Keystone Investment Trust plc

Annual Financial Report

Year ended 30 September 2013

Investment Objective

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

2013 Highlights

	2013	2012
Net asset value – total return:		
– debt at par	+29.4%	+15.8%
– debt at fair value	+31.1%	+14.0%
Share price – total return	+29.3%	+21.0%
FTSE All-Share – total return	+18.9%	+17.2%
Dividends per share*	+3.1%	+4.3%

***excluding special dividends**

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 7), 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 Asset Management 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.

The Company's shares qualify to be considered as a mainstream investment product suitable for ordinary retail investors.

If you have any queries about Keystone Investment Trust plc, or any of the other specialist funds managed by Invesco Perpetual, please contact our Investor Services Team on

☎ 0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

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The Company is a member of

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The Association of Investment Companies

Keystone

A keystone is defined as the central stone at the summit of an arch, locking the whole together. The front cover shows the keystone as the main feature of the Torver Bridge in Cumbria, which spans the beck (mountain stream) of the same name. The cover picture is taken from a commissioned work by artist Rory Browne, who specialises in land and city scapes. Rory has contributed to the Royal Academy on a number of occasions and lives in Harpenden, Hertfordshire where he works full-time with young people.

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

	AT 30 SEPTEMBER 2013	AT 30 SEPTEMBER 2012	% CHANGE
Assets			
Net assets attributable to ordinary shareholders (£'000)	231,480	182,803	+26.6

	2013 % CHANGE	2012 % CHANGE
Total Return (capital growth with income reinvested)		
Net asset value (NAV) per share:		
– debt at par	+29.4	+15.8
– debt at fair value	+31.1	+14.0
Share price (mid-market)	+29.3	+21.0
FTSE All-Share Index	+18.9	+17.2

Source: Thomson Reuters Datastream and Morningstar

	AT 30 SEPTEMBER 2013	AT 30 SEPTEMBER 2012	% CHANGE
Capital Return			
NAV per share:			
– debt at par	1712.3p	1367.4p	+25.2
– debt at fair value	1660.1p	1310.3p	+26.7
Share price	1646.0p	1318.0p	+24.9
FTSE All-Share Index	3443.9	2998.9	+14.8
Discount/(premium)† of share price to net asset value per share:			
– debt at par	3.9%	3.6%	
– debt at fair value	0.8%	(0.6)%	
Gearing from borrowings† – gross	13.8%	17.4%	
– net	9.5%	8.5%	

	FOR THE YEAR TO 30 SEPTEMBER 2013	2012	
Revenue			
Net revenue available for ordinary shareholders (£'000)	7,728	6,566	
Revenue return per ordinary share	57.4p	49.1p	+16.9
Dividends per ordinary share – first interim	18.0p	18.0p	
– second interim	32.0p	30.5p	
	50.0p	48.5p	+3.1
– special	7.0p	—	
– total	57.0p	48.5p	
Ongoing charges†:			
Excluding performance fee	0.96%	0.95%	
Performance fee	0.47%	0.19%	

† Defined in the Glossary of Terms on page 63.

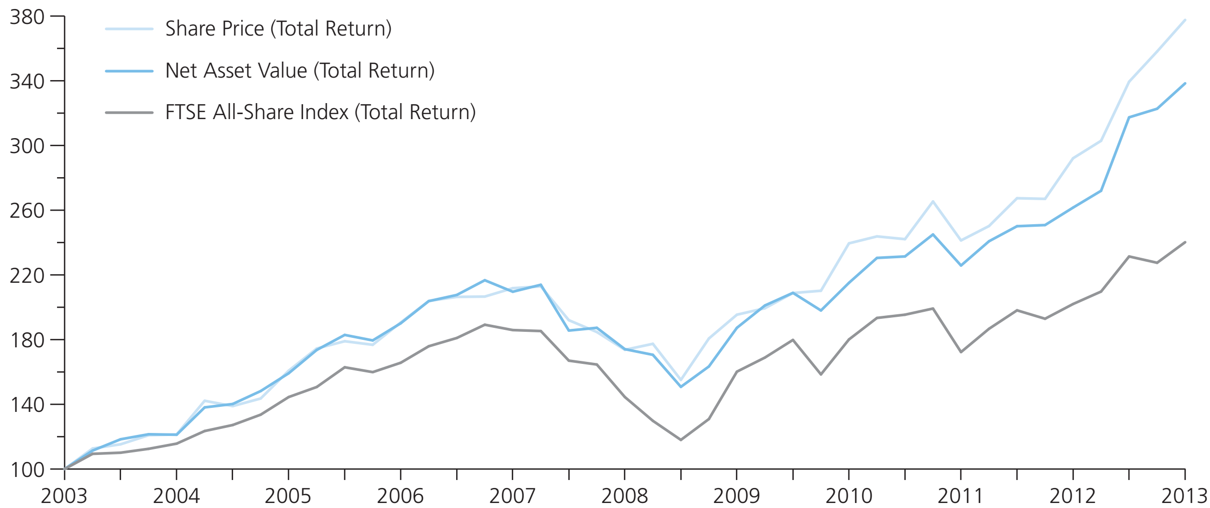
Ten Year Historical Record

YEAR ENDED 30 SEPTEMBER	GROSS REVENUE £'000	NET REVENUE EARNINGS PER SHARE P	DIVIDENDS PER SHARE P	NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS £'000	NET ASSET VALUE PER SHARE P	SHARE PRICE P	ONGOING CHARGES[3] %	NET GEARING FROM BORROWINGS %
2004	5,659	32.2	30.0	111,224	832.0	754.0	1.26	12.9
2005	5,737	32.2[1]	31.5	143,415[1]	1072.8[1]	963.0	1.14	11.3
2006	6,477	37.3	35.0	166,739	1247.2	1102.0	1.09	16.7
2007	7,099	41.6	40.0	179,197	1340.4	1190.0	1.07	13.4
2008	8,159	50.4	44.0	144,908	1083.9	940.0	0.90	—
2009	8,263	57.4	56.6[2]	150,252	1123.9	1008.0	0.89	4.9
2010	6,864	40.6	45.5	162,154	1212.9	1170.0	0.92	7.5
2011	7,391	45.5	46.5	164,253	1228.6	1135.5	0.99	9.0
2012	7,901	49.1	48.5	182,803	1367.4	1318.0	0.95	8.5
2013	**9,218**	**57.4**	**57.0[4]**	**231,480**	**1712.3**	**1646.0**	**0.96**	**9.5**

(1) Restated for new UK Accounting Standards.
(2) Includes a special dividend of 11.1p per share.
(3) All calculations exclude performance fees.
(4) Includes a special dividend of 7p per share.

Ten Year Total Return Performance

Figures have been rebased to 100 at 30 September 2003



Source: Thomson Reuters Datastream.

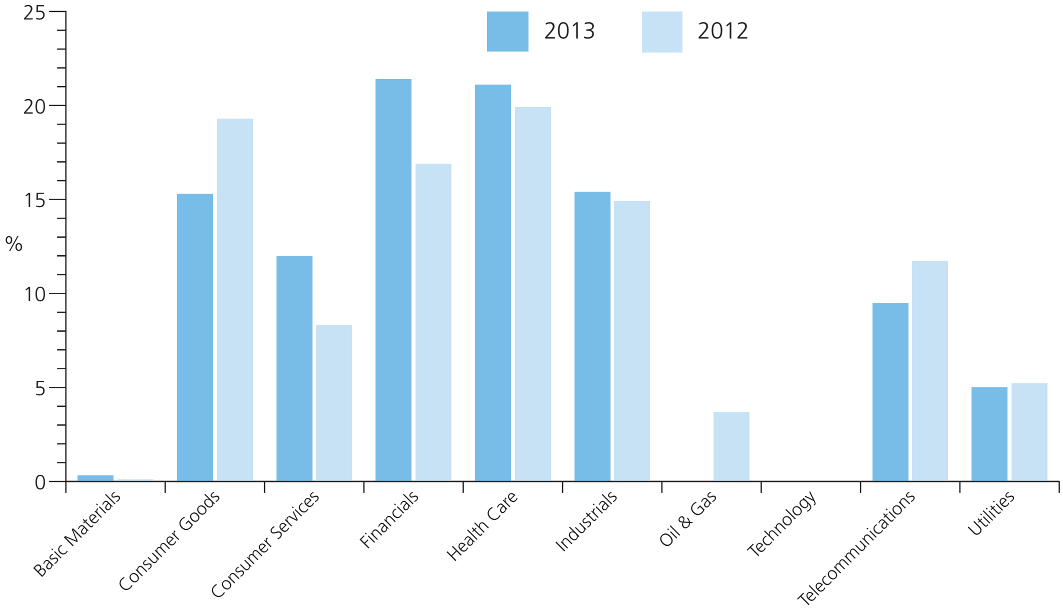
Total Return per Ordinary Share to 30 September

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	THREE YEARS	FIVE YEARS	TEN YEARS
Keystone NAV (at par) %	+21.2	+31.3	+19.5	+10.2	–16.9	+7.5	+14.8	+5.0	+15.8	+29.4	+57.4	+94.3	+238.4
Keystone Share Price %	+21.4	+32.5	+18.5	+11.1	–18.0	+12.5	+22.6	+0.8	+21.0	+29.3	+57.6	+117.4	+277.6
FTSE All-Share Index %	+15.7	+24.9	+14.7	+12.2	–22.2	+10.8	+12.5	–4.4	+17.2	+18.9	+33.4	+66.2	+140.2

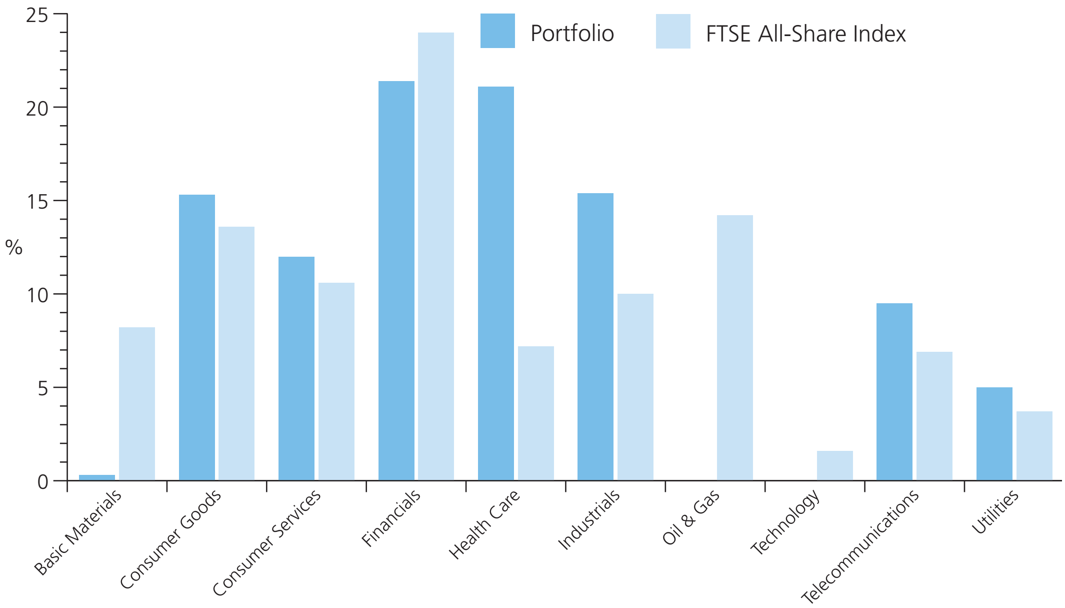
Source: Thomson Reuters Datastream.

