts and weakened into the year-end. Nevertheless, employment data released during the quarter was supportive as UK wage growth reached 3.3% in the three months to the end of October 2018, the fastest pace in a decade and unemployment fell to just 4%. Meanwhile retail sales for November were ahead of expectations.

The international rally that began at the turn of the year was a result of optimism surrounding the US-China trade talks, as well as signals from the Federal Reserve that monetary policy may not be on "autopilot" after all. This saw expectations for interest rate increases moderate significantly. The price of Brent crude oil recovered to US\$68 per barrel by the end of March.

Despite the optimism creeping into headline index levels, political uncertainty persisted at home. The question of the UK's departure from the European Union continued to dominate the agenda during the first quarter, as the deadline for Britain's exit from the European Union drew closer. As 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 duly strengthened against international currencies over the quarter, peaking at US\$1.33 and €1.17 in March as an extension to Article 50 was secured, avoiding a no-deal exit from the European Union.

Amid this sustained political uncertainty, the BoE cut its UK growth forecast from 1.7% to 1.2% for the year, stating that "the economic outlook [for the UK] will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom." The BoE's Monetary Policy Committee voted twice during the quarter to hold interest rates at 0.75%.

Nevertheless, the economic data released during the quarter was strong. Retail sales strengthened significantly from a disappointing read for December and

wage growth and employment continued to build ahead of expectations. Meanwhile, in his Spring Statement, the Chancellor of the Exchequer highlighted that the UK economy has been “remarkably robust” since the EU Referendum result. As the FTSE All-Share Index joined in the global equity rally it was led by certain domestic cyclical sectors such as Housebuilding and Retail.

#### Portfolio Review

The Healthcare sector was the portfolio's weakest performer over the six month period where the holding in Motif Bio provided a negative return. The company's novel antibiotic iclaprim did not receive the widely anticipated approval from the US Food & Drug Administration (FDA). Discussions between the company and the FDA remain ongoing with a meeting scheduled for early May to discuss concerns over the risk of liver toxicity in patients. The holding was reduced prior to the announcement regarding this approval and further reduced afterwards.

Babcock International also provided a negative return. The shares had traded well earlier in 2018, as management appeared to convince the market that concerns around margins and outlook for revenues were unfounded. The company then reduced its full year revenue guidance in July 2018 and the share price once again came under pressure. This negative momentum persisted into the fourth quarter before the release of an anonymous piece of research in November 2018 saw a sharp fall in the share price, reigniting the debate on the sustainability of margins and recommending that investors sell the shares. The company robustly refuted the analyst's statements, which they have called “false and malicious”. The report remains anonymous and we remain sceptical of its validity as it contradicts information provided by the company and information publicly available via the Ministry of Defence. Babcock International's business is very complex and the number of contracts that they operate means that there is significant scope for misunderstanding. The way Babcock International communicates its operations with the market is a key issue which has been raised at company meetings and most recently with the Chairman in December. Given conviction in the investment case more shares were purchased at lower levels.

Elsewhere in the Financials sector, a recently initiated position in the financial trading platform Plus500 proved volatile. The company has met with challenges in clearly explaining to the market the short-term revenue volatility that can arise in trading contracts-for-difference (derivative instruments). The company raised expectations during the final quarter of 2018, which was followed by a warning in February 2019 that profits would in fact be lower, in line with original guidance. The holding was sold in February and so the weakness that followed a second, more recent warning did not further impact the portfolio.

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, with the launch of some cheaper ranges in pursuit of market share gains, was taken badly by the market and the logic of the proposed bond issue was misunderstood. This left the shares exposed to heavy short-selling. Having met with the company's management in the days following the share price fall, conviction in the investment case was reaffirmed and the opportunity was taken to increase the position.

The notable outperformer within the portfolio was AJ Bell, which provided a positive return over the six month period. The investment platform has continued to trade extremely well following its initial public offering in December 2018.