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS
continued

Sector Allocation of Portfolio
As at 30 September



Sector Allocation of Portfolio and FTSE All-Share Index
At 30 September 2013



CHAIRMAN'S STATEMENT

In the year to 30 September 2013, the total return to the holders of the Company's ordinary shares was +29.3%, based on the share price with dividends reinvested. The total return on the underlying net asset value per share was +29.4% with debt at par value and +31.1% with debt at fair value. In comparison, the total return of the Company's benchmark, the FTSE All-Share Total Return Index, was +18.9%.

The Company's long term performance also continues to be very strong with 3 year and 5 year net asset value per share (with debt at par value) total returns of +57.4% and +94.3%, respectively, compared with +33.4% and +66.2% for the FTSE All-Share Total Return Index. As I remarked in the Company's half-yearly report, 1 January 2013 represented the 10th anniversary of Mark Barnett taking over the management of the Company's portfolio. The Company's NAV total return over the period since he took over to 30 September 2013 was 296.1% compared with 165.4% for the benchmark FTSE All-Share Index. The share price total return was 387.7% (all figures sourced from Thomson Reuters Datastream). We are very grateful to Mark, on behalf of shareholders, for this excellent performance, which he has produced through his careful and diligent long term view approach to investment. We believe the recent recognition by Invesco of Mark's talent in naming him as successor to Neil Woodford is well deserved. We are confident that Mark will have the capacity to continue to manage the Company's portfolio to his high standard alongside his anticipated new responsibilities.

Our investment management agreement with Invesco provides that a performance related fee is payable when the annualised 3-year return exceeds by more than 2% that of the benchmark, so in light of the performance achieved to 30 September 2013 a performance fee of £957,000 is payable in respect of the year. In previous years the performance fee provided in the annual report was estimated, with the actual amount payable subsequently determined by returns for the 3 years to 31 December. During the year your Board agreed with our Manager to revise the calculation period to be coterminous with the Company's financial year end. As a consequence, for this year only, the performance fee is based on a shorter period of two years and nine months to 30 September 2013. Going forward, the performance fee will revert to a three year calculation period as before, but to 30 September each year.

The Company's ordinary shares traded close to net asset value (with debt at fair value) throughout the year and demand pushed them to a premium on numerous occasions. The price stood at a discount of 0.8% relative to the net asset value (with debt at fair value) at the year end, compared with a premium of 0.6% at the end of September 2012.

Revenue and Dividends

Gross income in the year increased to £9,218,000, from £7,901,000 last year, giving a revenue return, after tax, of 57.4p per ordinary share (2012: 49.1p). This year the Company has benefited from a substantial amount of special dividends of a non-recurring nature paid by companies in which it was invested. The Board has decided that it would be appropriate to pass on this additional income to shareholders as a special dividend.

The Board has declared a second interim dividend, in lieu of a final, of 32p per share (2012: 30.5p), giving a total ordinary dividend for the year of 50p per share (2012: 48.5p). The dividend will be paid on 13 December 2013 to shareholders on the register on 22 November 2013. The Board has also declared a special dividend of 7p per share to be paid at the same time as the second interim dividend.

Share Issues

On three occasions during the year we were able to issue new shares to satisfy demand, with 150,000 shares issued in all. These shares were issued at a premium to net asset value with debt at fair value, but at a discount to net asset value with debt at par value. Your Board has deliberated on the pricing of new share issues and concluded that the fair value measure is the appropriate reference to use. This is the value ascribed to the Company's shares allowing for the market valuation of the Company's fixed debt on a daily basis, and for present day interest rates. The Company's size is increasingly important to ensure liquidity of the shares and their rating in the market. Issuance also dilutes operating costs and the dilution of net asset value with debt at par value is very small indeed when looked at in the context of the overall size of the Company. We will be seeking to renew our powers to issue new shares on this basis at the forthcoming Annual General Meeting.

CHAIRMAN'S STATEMENT
continued

Gearing

When used successfully, gearing should enhance the returns to shareholders. The Board takes responsibility for the Company's gearing strategy and sets parameters within which the Manager operates. These are set out in the Strategic Report. The Company's borrowings, in the form of long-term debentures, amount to almost £32 million. The net gearing of the Company is determined by the extent to which these borrowings are invested.

Foreign Exchange

The Company has some non-Sterling denominated investments and is therefore subject to foreign exchange risk. The Board monitors foreign currency exposure and takes a view, from time to time, on whether foreign currency exposure should be hedged. For the present the Board has given the Manager discretion not to hedge US dollar and Swiss frank exposure and has prescribed that all other currency exposure should be hedged. At the year end £13.6 million was exposed to US dollars, £21.3 million to Swiss francs and £175,000 was hedged in relation to Swedish krona.

AIFMD

The Alternative Investment Fund Managers Directive (AIFMD) requires the Company to appoint an Alternative Investment Fund Manager (AIFM) by July 2014. The Board is taking independent legal advice in relation to the Directive and has decided in principle to appoint Invesco Fund Managers Limited (IFML) as the Company's AIFM, pending IFML's approval as such by the Financial Conduct Authority. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

Outlook

The figures above illustrate the success of our Manager's investment approach in the year under review and over the last decade, which is reflected in the evident demand for the Company's shares. Although a measure of growth has returned to the UK the economic environment remains challenging and uncertain. In these circumstances we remain fully confident in our Manager's approach and ability to generate worthwhile returns for shareholders and to enable the Company to continue to fulfil its investment objective to provide shareholders with long-term growth of capital.

Annual General Meeting

The Notice of the Annual General Meeting of the Company, which is to be held on 23 January 2014, is on pages 57 to 60 and a summary of the resolutions is set out in the Directors' Report on pages 55 and 56. The Directors recommend that shareholders vote in favour of all the resolutions, as they intend to do.

Beatrice Hollond
Chairman

20 November 2013

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2013

BUSINESS REVIEW

Keystone Investment Trust plc is an investment company holding investments with a market value in excess of £250 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 and have been approved by shareholders.

The business model the Company has adopted to achieve its objective has been to contract the services of Invesco Asset Management Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. Successful implementation of the business model is achieved by buying well and selling at the right point in an investee company's business cycle, together with the prudent use of gearing, in order to crystallise financial returns in excess of the Company's benchmark index, the FTSE All-Share Index.

The Manager also provides company secretarial, marketing and general administration services. The portfolio manager responsible for the day to day management of the portfolio is Mark Barnett.

Investment Objective and Policy

Investment Objective

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

Investment Policy and Risk

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

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

Investment limits

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

- no single equity investment in a UK listed company may exceed 12.5% of gross assets;
- the Company will not invest more than 15% of its assets in other listed investment companies;
- the Company will not invest more than £12 million in bonds, with a maximum of £1.5 million in any issue;
- the Company will normally not invest more than £5 million in unquoted investments, at the time of investment, and £10 million at market value;
- the Company will not normally invest more than 15% of its equity investments in companies that are not UK listed and incorporated; and
- borrowing may be used by the Company to create gearing within limits determined by the Board.

Gearing Policy

The Board carefully considers the Company's policy in respect of the level of equity exposure. The Board takes responsibility for the Company's gearing strategy and sets guidelines to control it, which it may change from time to time. At the year end these guidelines required that the Manager must make no net purchases if equity exposure was more than 110% of net assets, and must make sales if (as a result of market movements) equity exposure exceeds 115% of net assets. The Board has since revised the first parameter and the percentage at which the net purchases restriction currently applies is 105%. When held, corporate bonds are not treated as equity exposure for the purposes of the gearing limits.

STRATEGIC REPORT
BUSINESS REVIEW
continued

Performance

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

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

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

The Company achieved a strong performance in the year reflecting successful implementation of the business strategy by the Manager.

A chart showing the **NAV** and **share price** total return performance compared to the benchmark index, the FTSE All-Share Index, can be found on page 3. The Manager's Report that comprises the second part of this Strategic Report provides a commentary on how this performance was achieved. **Peer group performance** is monitored by comparing the Company with the 15 investment trust companies making up the UK Growth sector of the 300 investment companies in the UK. As at 30 September 2013, in NAV total return terms the Company was ranked 8th in its sector over one year, and ranked 5th and 8th over three and five years respectively (source: JPMorgan Cazenove).

During the year the Company's shares traded at a **premium** and **discount** relative to NAV (with debt at fair value) in a range of 2.8% premium to 4.2% discount and an average discount of 0.2%. At the year end the discount (with debt at fair value) was 0.8% (2012: 0.6% premium). Although there is no specific target discount range a small discount or a premium would imply that there was strong demand for the shares. In order to ensure that the demand for and supply of the Company's shares are roughly in balance, the Board asks shareholders to approve resolutions every year which allow for the repurchase of shares (for cancellation or to be held as treasury shares) and also their issuance. This may assist in the management of the discount. The Company issued 150,000 ordinary shares in the year at an average price of 1524.3p, excluding issue costs. No shares were repurchased.

Ongoing charges is the industry measure of costs as a percentage of net asset value. The expenses of the Company are reviewed at every board meeting, with the aim of managing costs incurred and their impact on performance. The ongoing charges figure, which excludes the performance fee, at the year end was 0.96%, almost the same as the previous year's 0.95%. This ratio is sensitive to the size of the Company as well as the level of costs.

Dividends form a key component of the total return to shareholders, and the level of potential dividend payable and income from the portfolio is reviewed at every board meeting. For the year ended 30 September 2013, a first interim dividend was paid in June 2013 and a second interim dividend has been declared of 32p (2012 final: 30.5p) per share, which will be payable on 13 December 2013 to shareholders on the register at 22 November 2013. Added to the first interim dividend of 18p (2012: 18p), this will give a total dividend for the year of 50p compared with 48.5p for the previous year. This year the Board has also declared a special dividend of 7p per ordinary share to be paid at the same time as the second interim dividend. The ten year record on page 3 shows both ongoing charges and dividends.

Financial Position

At 30 September 2013, the Company's net assets were valued at £231 million (2012: £183 million). These comprised a portfolio of mainly equity investments and net current assets. The Company has an uncommitted short-term overdraft facility with the custodian for settlement and liquidity purposes.

Due to the readily realisable nature of the Company's assets, cash flow does not have the same significance as for an industrial or commercial company. The Company's principal cash flows arise from the purchase and sales of investments and the income from investments against which must be set the costs of borrowing and management expenses.

At 30 September 2013, the Company's ordinary shares were geared by borrowings in the form of two issues of long-term debentures, totalling almost £32 million nominal (2012: £32 million). The weighted average interest rate was 6.77% (2012: 6.77%). The Company also has £0.25 million of 5% cumulative preference shares in issue (2012: £0.25 million).

Outlook and Future Trends

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

Principal Risks and Uncertainties

The following are considered to be the most significant risks 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 19 to the financial statements.

Investment Objective

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

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

Market Risk

The majority of the Company's investments are traded on the London Stock Exchange. The principal risk for investors in the Company is of a significant fall in stock markets and/or a prolonged period of decline in the markets relative to other forms of investment. The value of investments held within the portfolio is influenced by many factors including the general health of the economy in the UK, interest rates, inflation, government policies, industry conditions, political events, tax laws, environmental laws, and by changing investor demand. In addition, there is the risk that the European policy makers fail to maintain the current fragile market confidence by not implementing an effective and lasting solution to the ongoing Eurozone crisis. 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.

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 the company currently trades in the market. Overall, the investment process is aiming to achieve absolute returns through a genuinely active fund management approach. This can therefore result in a portfolio which looks substantially different from the benchmark index.

Risk management is an integral part of the investment management process. The Manager effectively controls risk by ensuring that the Company's portfolio is always appropriately diversified. In depth and continual analysis of the fundamentals of all holdings gives the Manager a full understanding of financial risks associated with any particular security.

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

A fuller discussion of economic and market conditions and prospects for future performance of the Portfolio are included in the Manager's Report section of this Strategic Report.

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 discount to its NAV. The Board monitors the price of the Company's shares in relation to their NAV and the premium/discount at which they trade.

The value of an investment in the Company and the income derived from that investment may go down as well as up and an investor may not get back the amount invested.

While it is the intention of the Directors to pay dividends to ordinary shareholders twice a year, the ability to do so will depend upon the level of income received from securities and the timing of receipt of such income by the Company. Accordingly, the amount of the dividends paid to ordinary shareholders may fluctuate. Any change in the tax or accounting treatment of dividends or other investment income received by the Company may also affect the level of dividend paid.

Gearing

Gearing levels may change from time to time in accordance with the Manager's and the Board's assessment of risk and reward. Whilst the use of borrowings by the Company should enhance total return where the return on the Company's underlying securities is rising and exceeds the cost of borrowing, it will have the opposite effect where the underlying return is falling. As at 30 September 2013, net gearing from borrowings stood at 9.5%. The Board and the Manager regularly review gearing and will continue to monitor the level closely over the year ahead.

Reliance on the Manager and Other Service Providers

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

The 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 62.

Regulatory

The Company is subject to various laws and regulations by virtue of its status as a public limited company and as an investment company. A loss of investment trust status could lead to the Company being subject to capital gains tax on the profits arising from the sale of its investments. A serious breach of other regulatory rules might lead to suspension from the Stock Exchange. Other control failures, either by the Manager or any other 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 financial regulatory 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.

The most significant regulatory change in the year has been the coming into force of the Alternative Investment Fund Managers Directive, which imposes certain obligations on the Company and the Manager. These will increase compliance and regulatory costs going forward, but the impact is not expected to be material.

Board Diversity

The Board has noted the recommendations of Lord Davies' Review issued in 2011 relating to Board diversity. The Company's policy on diversity is set out on page 50. The Nomination Committee considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing the composition of the Board and appointing new directors but does not consider it appropriate to establish targets or quotas in this regard. The Board comprises five non-executive directors of whom one, the Chairman, is a woman thereby constituting 20% female representation. Summary biographical details of the Directors are set out on page 17. The Company has no employees.

Social and Environmental Matters

As an investment trust company with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. While a company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not necessarily decide to, or not to, make an investment on environmental and social grounds alone. The Manager applies the United Nations Principles for Responsible Investment.

MANAGER'S REPORT

Market Review

The UK stock market continued to perform strongly during the year under review, fuelled by on-going monetary stimulus. Both the FTSE 100 and the FTSE All-Share indices delivered 12 consecutive months of positive returns, before a sell-off in June provided proof that the continued positive sentiment towards equities had mainly been driven by loose monetary policy. The weakness occurred after comments from the US Federal Reserve chairman, Ben Bernanke, in respect of quantitative easing (QE) that "it would be appropriate to moderate the pace of purchases later this year". Stock market volatility remained high over the summer months, especially against a backdrop of rising government bond yields and adverse economic and political newsflow, such as the Syrian crisis and concerns over slowing economic growth in China. The period concluded with a stalemate over the US spending bill – although the market remained fairly relaxed about the likelihood of a deal. Post the year end a deal was finalised, temporarily resolving the on-going issues of budget reform and the debt ceiling.

The rise in the market was noteworthy for its breadth. While previous rallies had been driven by a relatively small number of sectors, notably mining and banks, this year saw strong performances from a wide spread of sectors, which is a positive sign of widespread demand for the asset class.

The commencement of Mark Carney's tenure as Governor of the Bank of England in the summer coincided with confirmation that GDP growth for the second quarter of 2013 was 0.7%, its fastest rate for three years, and an upward revision to the IMF's forecasts for UK economic growth to 1.4% this year and 1.9% next.

Portfolio Strategy & Review

The Company's net asset value, including reinvested dividends, rose by 29.4% during the 12 months to the end of September 2013, compared to a rise of 18.9% from the FTSE All-Share Index (total returns).

The portfolio's performance over the 12 months benefited from strong performances across a broad spread of the portfolio's investments. Amongst these, the most significant individual positive impact came from the holding in Thomas Cook. The stock market has become persuaded by the strategy that new management have announced to turn around this previously ailing business, which retains a strong brand and market position, customer loyalty and pan European distribution. The company announced a fund raising via a rights issue during the second half of the year, which was well received by the market and puts the company on a sounder financial footing.

BT Group continued to deliver impressive share price performance – despite announcing that Ian Livingston is stepping down from his role as Chief Executive to take up the role of Minister of State for Trade. The stock market continued to focus on the company's scope for cost cutting and on its potential for rolling out its broadband and fibre optic offering and its new TV Sports Channel.

BAE Systems also provided a major positive impact on the portfolio's performance. The company's operational performance since it halted the merger talks with EADS has confirmed its ability to thrive as an independent entity. This is a company whose stock market perception is shifting from negative growth, exposed to a challenging US defence spending environment, towards a combination of slow growth in mature markets and faster growth in the emerging world.

The portfolio's holdings in Roche and Novartis provided a strongly positive impact on performance. This came partly on the back of an improved stock market appreciation of the Health Care sector's strengths, but also as Roche, in particular, continues to lead the industry in terms of drug discovery and innovation. Other notable positive contributions came from Drax Group, Brown (N), Reckitt Benckiser, Reed Elsevier and TalkTalk Telecom.

There were relatively few detractors from performance. BG Group's shares fell sharply on the news last October that it had reduced production growth forecasts. The holding in the company has since been sold. Vodafone reduced its forecasts for revenue growth on the back of ongoing weakness in its core southern European markets and announced a share buyback rather than the hoped for special dividend. The Manager has reservations about the company's ability to generate pricing power from data services while the cash flow cover of the dividend has fallen to uncomfortably low levels, and hence the Company's holdings in the shares were sold.

The holdings in UK tobacco companies weighed on the portfolio's performance. The UK government delayed the proposed introduction of plain packaging but the European parliament was due to vote on new regulations to limit packaging design and the packet sizes. More significantly, these higher yielding shares were impacted by competition from rising bond yields on the expectation of a tapering in QE.

The holding in Ladbrokes fell in value as the company saw a decline in first half profits as it migrates its online business to the Playtech platform and due to the lack of a major football tournament this summer. Furthermore, a slowdown in betting machine growth was also worse than expected.

In terms of portfolio activity, the Manager disposed of the holdings in BG Group and Vodafone, as mentioned above, as well as the investments in Filtrona, Wm.Morrison, Regus and Tate & Lyle. New investments were made in Betfair, Bunzl, Legal & General, London Stock Exchange, NewRiver Retail, Rolls-Royce and Sherborne Investors.

Outlook

The main unanswered question that governs the short term outlook for the UK stock market relates to the transition from a market driven by quantitative easing to one driven by the strength of the underlying economy. The strong performance of the market over the previous 12 months has created a sense of optimism towards a self-sustaining economic recovery and a growing expectation of a multi-year equity bull market.

However, this market rise has been notable for significant increases in monetary stimulus and liquidity from the US and Japanese central banks and broadly flat corporate profit growth. The principal driver of the market performance has been a re-rating of the equity asset class to a level which now anticipates upgrades to earnings expectations for 2014 and beyond. The market rise has been accompanied by an underlying improvement in economic growth, although the strength and momentum of the economic outlook remains uncertain. Much of the improvement in the UK economic data has been driven by the housing market, which has been the beneficiary of government measures and by a fall in the savings rate. Bank lending remains subdued, with banks still reluctant to lend to SMEs, and real wage growth remains stubbornly negative. The performance of the US economy is also improving, but the underlying momentum is not positive across all indicators.

Therefore it is anticipated that the market performance will remain volatile in light of adjustments to expectations for the withdrawal of extraordinary monetary stimulus in the United States. It is the Manager's view that the withdrawal will be longer and slower than previously believed.

Despite these factors, equities remain attractive. The key to navigating the near term is to remain highly vigilant about the strength of corporate performance, given the economic backdrop, and to remain selective given the increase in valuations in the market. It is unlikely that the performance of the market over the past year will be repeated over the coming 12 months. The portfolio strategy therefore remains largely unchanged from the recent past, with a strong preference for companies that have proven ability to grow revenues, profits and free cash flow in this low growth world, coupled with management teams that are fully cognisant of the need to deliver sustainable, long term, dividend growth. It is this type of investment opportunity that forms the majority of the portfolio and that is believed to offer the potential to deliver good risk adjusted returns over the long term.

Mark Barnett, Investment Manager

The Strategic Report was approved by the Board of Directors on 20 November 2013.

Invesco Asset Management Limited
Company Secretary

INVESTMENTS BY SECTOR

AT 30 SEPTEMBER 2013

UK listed ordinary shares unless stated otherwise

SECTOR/COMPANY	MARKET VALUE £'000	% OF PORTFOLIO
Basic Materials		
HaloSource	430	0.2
Coalfield Resources	250	0.1
	680	0.3
Consumer Goods		
British American Tobacco	11,742	4.6
Imperial Tobacco	10,929	4.3
Reynolds American – *US common stock*	10,417	4.1
Reckitt Benckiser	5,939	2.3
	39,027	15.3
Consumer Services		
Thomas Cook	9,533	3.7
Reed Elsevier	5,556	2.2
Compass	4,945	1.9
Ladbrokes	3,823	1.5
Brown (N)	3,720	1.5
Carnival	1,903	0.8
Betfair	927	0.4
Mirada	3	—
	30,410	12.0
Financials		
Legal & General	6,086	2.4
Provident Financial	5,709	2.2
Hiscox	5,552	2.2
Beazley	5,029	2.0
Amlin	4,505	1.8
Workspace	4,287	1.7
A J Bell - *Unquoted*	4,080	1.6
Lancashire	3,596	1.4
London Stock Exchange	3,000	1.2
NewRiver Retail	2,703	1.1
Imperial Innovations	1,733	0.7
Doric Nimrod Air Two – *Preference Shares*	1,619	0.6
Doric Nimrod Air Three – *Preference Shares*	1,469	0.6
Fusion IP	1,451	0.6
Sherborne Investors Guernsey B – *A Shares*	1,428	0.6
Damille Investments II	1,187	0.4
Macau Property Opportunities Fund	582	0.2
Altus Resource Capital	256	0.1
W&G Investments	29	—
	54,301	21.4
Health Care		
AstraZeneca	11,151	4.4
Novartis – *Swiss common stock*	10,880	4.3
Roche – *Swiss common stock*	10,453	4.1
GlaxoSmithKline	8,472	3.3
BTG	4,234	1.7
Napo Pharmaceuticals – *Unquoted US common stock*	3,112	1.2
Lombard Medical Technologies	2,577	1.0
Vectura	1,494	0.6
PuriCore	952	0.4
XCounter – *Unquoted Swedish common stock*	175	0.1
XTL Biopharmaceuticals – *ADR*	86	—
	53,586	21.1

SECTOR/COMPANY	MARKET VALUE £'000	% OF PORTFOLIO
Industrials		
BAE Systems	8,907	3.5
Rentokil Initial	5,422	2.1
Capita	4,754	1.9
Babcock International	4,749	1.9
Bunzl	4,234	1.7
Serco	3,946	1.5
Rolls-Royce	2,894	1.1
HomeServe	2,183	0.9
Chemring	1,496	0.5
Nexeon – B shares – *Unquoted*	497	
– Preference C shares – *Unquoted*	400	0.3
– Ordinary shares – *Unquoted*	4	
	39,486	15.4
Telecommunications		
BT	15,452	6.1
KCOM	4,753	1.9
TalkTalk Telecom	3,906	1.5
	24,111	9.5
Utilities		
Drax	5,013	2.0
Centrica	3,770	1.5
SSE	3,583	1.4
Barclays Bank – Nuclear Power Notes 28 Feb 2019[1]	312	0.1
	12,678	5.0
Total Investments	**254,279**	**100.0**

(1) Contingent Value Rights (CVR) referred to as Nuclear Power Notes (NPN) were offered by EDF as a partial alternative to cash in its bid for British Energy (BE). The NPNs were issued by Barclays Bank. The CVRs participate in BE's existing business.