The portfolio's holding in media business Future also delivered a strong return over the period. The company released a trading update in February and announced a small acquisition which prompted some material analyst upgrades. During March, the company's share price was further boosted by the buying activity of index tracking funds following its move to a premium listing on the London Stock Exchange.

Dairy Crest provided a notable contribution over the period. The company's share price rose sharply on the announcement that management had backed a £975 million takeover bid from Canadian milk processor Saputo. In the absence of a counter-bid, that transaction concluded in April.

The portfolio's holdings in the mining sector also supported performance. Rising gold prices over the period supported the share prices of Acacia Mining, Agnico Eagle Mines and Randgold Resources. Shares in the latter were further supported by news of a merger between Randgold Resources and Barrick Gold, which completed prior to the period end.

#### Outlook

For the first time since the referendum in June 2016, the clouds are lifting from many of the domestically oriented stocks and sectors that this portfolio has favoured. With a delay granted by the EU, the risk of the UK leaving without a deal has all but evaporated for the time being, providing the certainty the market has craved that the much feared accompanying economic disruption can be avoided.

The relief already felt in certain domestic cyclical sectors (housebuilding and well positioned retailers) should persist and, even after the rally year-to-date, there is plenty of room in valuations, absolute and certainly relative to other parts of the

market, for that re-rating to continue. I am further encouraged by the fact that the domestic rally has occurred without any recovery in sterling. This suggests that whilst some domestic UK investors may have rebalanced towards UK-focused stocks, international investors are yet to follow suit. This is borne out by the latest Merrill Lynch Global Fund Manager survey which shows UK equities as a significant underweight and the least favoured of all asset classes globally. Should that change there will be significant further capital chasing valuations back towards (and quite possibly above) normal levels and this is encouraging for large parts of the portfolio.

The one domestic sector that has been left behind so far is the Banks sector, caught between two conflicting forces. On one hand is the supportive domestic picture and the idea that in theory UK banks should follow their domestic cyclical peers and re-rate. On the other hand is a global economy that over the last six months has shown signs of deceleration and US and European central banks that have signalled that interest rates have peaked. At this juncture, lower global interest rates and the fear of rising impairments from unsustainable lows have weighed on bank shares internationally, and at the time of writing these concerns are overshadowing relief at the avoidance of the Brexit cliff-edge. It seems most likely that extremely depressed valuations can at least recover some lost ground vs the broader UK market and vs global peers but the risk that the re-rating is delayed until the next cycle cannot be discounted.

So in the near-term I am hopeful that the portfolio should deliver strong absolute and relative performance but as ever I am conscious of the risks that lie ahead. Whilst the economic impact of a hard Brexit may have been avoided, the domestic political consequences could be severe. After walking a tightrope for two and a half years to hold the Conservative party together, the Prime Minister eventually blinked in the face of an intransigent EU and a Remain dominated Parliament, ruling out a 'No Deal' exit, requesting a delay to Brexit and appealing to the Labour leadership to find cross-party consensus. Collectively these actions have badly alienated the Conservative right and allowed Nigel Farage to re-emerge under the new banner of the Brexit party. This risks splitting the Conservative vote and even the Conservative party itself and so raises once again the spectre of a hard left Labour government at some stage.

Global growth also looks more fragile and monetary policy dependent. So I expect to see some further upside to domestics in the short-term but I have an eye on certain internationally exposed and more defensive businesses. Assuming prevailing valuations of these companies are attractive there ought to be the potential to rotate some capital their way once domestic valuations have normalised.

In the meantime, the portfolio's 5% allocation to international gold mining companies, and the modest valuation of the portfolio's holdings ought to prove defensive to a range of potential negative outcomes at the same time as offering upside in a more normal environment.