TOP TEN INVESTMENTS

AT 30 SEPTEMBER

	2013		2012	
	MARKET		MARKET	
	VALUE	% OF	VALUE	% OF
COMPANY	£'000	PORTFOLIO	£'000	PORTFOLIO
BT	15,452	6.1	11,365	5.7
British American Tobacco	11,742	4.6	9,969	5.0
AstraZeneca	11,151	4.4	7,621	3.8
Imperial Tobacco	10,929	4.3	10,763	5.4
Novartis – *Swiss common stock*	10,880	4.3	6,593	3.3
Roche – *Swiss common stock*	10,453	4.1	7,980	4.0
Reynolds American – *US common stock*	10,417	4.1	9,862	4.9
Thomas Cook	9,533	3.7	859	0.4
BAE Systems	8,907	3.5	6,750	3.4
GlaxoSmithKline	8,472	3.3	8,013	4.0

DIRECTORS

Beatrice Hollond
Was appointed to the Board in September 2003 and became Chairman of the Board and the Nominations Committee on 14 December 2010. She is deputy chairman of Millbank Financial Services, an independent family office, and chairman of Millbank Investment Management Limited, its investment management subsidiary. She is also a director of Ora Capital Partners Limited, Oldfield & Co. (London) Limited and Henderson Smaller Companies Investment Trust plc. She was previously managing director of Credit Suisse Asset Management, where she worked for 16 years, with a particular focus on global fixed income and currency investing.

Ian Armfield
Was appointed to the Board on 1 November 2012 and became the Chairman of the Audit Committee on 22 January 2013. He was previously an audit partner at PricewaterhouseCoopers for 20 years, where his specialisation was financial services with a particular focus on asset management.

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

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

John 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.

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

The Company's Governance Framework

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that as an Investment Company it has no employees and outsources investment management to the Manager and administration to the Manager and other external service providers.

The Board

Five non-executive directors (NEDs)

Chairman Beatrice Hollond

Key objectives:

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

Management Engagement Committee Function

The Board as a whole performs this function

Key objective:

- to review the performance of the Manager.

Audit Committee

All NEDs, with the exception of Mr Readman

Chairman Ian Armfield

Key objectives:

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

Nomination Committee

All NEDs

Chairman Beatrice Hollond

Key objectives:

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

Remuneration Committee Function

The Board as a whole performs this function

Key objective:

- to set the remuneration policy of the Company.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2013

The Board is committed to maintaining high standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

The Directors have considered the principles and recommendations of the 2013 AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2012 UK Corporate Governance Code ('UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The AIC Code is available from the Association of Investment Companies (www.theaic.co.uk). The UK Code is available from the Financial Reporting Council website (www.frc.org.uk).

The Company has complied with the recommendations of the AIC Code and provisions of the UK Code, except the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration;
- the need for an internal audit function; and
- nomination of a senior independent director (explained further on page 48).

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of Keystone Investment Trust plc, being an externally managed investment company with no executive employees and, in relation to the third, in view of the Manager having an internal audit function.

Information on how the Company has applied the principles of the AIC Code and the UK Code is provided in the Directors' Report as follows:

The composition and operation of the Board and its committees are summarised on pages 48 to 51, and pages 19 to 21 in respect of the Audit Committee.

The Company's approach to internal control and risk management is summarised on page 52.

The contractual arrangements with, and assessment of, the Manager are summarised on pages 52 and 53.

The Company's capital structure and voting rights are summarised on page 54.

The most substantial shareholders in the Company are listed on page 55.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 50. There are no agreements between the Company and its directors concerning compensation for loss of office.

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 a special resolution to be passed by shareholders.

By order of the Board

Invesco Asset Management Limited
Company Secretary

30 Finsbury Square
London EC2A 1AG

20 November 2013

AUDIT COMMITTEE REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2013

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 auditor. It is chaired by Ian Armfield and the other members are Beatrice Hollond, William Kendall and John Wood.

The Audit Committee's Activities

The 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 whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders;

– evaluation of reports received from the auditor with respect to the annual financial statements and reports received from the Manager's internal audit and compliance departments with respect to internal controls and risk;

– management of the relationship with the external auditor, including their appointment and the evaluation of scope, effectiveness, independence and objectivity of their 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 Audit Committee's activities are governed by detailed terms of reference which are reviewed on an annual basis, the last review being in July 2013. 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 Manager's website at www.invescoperpetual.co.uk/investmenttrusts.

The Committee met three times during the year to review the contents of the half-yearly and annual reports to shareholders and the internal financial and non-financial controls and risk management framework. Representatives of the Manager's secretarial and administration teams attended all meetings and the partner and manager of the audit team attended two meetings to present their audit plan and then subsequently to report on the nature, scope and results of their audit at the meeting when the draft annual financial report was considered. Representatives of the Manager's internal audit and compliance departments also attended the Committee meetings at which the half-yearly 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 audit plan and timetable were presented by and agreed with the auditor in advance of the financial year end. Items of audit focus were discussed, agreed and given particular attention during the audit process. The auditor reported to the Committee on these items, among other matters. This report was considered by the Committee and discussed with the auditor and the Manager prior to approval of the annual financial report.

Accounting Matters and Significant Areas

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

SIGNIFICANT AREA	HOW ADDRESSED
Accuracy of the portfolio valuation, with emphasis on unlisted investments	Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors. Investments that are unlisted or not actively traded are valued using a variety of techniques to determine a fair value, as set out in the accounting policies note on page 32, and all such valuations are carefully reviewed by the Manager's pricing committee and the Committee.

AUDIT COMMITTEE REPORT
continued

SIGNIFICANT AREA	HOW ADDRESSED
Correct calculation of the performance-related fee	The year end performance-related fee calculation is prepared and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the investment management agreement.
The allocation of management fees and finance costs between revenue and capital	The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historic and projected; the objective of the Company; yields; and the latest market practice of peers.

All the above were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor. As a result, and following a thorough review process, the Audit Committee advised the Board that the 2013 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the financial statements.

The External Audit, Review of its Effectiveness and Auditor Reappointment

The Audit Committee advises the Board on the appointment of the external auditors, their remuneration for audit and non-audit work and their cost effectiveness, independence and objectivity. As part of the review of the effectiveness of the audit process, a formal evaluation process incorporating views from the members of the Committee and relevant personnel at the Manager is followed and feedback is provided to the auditor. Areas covered by this review include:

– the calibre of the audit firm, including reputation and industry presence;

– the extent of quality controls including review processes, partner oversight, and annual reports from their regulator;

– the performance of the audit team including skills of individuals, specialist knowledge, partner involvement, team member continuity, and quality and timeliness of audit planning and execution;

– audit communication including planning, relevant accounting and regulatory developments, approach to significant accounting risks, communication of audit results and recommendations on corporate reporting;

– ethical standards including independence and integrity of the audit team, lines of communication to the Committee and partner rotation; and

– audit fees reasonableness.

For the 2013 financial year, the Committee were satisfied that the audit process was effective.

The Committee also considers the effectiveness of the secretarial and administration services provided by the Manager in the audit process: in respect of the timely identification and resolution of areas of accounting judgement and implementation of new regulatory requirements, with input from the auditor and the Committee as appropriate; and the timely provision of the half year results announcement and the annual financial report for review by the auditor and the Committee. In this regard the Committee assessed the Manager's services to be good.

The auditor is responsible for the annual statutory audit and certain tax compliance services which the Committee believes they are best placed to undertake due to their position as auditor. No other services are provided by the auditor and it is the Company's policy not to seek substantial non-audit services from its auditor. Were the provision of significant non-audit services being considered, the Committee would consider whether the particular skills of the audit firm made them a suitable supplier of those services and that there was no threat to the objectivity and independence of the audit.

Ernst and Young have been the auditor of the Company since 1990. The audit partner has been rotated in compliance with prevailing audit guidance and the Audit Committee has satisfied itself as to the auditor's effectiveness, objectivity, independence and the competitiveness of its fees before recommending reappointment each year. However, the Committee is mindful of the recent changes to the UK Code and AIC Code including the provision for FTSE 350 companies to put the external audit contract out to tender at least every ten years. The Company is not a FTSE 350 constituent but the Committee considers this requirement now to be best practice. Accordingly, it is intended to put the audit to tender when the current audit partner retires or is rotated.

The Audit Committee has considered the independence of the auditor and the objectivity of the audit process and is satisfied that Ernst & Young LLP has fulfilled its obligations to shareholders and as independent auditor to the Company.

A resolution proposing the reappointment of Ernst & Young LLP as the Company's auditor for the year to 30 September 2014 and authorising the Directors to determine their remuneration will be put to the shareholders at the forthcoming AGM.

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Internal Controls and Risk Management

The Company's risk assessment focus and the way in which significant risks are managed is a key area of focus for the Committee. Work here was driven by the Committee's assessment of the risks arising in the Company's operations and identification of the controls exercised by the Board and its delegates; the Manager and other service providers. These are recorded in the Company's risk matrix which continues to serve as an effective tool to highlight and monitor the principal risks, details of which are provided in the Strategic Report. We also received and considered, together with representatives of the Manager, reports in relation to the operational controls of our investment manager, accounting administrator, custodian and share registrar. These reviews identified no issues of significance.

Internal Audit

Due to the nature of the Company, being an externally managed investment company with no executive employees, and in view of the Manager having an internal audit function the Company does not have its own internal audit function.

Committee Evaluation

The Committee's activities formed part of the review of Board effectiveness performed in the year. Details of this process can be found under 'Board, Committee and Directors' Performance Appraisal' on page 50.

Ian Armfield
Chairman of the Audit Committee

20 November 2013

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2013

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

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included on pages 26 to 28.

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 Board's policy is that the remuneration of Directors should be fair and reasonable in relation to that of other comparable investment trust 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. 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.

Directors' fees are paid, for the time being, as follows:

Chairman	£25,000 per annum
Audit Committee Chairman	£22,500 per annum
Other Directors	£20,000 per annum

These fees may be increased by up to 10% over the next three years by resolution of the Board without reference to shareholders and this limitation will apply until a new Directors' Remuneration Policy is approved by shareholders. The same fees will apply to any new appointments.

Notwithstanding the above, the Company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director.