**James Goldstone**

9 May 2019

#### 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.

#### 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 from the benchmark index.
- Shares – the 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 pursue its investment policy successfully.
- 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 2018 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 2019

UK listed ordinary shares unless otherwise stated

ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO	ISSUER	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
BP	Oil & Gas Producers	14,729	5.4	Balfour Beatty	Construction & Materials	2,429	0.9
Barclays	Banks	11,848	4.3	Secure Trust Bank	Banks	2,390	0.9
AJ Bell	Financial Services	10,650	3.9	Cairn Homes	Household Goods & Home Construction	2,339	0.9
Tesco	Food & Drug Retailers	9,289	3.4	CVS <sup>AIM</sup>	General Retailers	2,336	0.8
Next	General Retailers	9,089	3.3	Whitbread	Travel & Leisure	2,317	0.8
Coats	General Industrials	8,782	3.2	Hadrian's Wall Secured Investments	Equity Investment Instruments	2,105	0.8
Royal Dutch Shell – B shares	Oil & Gas Producers	8,097	2.9	N Brown	General Retailers	2,085	0.8
Royal Bank of Scotland	Banks	7,515	2.7	Alfa Financial Software	Software & Computer Services	1,909	0.7
British American Tobacco	Tobacco	7,138	2.6	Horizon Discovery <sup>AIM</sup>	Pharmaceuticals & Biotechnology	1,659	0.6
Babcock International	Aerospace & Defence	5,661	2.1	TruFin <sup>AIM</sup>	Financial Services	1,652	0.6
<b>Top Ten Investments</b>		<b>92,798</b>	<b>33.8</b>	<b>Top Sixty Investments</b>		<b>260,581</b>	<b>95.2</b>
Legal & General	Life Insurance	5,518	2.0	Standard Life Aberdeen	Financial Services	1,611	0.6
RELX	Media	5,502	2.0	Ashtead	Support Services	1,602	0.6
JD Sports Fashion	General Retailers	5,353	2.0	Sherborne Investors	Financial Services	1,525	0.6
Melrose Industries	Construction & Materials	5,145	1.9	Guernsey – C shares			
Rolls-Royce	Aerospace & Defence	4,918	1.8	Safestyle UK <sup>AIM</sup>	General Retailers	1,486	0.5
Victoria <sup>AIM</sup>	Household Goods & Home Construction	4,484	1.6	Mears	Support Services	1,384	0.5
Bushveld Minerals <sup>AIM</sup>	Mining	4,449	1.6	Marwyn Value Investors	Equity Investment Instruments	1,228	0.4
Future	Media	4,343	1.6	Hibernia REIT	Real Estate Investment Trusts	1,182	0.4
Phoenix Spree Deutschland	Real Estate Investment & Services	4,313	1.6	Tungsten <sup>AIM</sup>	Financial Services	1,090	0.4
Derwent London	Real Estate Investment Trusts	4,193	1.5	TP ICAP	Financial Services	791	0.3
<b>Top Twenty Investments</b>		<b>141,016</b>	<b>51.4</b>	IP Group	Financial Services	670	0.2
Johnson Service <sup>AIM</sup>	Support Services	4,013	1.5	<b>Top Seventy Investments</b>		<b>273,150</b>	<b>99.7</b>
MJ Gleeson	Household Goods & Home Construction	3,823	1.4	Motif Bio <sup>AIM</sup>	Pharmaceuticals & Biotechnology	125	0.1
PRS REIT	Real Estate Investment Trusts	3,785	1.4	– ADR		248	
Oxford Sciences Innovation <sup>UQ</sup>	Financial Services	3,746	1.4	– ADR Warrants 9 Nov 2021		14	
Imperial Brands	Tobacco	3,689	1.3	Silence Therapeutics <sup>AIM</sup>	Pharmaceuticals & Biotechnology	322	0.1
XPS Pensions	Financial Services	3,667	1.3	Diurnal <sup>AIM</sup>	Pharmaceuticals & Biotechnology	273	0.1
Summit Properties <sup>AIM</sup>	Real Estate Investment & Services	3,612	1.3	Provident Financial	Financial Services	109	—
Barrick Gold	Mining	3,606	1.3	Nexxon <sup>UQ</sup>	Electronic & Electrical Equipment	83	—
BCA Marketplace	Support Services	3,606	1.3	Eurovestech <sup>UQ</sup>	Financial Services	39	—
McBride	Household Goods & Home Construction	3,586	1.3	XTL Biopharmaceuticals – ADR	Pharmaceuticals & Biotechnology	9	—
<b>Top Thirty Investments</b>		<b>178,149</b>	<b>64.9</b>	HaloSource <sup>UQ</sup>	Chemicals	3	—
Sigma Capital <sup>AIM</sup>	Financial Services	3,568	1.3	– Regulation S		2	
Chesnara	Life Insurance	3,501	1.3	Jaguar Health	Pharmaceuticals & Biotechnology	3	—
Aviva	Life Insurance	3,474	1.3	– US indemnity shares <sup>UQ</sup>			
Amigo	Financial Services	3,457	1.3	Lombard Medical	Health Care Equipment & Services	1	—
Hollywood Bowl	Travel & Leisure	3,431	1.3	– US common stock			
Dairy Crest	Food Producers	3,396	1.2	<b>Total Investments (80)</b>		<b>274,381</b>	<b>100.0</b>
Agnico Eagle Mines – Canadian common stock	Mining	3,179	1.2				
BT	Fixed Line Telecommunications	3,178	1.2				
Harworth	Real Estate Investment & Services	3,172	1.2				
Ultra Electronics	Aerospace & Defence	3,164	1.1				
<b>Top Forty Investments</b>		<b>211,669</b>	<b>77.3</b>				
Endeavour Mining	Mining	3,095	1.1				
PureTech Health	Pharmaceuticals & Biotechnology	2,942	1.1				
Newmont Mining – US common stock	Mining	2,891	1.1				
P2P Global Investments	Equity Investment Instruments	2,884	1.1				
Acacia Mining	Mining	2,860	1.0				
HomeServe	Support Services	2,781	1.0				
On the Beach	Travel & Leisure	2,631	1.0				
DS Smith	General Industrials	2,551	0.9				
easyJet	Travel & Leisure	2,530	0.9				
Capita	Support Services	2,526	0.9				
<b>Top Fifty Investments</b>		<b>239,360</b>	<b>87.4</b>				

UQ: unquoted.  
AIM: Investments quoted on AIM.  
ADR: American Depositary Receipt.

## CONDENSED STATEMENT OF CHANGES IN EQUITY

	CALLED UP SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
<b>For the six months ended 31 March 2019</b>						
At 30 September 2018	6,760	3,449	466	244,888	10,583	266,146
Dividends paid – note 9	—	—	—	—	(5,374)	(5,374)
Return on ordinary activities	—	—	—	(14,200)	3,042	(11,158)
<b>At 31 March 2019</b>	<b>6,760</b>	<b>3,449</b>	<b>466</b>	<b>230,688</b>	<b>8,251</b>	<b>249,614</b>
<b>For the six months ended 31 March 2018</b>						
At 30 September 2017	6,760	3,449	466	253,648	11,064	275,387
Dividends paid – note 9	—	—	—	—	(5,637)	(5,637)
Return on ordinary activities	—	—	—	(14,731)	2,616	(12,115)
<b>At 31 March 2018</b>	<b>6,760</b>	<b>3,449</b>	<b>466</b>	<b>238,917</b>	<b>8,043</b>	<b>257,635</b>

The accompanying notes are an integral part of these financial statements.

## CONDENSED BALANCE SHEET

Registered number 538179

	NOTE	AT 31 MARCH 2019 £'000	AT 30 SEPTEMBER 2018 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	6	274,381	296,692
<b>Current assets</b>			
Amounts due from brokers		233	988
Unrealised profit on forward currency contracts		—	70
Prepayments and accrued income		831	293
Unclaimed dividends from previous years recoverable		—	37
Tax recoverable		271	275
Cash and cash equivalents		7,414	1,078
		8,749	2,741
<b>Creditors: amounts falling due within one year</b>			
Amounts due to brokers		(423)	(195)
Unrealised loss on forward currency contracts		(32)	—
Accruals		(1,008)	(1,055)
		(1,463)	(1,250)
<b>Net current assets</b>			
		7,286	1,491
<b>Total assets less current liabilities</b>			
		281,667	298,183
<b>Creditors: amounts falling due after more than one year</b>			
Debenture stock	7	(31,803)	(31,787)
5% cumulative preference shares		(250)	(250)
		(32,053)	(32,037)
<b>Net assets</b>			
		249,614	266,146
<b>Capital and reserves</b>			
Called up share capital		6,760	6,760
Share premium		3,449	3,449
Capital redemption reserve		466	466
Capital reserve		230,688	244,888
Revenue reserve		8,251	10,583
<b>Shareholders' funds</b>			
		249,614	266,146
<b>Net asset value per ordinary share – basic</b>			
– debt at par value	8	1,846.4p	1,968.7p
– debt at fair value	8	1,800.6p	1,921.7p
<b>Number of 50p ordinary shares in issue at the period end</b>			
		13,518,799	13,518,799

## CONDENSED STATEMENT OF CASH FLOWS

	SIX MONTHS TO 31 MARCH 2019 £'000	SIX MONTHS TO 31 MARCH 2018 £'000
<b>Cash flow from operating activities</b>		
Net return before finance costs and taxation	(10,038)	(11,003)
Adjustments for:		
Purchases of investments	(20,989)	(66,068)