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the Board and summarised in the last Directors' Remuneration Report. This Policy is intended to take effect immediately upon its approval by shareholders. 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 and Report on Remuneration

Chairman's Statement on Directors' Remuneration

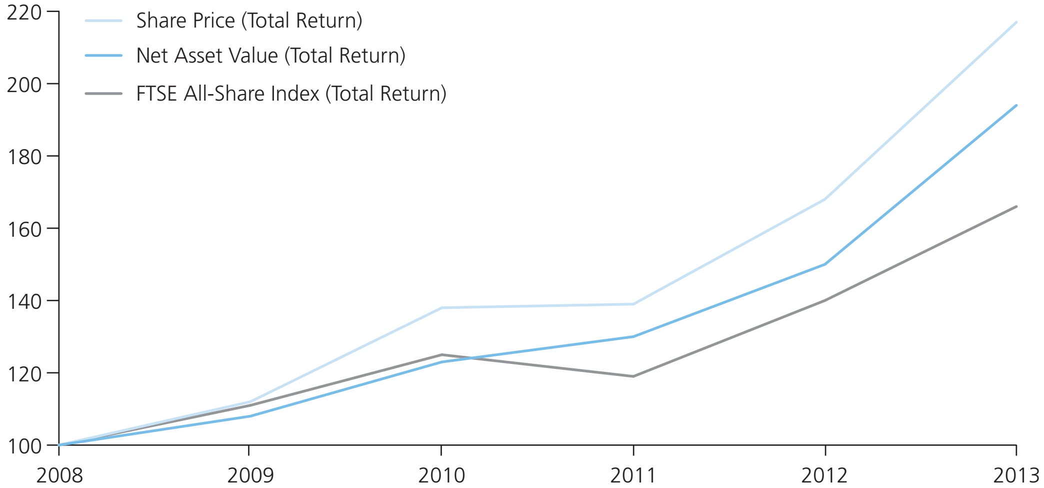
Throughout the year to 30 September 2013 the Chairman of the Company was paid fees at the rate of £25,000 per annum and the Chairman of the Audit Committee was paid fees at the rate of £22,500 per annum. The fees payable to the other Directors was increased from £18,000 to £20,000 per annum with effect from 1 January 2013 following the Board's regular remuneration review. Prior to this, Directors fees had remained the same since 1 October 2010. No additional discretionary payments were made in the year, or in the previous year.

Report on Remuneration for the Year Ended 30 September 2013

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 five years to 30 September 2013. This index is the benchmark adopted by the Company for comparison purposes.

Figures have been rebased to 100 at 30 September 2003. A graph showing the performance over the last ten years plotted daily is shown on page 3.



Directors' Emoluments for the Year (Audited)

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

	2013 £	2012 £
Beatrice Hollond (Chairman)	25,000	25,000
Ian Armfield[(1)]	19,767	—
William Kendall[(2)]	19,500	18,000
Peter Readman[(2)]	19,500	18,000
John Wood	19,500	18,000
David Adams[(3)]	6,981	22,500
Total	110,248	101,500

(1) Appointed as a Director on 1 November 2012 and became Chairman of the Audit Committee from 22 January 2013.

(2) £19,500 plus VAT each was paid to third parties in respect of Directors' services for William Kendall and Peter Readman (2012: £18,000 each).

(3) Retired 22 January 2013.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2013
continued

Directors' Shareholdings and Share Interests (Audited)

The beneficial interests of the Directors in the ordinary share capital of the Company are set out below:

	30 SEPTEMBER 2013	1 OCTOBER 2012
Beatrice Hollond	850	850
Ian Armfield	—	—
William Kendall	6,250	6,250
Peter Readman	—	—
John Wood	1,000	1,000
David Adams (Retired 22 January 2013)	n/a	1,699

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the ordinary shares, preference shares or debenture stock of the Company during the year. No changes to these holdings have been notified since the year end. No connected person interests have been notified.

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

Relative Importance of Spend on Pay

The following table compares the remuneration paid to the Directors with aggregate distributions to shareholders in the year to 30 September 2013 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.

	2013 £'000	2012 £'000	CHANGE £'000
Aggregate Directors' Emoluments	110	102	8
Aggregate Shareholder Distributions	6,520	6,283	237

Voting at Last Annual General Meeting

At the Annual General Meeting of the Company held on 22 January 2013 an advisory resolution was put to shareholders to approve the remuneration report set out in the 2012 annual financial report. This resolution was passed on a show of hands. The proxy votes registered in respect of the resolution were: For 3,122,067; Against 16,442; no votes were withheld.

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 20 November 2013.

Beatrice Hollond
Chairman

Signed on behalf of the Board of Directors

STATEMENT OF DIRECTORS’ RESPONSIBILITIES

IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the annual financial report is prepared in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with company law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Corporate Governance Statement, a Directors’ Remuneration Report and a Directors’ Report that comply with that law and those regulations.

The Directors of the Company, whose names are shown on page 17 of this Report, each confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with applicable accounting standards, 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 performance, business model and strategy.

Beatrice Hollond
Chairman

Signed on behalf of the Board of Directors

20 November 2013

Electronic Publication

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KEYSTONE INVESTMENT TRUST PLC

We have audited the financial statements of Keystone Investment Trust plc for the year ended 30 September 2013 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual financial report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent, based on the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2013 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement

We identified the following risks of material misstatement that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- The valuation of the investments; and
- Management and performance fees are not calculated correctly in accordance with the investment management agreement.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming our audit opinion.

We determined materiality for the Company to be £2.31 million which is 1% of total equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% of materiality, namely £1.73 million. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level. Given the importance of the distinction between revenue and capital for the Company we have also applied a separate performance materiality of £400,000 for the Income Statement, being 5% of the return on ordinary activities before taxation.

We have agreed with the Audit Committee to report all audit differences in excess of £120,000, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our response to the risks identified above was as follows:

- We agreed the year end prices for Level 1 and 2 investments to an independent source;
- With the assistance of our valuation experts, we considered the appropriateness of the valuation techniques applied to Level 3 investments by reviewing the valuation methodology; and
- We independently recalculated management fee and performance fee calculations for the year with reference to contractual arrangements and agreed the calculation inputs to source data.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual financial report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual financial report is fair, balanced and understandable and whether the annual financial report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 52, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Ratan Engineer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

20 November 2013

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000	2012 REVENUE £'000	2012 CAPITAL £'000	2012 TOTAL £'000
Gains on investments	9	—	49,016	49,016	—	21,056	21,056
Gains on certificates of deposit	10	—	—	—	—	11	11
Foreign exchange (losses)/gains		—	(4)	(4)	—	84	84
Income	2	9,218	—	9,218	7,901	32	7,933
Investment management and performance-related fees	3	(405)	(2,172)	(2,577)	(321)	(1,285)	(1,606)
Other expenses	4	(333)	—	(333)	(316)	—	(316)
Net return before finance costs and taxation		8,480	46,840	55,320	7,264	19,898	27,162
Finance costs	5	(560)	(1,649)	(2,209)	(560)	(1,643)	(2,203)
Return on ordinary activities before taxation		7,920	45,191	53,111	6,704	18,255	24,959
Tax on ordinary activities	6	(192)	—	(192)	(138)	—	(138)
Net return on ordinary activities after tax for the financial year		7,728	45,191	52,919	6,566	18,255	24,821
Return per ordinary share							
Basic	8	57.4p	335.7p	393.1p	49.1p	136.6p	185.7p

The total column of this statement represents the Company's profit and loss account, prepared in accordance with the accounting policies detailed in note 1 to the financial statements. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations and the Company has no other gains or losses. Therefore no statement of total recognised gains or losses is presented. No operations were acquired or discontinued in the year.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 30 SEPTEMBER

	CALLED UP SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
Balance at 30 September 2011	6,685	1,258	466	147,633	8,211	164,253
Dividends paid – note 7	—	—	—	—	(6,271)	(6,271)
Net return on ordinary activities	—	—	—	18,255	6,566	24,821
Balance at 30 September 2012	6,685	1,258	466	165,888	8,506	182,803
Dividends paid – note 7	—	—	—	—	(6,508)	(6,508)
Issue of ordinary shares	75	2,191	—	—	—	2,266
Net return on ordinary activities	—	—	—	45,191	7,728	52,919
Balance at 30 September 2013	6,760	3,449	466	211,079	9,726	231,480

The accompanying notes are an integral part of these statements.

BALANCE SHEET

AT 30 SEPTEMBER

	NOTES	2013 £'000	2012 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	254,279	199,259
Current assets			
Debtors	11	1,553	985
Cash and cash funds		9,809	15,934
		11,362	16,919
Creditors: amounts falling due within one year	12	(2,272)	(1,158)
Net current assets		9,090	15,761
Total assets less current liabilities		263,369	215,020
Creditors: amounts falling due after more than one year	13	(31,889)	(31,895)
Provisions	14	—	(322)
Net assets		231,480	182,803
Capital and reserves			
Called up share capital	15	6,760	6,685
Share premium	16	3,449	1,258
Capital redemption reserve	16	466	466
Capital reserve	16	211,079	165,888
Revenue reserve	16	9,726	8,506
Shareholders' funds		231,480	182,803
Net asset value per ordinary share			
Basic	17	1712.3p	1367.4p

These financial statements were approved and authorised for issue by the Board of Directors on 20 November 2013.

Signed on behalf of the Board of Directors

Beatrice Hollond
Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2013 £'000	2012 £'000
Cash inflow from operating activities	18(a)	6,942	6,421
Servicing of finance	18(b)	(2,179)	(2,180)
Capital expenditure and financial investment	18(b)	(6,609)	14,523
Net equity dividends paid	7	(6,508)	(6,271)
Net cash (outflow)/inflow before management of liquid resources and financing		(8,354)	12,493
Management of liquid resources	18(b)	5,720	(15,000)
Financing	18(b)	2,229	—
Decrease in cash		(405)	(2,507)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash		(405)	(2,507)
Cashflow from movement in liquid resources		(5,720)	15,000
Debenture stock non-cash movement		(26)	(23)
Reduction in debenture stock		32	—
Movement in net debt in the year		(6,119)	12,470
Net debt at beginning of the year		(15,961)	(28,431)
Net debt at end of the year	18(c)	(22,080)	(15,961)

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, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(a) Basis of Preparation

(i) *Accounting Standards applied*

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and with the Statement of Recommended Practice ('SORP') 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009. The financial statements are also prepared on a going concern basis.

(ii) *Functional and presentation currency*

The financial statements are presented in Sterling, which is the Company's functional and presentation currency and the currency in which the Company's share capital and expenses, as well as a majority of its assets and liabilities, are denominated.

(b) Financial Instruments

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

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

(ii) *Derecognition of financial assets*

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

(iii) *Derecognition of financial liabilities*

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

(iv) *Trade date accounting*

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

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

Financial assets

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

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

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

(b) Financial Instruments (continued)

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

Financial liabilities

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

(c) Accounting for Capital Reserves

Realised gains and losses on sales of investments (note 9(b)) and certificates of deposit (note 10) and realised gains or losses on derivatives (including any related foreign exchange gains and losses), realised gains and losses on foreign currency, management fees and finance costs allocated to capital and any other capital charges, are included in the income statement and dealt with in the capital reserve. Unrealised increases and decreases in the valuation of investments and certificates of deposit and any derivatives held at the year end (including the related foreign exchange gains and losses), are also included in the income statement and dealt with in the capital reserve.

(d) 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 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.

(e) 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 portfolio.

(f) 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 (e) 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 the revenue column of the income statement.

(g) Hedging and Derivatives

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.

Futures contracts may be entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital.

Derivative instruments are valued at fair value in the balance sheet and are classified as held at fair value through profit or loss. Derivative instruments may be capital or revenue in nature and, accordingly, changes in their fair value are recognised in revenue or capital in the income statement as appropriate.

1. Accounting Policies (continued)

(h) 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.

(i) Taxation

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

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

(j) Dividends Payable

Dividends are not recognised in the financial statements unless there is an obligation to pay at the balance sheet date. Proposed final dividends are recognised in the period in which they are either approved by or paid to shareholders.

2. Income

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

	2013 £'000	2012 £'000
Income from investments		
UK dividends		
– Ordinary dividends	6,707	6,571
– Special dividends	765	189
Overseas dividends		
– Ordinary dividends	1,521	982
– Special dividends	189	—
UK unfranked investment income – interest	—	128
Scrip dividends	34	23
	9,216	7,893
Other income		
Deposit interest	2	8
Total income	9,218	7,901

A special dividend of £nil (2012: £32,000) has been recognised in capital.

3. Investment Management and Performance-related Fees

This note shows the fees paid to the Manager. These are made up of the management fee payable per annum and a performance-related fee calculated annually. The latter is only payable when the portfolio outperforms the benchmark index plus 2%.