Sales of investments	31,095	50,315
	10,106	(15,753)
Scrip dividends	(118)	(70)
Losses on investments	13,306	16,117
Net cash movement from derivative instruments – currency hedges	102	(42)
Increase in debtors	(538)	(162)
Decrease in creditors	(43)	(36)
Tax on overseas income	(8)	(6)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>12,769</b>	<b>(10,955)</b>
<b>Cash flow from financing activities</b>		
Interest paid on overdraft	(7)	(1)
Interest paid on debenture stocks	(1,083)	(1,083)
Preference dividends paid	(6)	(6)
Equity dividends paid – note 9	(5,374)	(5,637)
Return of unclaimed dividends from previous years	37	—
<b>Net cash outflow from financing activities</b>	<b>(6,433)</b>	<b>(6,727)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		
	6,336	(17,682)
Cash and cash equivalents at start of the period	1,078	13,755
<b>Cash and cash equivalents at the end of the period</b>	<b>7,414</b>	<b>(3,927)</b>
<b>Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:</b>		
Cash/(overdraft) held at custodian Short-Term Investment Company (Global Series) plc, money market fund	504	(3,927)
	6,910	—
<b>Cash and cash equivalents</b>	<b>7,414</b>	<b>(3,927)</b>
<b>Cash flow from operating activities includes:</b>		
Interest received	88	86
Dividends received	2,915	5,260

## CONDENSED INCOME STATEMENT

	NOTE	SIX MONTHS TO 31 MARCH 2019			SIX MONTHS TO 31 MARCH 2018		
		REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Losses on investments at fair value		—	(13,306)	(13,306)	—	(16,117)	(16,117)
Foreign exchange gains	2	—	284	284	—	236	236
Income	3	3,647	—	3,647	3,230	2,372	5,602
		3,647	(13,022)	(9,375)	3,230	(13,509)	(10,279)
Investment management fee	4	(116)	(349)	(465)	(132)	(398)	(530)
Other expenses		(198)	—	(198)	(194)	—	(194)
<b>Net return before finance costs and taxation</b>		<b>3,333</b>	<b>(13,371)</b>	<b>(10,038)</b>	<b>2,904</b>	<b>(13,907)</b>	<b>(11,003)</b>
Finance costs							
Interest payable	4	(277)	(829)	(1,106)	(276)	(824)	(1,100)
Distributions in respect of preference shares	4	(6)	—	(6)	(6)	—	(6)
<b>Return on ordinary activities before taxation</b>		<b>3,050</b>	<b>(14,200)</b>	<b>(11,150)</b>	<b>2,622</b>	<b>(14,731)</b>	<b>(12,109)</b>
Tax on ordinary activities	5	(8)	—	(8)	(6)	—	(6)
<b>Net return on ordinary activities after taxation</b>		<b>3,042</b>	<b>(14,200)</b>	<b>(11,158)</b>	<b>2,616</b>	<b>(14,731)</b>	<b>(12,115)</b>
<b>Return per ordinary share – basic</b>		<b>22.5p</b>	<b>(105.0)p</b>	<b>(82.5)p</b>	<b>19.4p</b>	<b>(109.0)p</b>	<b>(89.6)p</b>
<b>Number of ordinary shares in issue</b>				<b>13,518,799</b>			<b>13,518,799</b>