	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000	2012 REVENUE £'000	2012 CAPITAL £'000	2012 TOTAL £'000
Investment management fee	405	1,215	1,620	321	963	1,284
Performance-related fee:						
– accrued for the period						
1 January-30 September 2013	—	1,002	1,002	—	—	—
– reversal of prior year provision	—	(45)	(45)	—	322	322
	405	2,172	2,577	321	1,285	1,606

Up to 31 December 2012, a performance-related fee was due after the end of the calendar year if the Company's annualised total return over the previous three years was greater than the annualised return of the FTSE All-Share (Total Return) Index over the same period, plus 2%. During the year to 30 September 2013, the period element of the performance fee has been revised so that current and future performance fee calculation periods are coterminous with the Company's September year end. As a consequence, for this year only, the performance fee is based on a shorter period of two years and nine months to 30 September 2013 with a pro-rated fee for the period 1 January to 30 September 2013. Thereafter, the performance fee will revert to a three year calculation period, on the historical basis, but to 30 September each year.

Details of the management agreement are disclosed in the Directors' Report. At 30 September 2013, investment management fees of £452,000 (2012: £347,000) were accrued and a performance-related fee of £1,002,000 has been accrued (2012: £322,000 provided, with £277,000 subsequently crystallised).

4. Other Expenses

The other expenses of the Company are presented below.

	2013 £'000	2012 £'000
Directors' fees	110	102
Fees payable to the Company's auditor in relation to*:		
– the audit of the financial statements	26	26
– for other services, relating to taxation	6	6
Other expenses	191	182
	333	316

* Fees payable to the Company's auditor are shown excluding VAT which is included in other expenses.

The Directors Remuneration Report provides further information on Directors' fees.

Included within other expenses is £6,000 (2012: £6,000) of employer's National Insurance paid on Directors' fees. As at 30 September 2013, the amount outstanding on Directors' fees and employer's National Insurance was £7,000 (2012: £8,000).

5. Finance Costs

Finance costs arise on any borrowing that the Company has, with the main borrowing being the £32 million Debenture stocks (see note 13).

	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000	2012 REVENUE £'000	2012 CAPITAL £'000	2012 TOTAL £'000
Interest payable on borrowings repayable not by installment:						
Debenture stock repayable after 5 years	548	1,643	2,191	548	1,643	2,191
	548	1,643	2,191	548	1,643	2,191
Debenture stock buy back	—	6	6	—	—	—
Dividends on 5% cumulative preference shares	12	—	12	12	—	12
	560	1,649	2,209	560	1,643	2,203

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

	2013 REVENUE £'000	2012 REVENUE £'000
Overseas tax	192	138

(b) Reconciliation of Current Tax Charge

	2013 £'000	2012 £'000
Total return on ordinary activities before taxation	53,111	24,959
UK Corporation Tax effective rate of 23.5% (2012: 25%)	12,480	6,240
Effect of:		
– Gains on investments and certificates of deposit	(11,517)	(5,267)
– Gains on foreign exchange movements	—	(21)
– UK dividends which are not taxable	(1,748)	(1,690)
– Non-taxable overseas dividends	(392)	(245)
– Overseas tax	192	138
– Non-taxable scrip dividends	(8)	(6)
– Disallowed expenses	6	6
– Excess of management expenses over taxable income	1,179	983
Current tax charge for the year	192	138

(c) Factors that may Affect Future Tax Changes

The Company has excess expenses of £54,438,000 (2012: £49,414,000) that are available to offset future taxable revenue. A deferred tax asset, of £10,888,000 measured at the standard corporation tax rate of 20% (2012: £11,361,000 at 23%), has not been recognised in respect of these expenses since the Directors believe that there will be no taxable profits in the future against which the deferred tax asset can be offset.

7. Dividends

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

	2013 £'000	2012 £'000
Dividends on equity shares paid and recognised in the year:		
Second interim dividend for 2012 of 30.5p (2011: 29p)	4,100	3,877
First interim dividend for 2013 of 18p (2012: 18p)	2,420	2,406
Return of unclaimed dividends from previous years	(12)	(12)
	6,508	6,271

	2013 £'000	2012 £'000
Dividends on equity shares payable in respect of the year:		
First interim paid 18p per ordinary share (2012: 18p)	2,420	2,406
Second interim dividend of 32p per ordinary share (2012: 30.5p)	4,326	4,100
	6,746	6,506
Special dividend of 7p per ordinary share (2012: nil)	946	—
	7,692	6,506

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

8. Return per Ordinary Share

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

Basic revenue, capital and total returns per ordinary share are based on each of the respective returns on ordinary activities after taxation and on 13,458,388 (2012: 13,368,799) shares being the weighted average number of ordinary shares in issue throughout the year.

9. Investments

The portfolio is made up primarily of investments which are listed, i.e. traded on a regulated stock exchange, and some unlisted investments. Gains and losses in the year are either:

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

(a) Analysis of Investments by Listing Status

	2013 £'000	2012 £'000
Investments listed on a recognised stock exchange	246,011	191,283
Unlisted investments	8,268	7,976
	254,279	199,259

9. Investments (continued)

(b) Analysis of Investment Gains and Losses

	2013 LISTED £'000	2013 UNLISTED £'000	2013 TOTAL £'000	2012 TOTAL £'000
Opening valuation	191,283	7,976	199,259	179,393
Movements in year:				
Purchases at cost	48,354	323	48,677	40,356
Sales – proceeds	(42,673)	—	(42,673)	(41,546)
– net realised gains/(losses)	8,695	(111)	8,584	3,921
Net transfer between listed and unlisted during the year	(1,601)	1,601	—	—
Movement in investment holding gains/(losses)	41,953	(1,521)	40,432	17,135
Closing valuation	246,011	8,268	254,279	199,259
Closing book cost	179,340	7,377	186,717	172,129
Closing investment holding gains	66,671	891	67,562	27,130
Closing valuation	246,011	8,268	254,279	199,259
Net realised gains/(losses) based on historical cost	8,695	(111)	8,584	3,921
Movement in investment holding gains/(losses) in year	41,953	(1,521)	40,432	17,135
Gains/(losses) on investments	50,648	(1,632)	49,016	21,056

(c) Transaction Costs

Transaction costs on purchases of £246,000 (2012: £195,000) and on sales of £69,000 (2012: £64,000) are included within gains and losses on investments in the income statement.

10. Certificates of Deposit

Certificates of deposit can be a low risk way to generate income from excess funds when the level of interest they offer is attractive.

	2013 £'000	2012 £'000
Opening valuation	—	13,000
Movement in the year		
Purchases	—	83,000
Sales – proceeds	—	(96,000)
– net realised gains	—	1
Movement in investment holding gains	—	10
Closing valuation	—	—
Net realised gains based on historical cost	—	1
Movement in investment holding gains in year	—	10
Gains on certificates of deposit	—	11

11. 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.

	2013 £'000	2012 £'000
Amounts due from brokers	774	130
Unrealised profit on forward currency contracts	1	—
Prepayments and accrued income	606	732
Overseas withholding tax recoverable	172	123
	1,553	985

12. Creditors: amounts falling due within one year

Creditors are amounts which must be paid by the Company, and include any amounts due to brokers for the purchase of investments or amounts owed to suppliers, such as the Manager and auditor.

	2013 £'000	2012 £'000
Amounts due to brokers	5	—
Unrealised loss on forward currency contracts	—	3
Accruals and deferred income	1,265	1,155
Performance-related fee	1,002	—
	2,272	1,158

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

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

Long term creditors consist solely of the £32 million 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'.

	2013 £'000	2012 £'000
Debenture Stock:		
7.75% redeemable 1 October 2020	7,000	7,000
6.5% redeemable 27 April 2023	24,968	25,000
	31,968	32,000
Discount and issue expenses on debenture stock	(329)	(355)
	31,639	31,645
5% cumulative preference shares of £1 each	250	250
	31,889	31,895

The Company's structured debt is provided by 250,000 5% cumulative preference shares of £1 each (£250,000 for 30 September 2012), £7,000,000 7.75% Debenture Stock 2020 (£7,000,000 for 30 September 2012) and £24,968,300 6.5% Debenture Stock 2023. (£25,000,000 for 30 September 2012).

On 8 February 2013, £31,700 of 6.5% Debenture Stock 2023 was repurchased and cancelled for £37,000 including accrued interest, which constituted a discount to fair value.

The debenture stocks both pay interest twice a year; the 7.75% Debenture Stock 2020 for the six months ended 31 March and 30 September, and the 6.5% Debenture Stock 2023 for the six months to 27 April and 27 October. Both debenture stocks generally make the payments in April and October. The preference shares dividend is paid bi-annually in March and September.

NOTES TO THE FINANCIAL STATEMENTS
continued

14. Provisions

The Company makes a provision when a potential obligation exists, relating to events in the past that will probably have to settle in cash, but the amount is estimated.

	2013 £'000	2012 £'000
Performance-related fee:		
Opening provision	322	—
Paid in the year	(277)	—
(Reversal of provision)/charge for the year	(45)	322
Closing provision	—	322

Details of the performance-related fee are given in the Directors' Report and in note 3.

15. Called up share capital

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

	2013 NUMBER	2013 £'000	2012 NUMBER	2012 £'000
Allotted, called-up and fully paid:				
Ordinary shares of 50p each	13,518,799	6,760	13,368,799	6,685

The ordinary shares are fully participating and on a poll carry one vote per £1 nominal held.

During the year, 150,000 ordinary shares of 50p each were issued at an average price of 1,524.33p, excluding issue costs. No shares have been issued since the year end.

16. 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 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 and certificate of deposit holding gains/(losses), being the difference between cost and market value at the balance sheet date, totalling a gain of £67,562,000 (2012: £27,130,000).

The revenue and capital reserves are distributable by way of dividend.

17. Net Asset Value per Ordinary Share

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

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

	NET ASSET VALUE PER SHARE		NET ASSETS ATTRIBUTABLE	
	2013 PENCE	2012 PENCE	2013 £'000	2012 £'000
Ordinary shares				
– Basic	1712.3	1367.4	231,480	182,803

Net asset value per ordinary share is based on net assets at the year end and on 13,518,799 (2012: 13,368,799) ordinary shares, being the number of ordinary shares in issue at the year end.

18. Notes to the Cash Flow Statement

The cash flow statement shows the cash flows of the Company from its operating, investing and financing activities. The main cash flows arise from the purchase and sale of investments, with other main flows being any amounts borrowed or repayment of borrowings in the year.

(a) Reconciliation of Operating Profit to Operating Cash Flows

	2013 £'000	2012 £'000
Total return before finance costs and taxation	55,320	27,162
Adjustment for gains on investments and certificates of deposit	(49,016)	(21,067)
Cash (outflow)/inflow from forward currency contracts	(4)	86
Scrip dividends	(34)	(23)
Decrease in debtors	77	13
Increase in creditors and provisions	791	388
Tax on overseas dividends	(192)	(138)
Net cash inflow from operating activities	6,942	6,421

(b) Analysis of Cash Flow for Headings Netted in the Cash Flow Statement

	2013 £'000	2012 £'000
Servicing of finance		
Preference dividends paid	(12)	(12)
Interest paid on debenture stocks	(2,167)	(2,168)
Net cash outflow from servicing of finance	(2,179)	(2,180)
Capital expenditure and financial investment		
Purchase of investments*	(48,638)	(40,333)
Sale of investments	42,029	41,845
Purchase of certificates of deposit	—	(83,000)
Sale of certificates of deposit	—	96,011
Net cash (outflow)/inflow from capital expenditure and financial investment	(6,609)	14,523
Management of liquid resources		
Cash movement on cash funds and short term deposits	5,720	(15,000)
Net cash inflow/(outflow) from management of liquid resources	5,720	(15,000)
Buyback of debenture stock	(37)	—
Net proceeds from share issues	2,266	—
Net cash inflow from financing	2,229	—

*Excludes scrip dividends received as income.

(c) Analysis of changes in net debt

	1 OCTOBER 2012 £'000	CASH FLOW £'000	DEBENTURE STOCK NON-CASH MOVEMENT £'000	30 SEPTEMBER 2013 £'000
Cash	934	(405)	—	529
Cash funds and short term deposits	15,000	(5,720)	—	9,280
Debentures	(31,645)	32	(26)	(31,639)
5% Cumulative preference shares	(250)	—	—	(250)
Net debt	(15,961)	(6,093)	(26)	(22,080)

19. Financial Instruments

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

The Company's financial instruments comprise its investment portfolio (as shown on pages 14 and 15), derivatives, cash, borrowings, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The principal risks that an investment company faces in its portfolio management activities are set out below:

> ***Market risk*** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:
>
> > *Currency risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;
> >
> > *Interest rate risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and
> >
> > *Other price risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.
>
> ***Liquidity risk*** – arising from any difficulty in meeting obligations associated with financial liabilities.
>
> ***Credit risk*** – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

Risk Management Policies and Procedures

The Directors have delegated to the Manager the responsibility for the day-to-day investment activities of the Company as more fully described in the Directors' Report.

An investment company invests in equities and other investments for the long term so as to meet its investment objective and policies. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for distribution by way of dividends.

The risks applicable to the Company and the policies the Company used to manage these risks for the two years under review follow.

Market risk

The Company's Manager assesses the Company's exposure when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance, as disclosed on pages 48, 49 and 52. No derivatives or hedging instruments are utilised to manage market risk. Borrowings are used to enhance returns, however, this will also increase 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 and Swedish kronas.

Management of the currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis 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 have 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 2013			30 SEPTEMBER 2012		
	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000
Debtors (due from brokers, dividends receivable and accrued income)	114	139	—	115	104	—
Forward currency contracts	—	—	(178)	—	—	(405)
Foreign currency exposure on net monetary items	114	139	(178)	115	104	(405)
Investments at fair value through profit or loss that are equities	13,615	21,333	175	9,968	14,573	402
Total net foreign currency exposure	13,729	21,472	(3)	10,083	14,677	(3)

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 on page 44 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.

	2013	2012
£/US dollar	±2.5%	±1.5%
£/Swiss franc	±1.9%	±2.5%
£/Swedish krona	±3.2%	±2.1%

The above percentages have been determined based on the market volatility in the year, using the standard deviation of Sterling's daily fluctuation to the US dollar, Swiss franc and Swedish krona against the mean during the year.

If Sterling had strengthened against the US dollar, Swiss franc and Swedish krona to this extent, this would have had the following effect:

NOTES TO THE FINANCIAL STATEMENTS
continued

19. Financial Instruments (continued)

Risk Management Policies and Procedures (continued)

Currency risk (continued)

Currency sensitivity (continued)

	30 SEPTEMBER 2013			30 SEPTEMBER 2012		
	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000
Income statement – return after taxation						
Revenue return	(12)	(12)	—	(7)	(8)	—
Capital return	(343)	(405)	—	(147)	(373)	3
Total return after taxation for the year	(355)	(405)	—	(154)	(381)	3
Effect on net asset value	(0.2%)	(0.2%)	—	(0.1%)	(0.2%)	—

If Sterling had weakened against US dollar, Swiss franc and Swedish krona to this extent, the effect would have been the exact opposite.

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

Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the variable rate borrowings. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the custodian. The Company has an uncommitted bank overdraft facility which it uses for settlement purposes, on which interest is payable at a variable rate. Use of this facility has been minimal over the two years being reported on. At the year end there was none drawn down (2012: nil).

At the balance sheet date the Company has structural debt comprising £32 million of debenture stock 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 note 5.

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

The table below shows the maturity analysis and exposure of the debt securities:

	2013		2012	
	FIXED RATE EXPOSURE £'000	FLOATING RATE EXPOSURE £'000	FIXED RATE EXPOSURE £'000	FLOATING RATE EXPOSURE £'000
Less than one year	—	—	—	—
More than one year but less than two years	—	—	375	—
More than two years but less than five years	—	—	125	—
	—	—	500	—

Fixed rate exposure gives rise to fair value interest rate risk and floating rate exposure gives rise to cash flow interest rate risk. If interest rates were either to increase or decrease by 1%, there would be no effect on revenue as all are fixed; the estimated effect on capital net return after taxation is £nil (2012: £17,000), resulting in an insignificant effect on the net asset value.

Other price risk

Other price risks (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 £254,279,000 (2012: £198,759,000), if the value of the portfolio rose or fell by 10% at the balance sheet date, the net return after tax for the year and net assets would increase or decrease by £25.4 million (2012: £19.9 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.

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:

	2013				2012			
	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	—	—	32,000	32,000
Interest on debenture stocks	811	1,354	17,861	20,026	813	1,355	20,047	22,215
Amounts due to brokers	5	—	—	5	—	—	—	—
Unrealised loss on forward currency contracts	—	—	—	—	3	—	—	3
Accruals and deferred income	561	—	—	561	451	—	—	451
Performance fee accrued	1,002	—	—	1,002	322	—	—	322
	2,379	1,354	49,829	53,562	1,589	1,355	52,047	54,991

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 13 of the financial statements.

Credit risk

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered. This risk is mitigated by using only approved counterparties. Investments may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The Board reviews the custodian's annual controls report and the Manager's management of the relationship with the custodian. Cash balances are limited to a maximum of either £10 or £15 million with any one depositary and only depositaries approved by the Board are used.

NOTES TO THE FINANCIAL STATEMENTS
continued

19. Financial Instruments (continued)

Fair Values of Financial Assets and Financial Liabilities

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

	BOOK VALUE 2013 £'000	FAIR VALUE 2013 £'000	BOOK VALUE 2012 £'000	FAIR VALUE 2012 £'000
Debentures repayable in more than 5 years:				
7.75% Debenture Stock 2020	7,000	8,540	7,000	8,505
6.5% Debenture Stock 2023	24,968	30,211	25,000	30,824
Discount on issue of debentures	(329)	—	(355)	—
	31,639	38,751	31,645	39,329
5% Cumulative preference shares of £1 each	250	193	250	192
	31,889	38,944	31,895	39,521

Fair Value Hierarchy Disclosures

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in FRS 29 'Financial Instruments: Disclosures'. The three levels set out in FRS 29 are:

Level 1 – fair value based on quoted prices in active markets for identical assets.

Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

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.

	2013				2012			
	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:								
Debt securities	—	—	—	—	—	125	—	125
Other securities	—	312	—	312	—	436	—	436
Equities	245,699	—	—	245,699	190,722	—	—	190,722
Unquoted investments:								
Debt securities	—	—	—	—	—	—	375	375
Equities	—	—	8,268	8,268	—	—	7,601	7,601
Derivative financial instruments:								
Currency hedges	—	1	—	1	—	—	—	—
Total for financial assets	245,699	313	8,268	254,280	190,722	561	7,976	199,259
Financial liabilities								
Derivative financial instruments:								
Currency hedges	—	—	—	—	3	—	—	3

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

	2013 £'000	2012 £'000
Opening fair value of Level 3	7,976	7,668
Transfer from Level 1 to Level 3	3,028	—
Transfer to Level 1 from Level 3	(1,427)	—
Investments purchased	323	342
Investments redeemed, sold or written off	(111)	(113)
Movement in holding (losses)/gains on assets held at the year end	(1,521)	79
Closing fair value of Level 3	8,268	7,976

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 7.

The Company's total capital employed at 30 September 2013 was £263,369,000 (2012: £214,698,000) comprising borrowings of £31,889,000 (2012: £31,895,000) and equity share capital and other reserves of £231,480,000 (2012: £182,803,000).

The Company's total capital employed is managed to achieve the Company's investment objective and policy as set out on page 7, including that borrowings may be used to raise equity exposure. At the balance sheet date, net gearing was 9.5% (2012: 8.5%). 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 9 and 10. These also explain that the Company is able to gear and that gearing will amplify the effect on equity of changes in the value of the portfolio.

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

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

Borrowings comprise debenture stocks and preference shares, details of which are contained in note 13.

20. 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 other contingencies, guarantees or financial commitments of the Company at the year end (2012: £nil).

21. 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.

Invesco Asset Management Limited (IAML), a wholly owned subsidiary of Invesco Limited, is the Manager, Company Secretary and Administrator to the Company. Details of IAML's services and fees are disclosed in the Directors' Report and management fees payable to IAML are shown in note 3.

Fees paid to the Directors are disclosed in the Directors' Remuneration Report on page 23, with additional disclosures in note 4. Full details of Directors' interests are set out in the Directors' Remuneration Report on page 24.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2013

Introduction

The Directors present their Report for the year ended 30 September 2013.

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.

Corporate Governance

The Corporate Governance Statement set out on page 18 is included in this Directors' Report by reference.

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, information it relies upon and the number of meetings it holds are set out below, amongst other things. The Board is supported by an Audit Committee and a Nomination Committee, which deal with specific aspects of the Company's affairs as summarised on pages 19 to 21 and on page 50, respectively.

The Board regards all of the Directors to be wholly independent of the Company's Manager. The Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company. Brief biographical details of the members of the Board are shown on page 17. In addition to the current five, Mr David Adams served as a Director and as Chairman of the Audit Committee until his retirement on 22 January 2013.

Chairman

The Chairman of the Company is Beatrice Hollond, a non-executive and independent Director who has no conflicting relationships. She has been on the Board since September 2003 and is subject to an annual performance appraisal. Following this year's appraisal, the Board has confirmed that Mrs Hollond's performance continues to be effective and therefore recommends her re-election. The Chairman will be present at the AGM to answer questions.

Senior Independent Director/Deputy Chairman

The nature of an investment trust and the relationship between the Board and the Manager are such that it is considered unnecessary to identify a senior non-executive Director other than the Chairman. All Directors are available to shareholders if they have concerns which have not been resolved through the normal channels of contact with the Chairman or Manager, or for which such channels are inappropriate.

Board Responsibilities

Directors have a duty to promote the success of the Company taking into consideration the likely consequences of any decision in the long-term; the need to foster the Company's business relationships with its Manager and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between shareholders of the Company. The Directors are equally responsible under United Kingdom law for the proper conduct of the Company's affairs and for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that the Company's policies and operations are in the best interest of all of its shareholders and that the interests of creditors and suppliers to the Company are properly considered.

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 put in place procedures that the Board considers adequate to prevent persons associated with it from engaging in bribery for and on behalf of the Company.

A formal schedule of matters reserved for decision by the Board and detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Company's objectives, policies and standards, ensuring that the Company's obligations to shareholders and others are understood and complied with, approving accounting policies and dividend policy, managing the capital structure, setting long-term objectives and strategy, assessing and managing risk, reviewing investment performance, monitoring the net borrowing position, approving recommendations made by the Audit Committee, reviewing Directors' remuneration, undertaking nomination responsibilities and assessing the Manager on an ongoing basis. The schedule of matters reserved for decision by the Board will be available for inspection at the AGM and is otherwise available at the Registered Office of the Company and on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*. 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 portfolio details given in the annual and half-yearly financial reports, interim management statements, factsheets and daily net asset value disclosures.

There is an agreed procedure for Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £10,000, having first consulted with the Chairman. 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 53.

- *Remuneration*
  The Board as a whole operates as a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report on pages 22 to 24.

Supply of Information

To enable the Directors of the Board to fulfil their roles, the Manager ensures that all Directors have timely access to all relevant management, financial and regulatory information.