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 of the Company. 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 updated in February 2018. 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 2018.

### 2. Foreign Currency and Forward Currency Contracts

The equity portfolio includes £20,179,000 (30 September 2018: £17,924,000) 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 pounds sterling through the use of forward foreign exchange contracts. Foreign exchange contracts are designated as fair value hedges through profit or loss.

### 3. Income

	SIX MONTHS TO 31 MARCH	
	2019 £'000	2018 £'000
<b>Income from investments</b>		
UK dividends – ordinary	2,886	2,472
– special	299	236
Overseas dividends	240	346
Income from interest distribution	86	86
Scrip dividends	118	70
	<u>3,629</u>	<u>3,210</u>
<b>Other Income</b>		
Other	18	20
	<u>3,647</u>	<u>3,230</u>

No special dividends have been recognised in capital (31 March 2018: £2,372,000).

### 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 0.1125% of the 10 day average value of the mid-market capitalisation of the Company at each quarter end date.

The performance-related fee is allocated wholly to capital. The performance-related fee is due when the Company's annualised total return over the previous three years exceeds the annualised return of the benchmark over the same period plus the hurdle of 1.25%. There was no performance-related fee provision for the six months ended 31 March 2019 (2018: £nil).

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

### 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

FRS 102 sets out three fair value levels. These are:

- Level 1 – The unadjusted quoted price in an active market for identical assets 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 and related forward currency contracts held at fair value at the period end is as follows:

	AT	AT
	31 MARCH 2019 £'000	30 SEPTEMBER 2018 £'000
Financial assets designated at fair value through profit or loss:		
Level 1	270,491	285,480
Level 2	14	244
Level 3	3,876	11,038
Total for financial assets	<u>274,381</u>	<u>296,762</u>

At 31 March 2019 financial liabilities designated at fair value through profit or loss, consisted of currency hedges totalling £32,000 (30 September 2018: £nil) and are classified as level 2 items.

AJ Bell is included in level 1 as at 31 March 2019 (£10,650,000), following its admission to the Main Market of the London Stock Exchange on 7 December 2018 (30 September 2018: level 3, £7,068,000).

HaloSource is included in level 3 as at 31 March 2019 (£5,000), following its suspension from trading on the AIM market (30 September 2018: level 1, £19,000).

### 7. Debenture Stock

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

	AT 31 MARCH 2019 £'000	AT 30 SEPTEMBER 2018 £'000
7.75% Debenture stock 2020	7,000	7,000
6.5% Debenture stock 2023	24,968	24,968
Total	<u>31,968</u>	<u>31,968</u>
Discount and issue expenses on debenture stock	(165)	(181)
	<u>31,803</u>	<u>31,787</u>

### 8. Net Asset Value

The following shows a reconciliation of NAV with debt at par to NAV with debt at fair value. The difference in the NAVs arises solely from the valuation of the debenture stocks and preference shares. The number of shares at both period ends was unchanged at 13,518,799.

	AT 31 MARCH 2019 NAV PER SHARE PENCE	AT 30 SEPTEMBER 2018 NAV PER SHARE PENCE
NAV – debt at par	1,846.4	1,968.7
Debentures and preference shares:		
– debt at par, after amortised costs	237.1	237.0
– debt at fair value	(282.9)	(284.0)
NAV – debt at fair value	<u>1,800.6</u>	<u>1,921.7</u>

The fair value of the debentures and preference stock in the above reconciliation, which is based on the offer value is:

	AT 31 MARCH 2019 £'000	AT 30 SEPTEMBER 2018 £'000
7.75% Debenture Stock 2020	7,727	7,946
6.5% Debenture Stock 2023	30,272	30,200
5% Cumulative Preference shares	246	246
	<u>38,245</u>	<u>38,392</u>

### 9. Dividends Paid

	SIX MONTHS TO 31 MARCH	
	2019 £'000	2018 £'000
Second interim 38p (2018: 37p)	5,137	5,002
Special dividend 1.75p (2018: 4.7p)	237	635
Total paid	<u>5,374</u>	<u>5,637</u>

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. The first interim dividend of 24p, representing two quarterly dividends, will be paid on 14 June 2019 to shareholders on the register on 17 May 2019. In accordance with this new dividend policy, in future years, dividends will be paid in March, June, September and December.

### 10. 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.

### 11. Status of Half-Yearly Financial Report

The financial information contained in this half-yearly report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half years ended 31 March 2019 and 31 March 2018 has not been audited. The figures and financial information for the year ended 30 September 2018 are extracted and abridged from the latest audited accounts and do not constitute the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the Report of the Independent Auditor, 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

9 May 2019

## Going Concern

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

## FINANCIAL CALENDAR 2019

### Announcements

Half-yearly Financial Report	May
Annual Financial Report	November

### Ordinary Share Dividends

First interim (covering first two quarters)	June
Second interim	September
Third interim	December

Annual General Meeting February 2020

Year end 30 September

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Directors confirm that to the best of their knowledge:

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

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

Signed on behalf of the Board of Directors.

**Karen Brade**  
Chairman

9 May 2019

## DIRECTORS, INVESTMENT MANAGER AND ADMINISTRATION

### Directors

Karen Brade (Chairman, from 22 January 2019)  
Ian Armfield (Audit Committee Chairman)  
Katrina Hart  
Beatrice Hollond (retired 22 January 2019)  
William Kendall  
John Wood

### Alternative Investment Fund Manager

Invesco Fund Managers Limited

### Company Secretary

Invesco Asset Management Limited  
Company Secretarial contact: Shilla Pindoria

### Registered Office and Company Number

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

### Correspondence Address

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

### Invesco Client Services

Invesco's Client Services team is available from 8.30am to 6pm Monday to Friday (excluding bank holidays):

☎ 0800 085 8677

🌐 [www.invesco.co.uk/investmenttrusts](http://www.invesco.co.uk/investmenttrusts)

### Website

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

### Depositary, Custodian and Banker

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

### Corporate Broker

Numis Securities Limited  
10 Paternoster Square  
London EC4M 7LT

### General Data Protection Regulation

The Company's privacy notice can be found at [www.invesco.co.uk/keystone](http://www.invesco.co.uk/keystone)

### 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 queries relating to your shareholding you should contact the Registrar on: ☎ 0871 664 0300. Calls cost 12p per minute plus your phone company's access charges. From outside the UK: +44 371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open from 9am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Shareholders holding shares directly can also access their holding details via Link's website [www.signalshares.com](http://www.signalshares.com)

Link Asset Services provides an on-line and telephone share dealing services to existing shareholders who are not seeking advice on buying or selling. This service is available at [www.linksharedeal.com](http://www.linksharedeal.com) or ☎ 0371 664 0445. Calls cost 12p per minute plus your phone company's access charges. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm Monday to Friday (excluding Bank Holidays).

### 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 64 of the 2018 annual report.



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 a business name of Invesco Fund Managers Limited