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 Board meets on a regular basis at least five times each year. Additional meetings are arranged as necessary. Regular contact is maintained between the Manager, the Chairman and the other Directors between formal meetings.

Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the 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.

Appointment, Re-election, Tenure and the Nomination Committee

As the Board is considered small for the purposes of the AIC Code, all Directors are members of the Nomination Committee under the chairmanship of Beatrice Hollond. The main responsibilities of the Nomination Committee are to review the size, structure and skills of the Board and to make recommendations with regard to any changes considered necessary or new appointments.
The Nomination Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. They will be available for inspection at the AGM and can be inspected at the Registered Office of the Company as well as on the Manager's website. 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.

Following David Adams informing the Board of his intention to retire from the Board last year the Board decided to recruit a new Director who would be suitable to succeed him as Chairman of the Audit Committee. The Board was able to identify a number of strong candidates fitting that requirement without engaging an external search consultancy or advertising the position. After due consideration by the Nomination Committee Ian Armfield was appointed as a Director on 1 November 2012 and elected by shareholders on 22 January 2013. Mr Adams retired with effect from 22 January 2013.

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

The Board considers that the independence of Mrs Hollond, Mr Kendall and Mr Readman, who have served on the Board for more than nine years, is not compromised by their length of service.

The Articles of Association require that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. However, the Board has resolved that, for the time being, all Directors shall stand for annual re-election at the AGM. The Articles of Association provide that the Directors may, by notice in writing, remove any Director from the Board.

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 19 to 21, which is included in this Directors' Report by reference.

Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendations in respect of evaluating the performance of the Board as a whole, the Audit Committee and individual Directors. The performance of the Board, Audit Committee and Directors has been assessed during the year in terms of:

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

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

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

Attendance at Board and Committee Meetings

The following table sets out the number of Board, Audit Committee and Nomination Committee meetings held during the year to 30 September 2013 and the number of meetings attended by each Director.

	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS		NOMINATION COMMITTEE MEETINGS	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Beatrice Hollond	5	5	3	3	2	2
Ian Armfield	5	5	3	3	1	1
William Kendall	5	4	3	2	2	1
Peter Readman(1)	5	5	–	–	2	2
John Wood	5	5	3	3	2	2
David Adams(2)	1	1	1	1	1	1

(1) Not a member of the Audit Committee.

(2) Retired 22 January 2013.

Apart from the meetings detailed above, there were a number of meetings held by sub-committees of the Board to approve share issues and deal with other *ad hoc* items.

Directors

Directors' Interests in Shares

The Directors' interests in the ordinary share capital of the Company are disclosed in the Directors' Remuneration Report on page 24.

Disclosable Interests

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

Conflicts of Interest

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

The Articles of Association of the Company provide that Directors can authorise potential conflicts of interest and there are safeguards that apply when Directors decide to do so. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, is most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. Potential conflicts of interest are entered into the Company's Register of Potential Conflicts, which is reviewed regularly by the Board. The Directors have undertaken to advise the Company Secretary and/or Chairman as soon as they become aware of any potential conflicts of interest.

Directors' Indemnities and Insurance

The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for any legal action brought against its Directors. In addition, Deeds of Indemnity have been exercised on behalf of the Company for each of the Directors under the Company's Articles of Association. Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

Internal Financial and Non-Financial Controls

The Directors acknowledge that they are responsible for ensuring that the Company maintains a sound system of internal financial and non-financial controls ('internal controls') to safeguard shareholders' investments and the Company's assets.

The Company's system of internal control is designed to manage rather than eliminate risk of failure to achieve the Company's investment objective and/or adhere to the Company's investment policy and/or investment limits. The system can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

The Manager and custodian maintain their own systems of internal controls and the Board and the Audit Committee receive regular reports from the Internal Audit and Compliance Departments of the Manager. Formal reports are also received annually on the internal controls and procedures in place for the operation of secretarial and administrative, custodial, investment management and accounting activities.

The Board meets regularly, at least five times a year. It reviews financial reports and performance against approved forecasts, relevant stock market criteria and the Company's peer group, amongst other things. The effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems is reviewed at least annually against risk parameters approved by the Board. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from its review. No significant failings or weaknesses occurred during the year ended 30 September 2013 or subsequently up to the date of this annual financial report.

The Board has reviewed and accepted the Manager's 'whistleblowing' policy under which staff of Invesco Asset Management Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet. 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 on the going concern basis.

The Manager

The Manager is responsible for the day-to-day investment management decisions of the Company.

The Manager provides full administration and company secretarial services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and officiating at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which interim management statements, half-yearly and annual financial statements are prepared.

Investment Management Agreement

The terms of the agreement with Invesco Asset Management Limited include a basic management fee for investment management and company secretarial work. This is, in respect of each of the quarterly periods ending on 31 March, 30 June, 30 September and 31 December each year, 0.2% of the average value of the market capitalisation of its 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, annualised and calculated per annum each year. Up to 31 December 2012, a performance-related fee was due after the end of the calendar year if the Company's annualised total return over the previous three years was greater than the annualised return of the FTSE All-Share (Total Return) Index over the same period, plus 2%. The performance-related fee is 15% of the value of any outperformance of this hurdle. For the accounting year to 30 September 2013, the period element of the performance fee has been revised so that current and future performance fee calculation periods are coterminous with the Company's September year end. As a consequence, for this year only, the performance fee is based on a shorter period of two years and nine months to 30 September 2013 with a pro-rated fee for the period 1 January to 30 September 2013. Thereafter, the performance fee will revert to a three year calculation period, on the historical basis, but to 30 September each year.

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

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

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

Assessment of the Investment Manager

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

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

Alternative Investment Fund Manager (AIFM)

The Board is taking independent legal advice in relation to the AIFM Directive and has decided in principle to appoint Invesco Fund Managers Limited (IFML) as the Company's AIFM, pending IFML's approval as such by the FCA. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. Finally, the Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

Stewardship

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure these standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. A copy of the Manager's Policy on Corporate Governance and stewardship can be found at *www.invescoperpetual.co.uk*.

Greenhouse Gas Emissions

The Company has no employees or property, it does not combust any fuel or operate any facility. The Company does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes. All services are outsourced on a fee basis that is independent of any energy expended on its behalf and it is not practical for the Company to attempt to quantify emissions in respect of such proxy energy use.

Capital Structure

At the year end, 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. During the year the Company issued 150,000 ordinary shares at an average price of 1,524.33p, excluding issue costs. There were no changes to the 5% cumulative preference shares in issue during the year.

Rights Attaching to the Ordinary Shares

The profits of the Company available for distribution and resolved to be distributed, subject to the provisions of UK law, shall be distributed by way of dividends to the holders of the ordinary shares. On a return of capital on liquidation, the assets of the Company shall be applied in repaying a sum equal to the nominal capital paid up or credited as paid up on the ordinary shares. The remaining balance shall be distributed rateably among the holders of the ordinary shares according to the number of shares held by them.

At a general meeting of the Company every ordinary shareholder has one vote on a show of hands and on a poll one vote per £1 nominal held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or in person in relation to resolutions to be passed at a general meeting. Except that the Directors can restrict voting powers (and dividends) where shareholders fail to provide information in respect of interests in voting rights when so requested.

Rights Attaching to the 5% Cumulative Preference Shares

Twice annually, on the last business days in March and September, the Company pays a fixed dividend of 2.5% in respect of the preference shares, a total of 5%. The holders of preference shares receive their fixed dividend before any dividends are paid to the holders of ordinary shares. Should the Company not be able make timely dividend payments, the dividends of cumulative preference shares will accrue. In the event of liquidation, the preference shares take precedence over ordinary shares, so that preferred shareholders have the first claim on the Company's assets and are paid off before the ordinary shareholders, receiving the nominal value of their preference shares and any outstanding dividends. Like ordinary shares, preference shares represent partial ownership in the Company, but holders of preference shares do not enjoy any of the voting rights of ordinary shareholders.

Restrictions on the Transfers of Ordinary or Preference Shares

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. As at 30 September 2013, the Company's issued share capital did not include any ordinary or preference shares that were not fully paid.

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

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 2013		AS AT 30 SEPTEMBER 2013	
	HOLDING	%	HOLDING	%
Investec Wealth & Investment	1,906,111	14.1	1,935,321	14.3
Brewin Dolphin	1,572,749	11.6	1,589,548	11.8
Rathbones	753,762	5.6	756,208	5.6
Speirs & Jeffrey	746,671	5.5	743,671	5.5
Charles Stanley	613,261	4.5	662,751	4.6
JM Finn	549,575	4.1	546,158	4.0

Relations with Shareholders

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-yearly 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, via the regulatory information service, of the net asset value of the Company's ordinary shares, the interim management statements and by monthly and daily fact sheets produced by the Manager. At each AGM, a presentation is made by the Fund Manager following the business of the Meeting and shareholders have the opportunity to communicate directly with the whole Board. 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. General presentations to institutional shareholders and analysts follow the publication of the annual results. 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 address given on page 62. At other times, the Company responds to any letters from shareholders. Shareholders can also visit the Manager's investment trust website: *www.invescoperpetual.co.uk/investmenttrusts* in order to access copies of half-yearly and annual financial reports; interim management statements; shareholder circulars; Company factsheets; regulatory announcements; and ISA and savings scheme literature. Shareholders are also able to access copies of the schedule of matters reserved for the Board and the terms of reference of the Audit Committee and the Nomination Committee and, following any shareholders' general meetings, proxy voting results.

Individual Savings Account (ISA)

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

Business of the Annual General Meeting

The following summarises the business of the forthcoming AGM of the Company, which is to be held on 23 January 2014 at 11.00 am. The notice of the AGM and related notes can be found on pages 57 to 60. All resolutions are ordinary resolutions unless otherwise identified.

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

Resolution 2 is to approve the Directors' Remuneration Policy. This is a new requirement and the vote is binding. The Directors' Remuneration Policy is set out on page 22 of this Annual Financial Report.

Resolution 3 is to approve the Annual Statement and Report on Remuneration. It is mandatory for listed companies to put their Annual Statement and Report on Remuneration to an advisory shareholder vote. The Annual Statement and Report on Remuneration is set out on pages 22 and 23 of this Annual Financial Report.

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

Resolution 9 is to reappoint the Auditor and to authorise the Directors to determine the Auditor's remuneration. Ernst and Young LLP have expressed their willingness to continue to hold office until the conclusion of the next annual general meeting of the Company.

Special Business

Resolution 10 is to renew the Directors' authority to allot shares. 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 19 November 2013). 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 2015.

Special Resolution 11 is to renew the authority to disapply pre-emption rights. Your Directors are asking for authority to issue new ordinary shares for cash up to an aggregate nominal value of £675,940 (10% of the Company's issued share capital as at 19 November 2013), disapplying pre-emption rights. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus broadening the shareholder base of the Company. This authority will not be exercised at a price below NAV (with debt at fair value) and will expire at the AGM in 2015.

Special Resolution 12 is to renew the authority for the Company to purchase its own shares. 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 2015. 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 2,015,225 shares) expires at the AGM and had not been utilised to the date of this report.

Special Resolution 13 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days notice, which is the minimum notice period permitted by the Companies Act 2006. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that this flexibility will be used only where the Board believes it is in the interests of shareholders as a whole

The Directors have carefully considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

By order of the Board

Invesco Asset Management Limited
Company Secretary

30 Finsbury Square
London EC2A 1AG

20 November 2013

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting of Keystone Investment Trust plc will be held at the offices of Invesco Perpetual at 43-45 Portman Square, London W1H 6LY at 11 am on 23 January 2014 for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 30 September 2013.
2. To approve the Directors' Remuneration Policy.
3. To approve the Annual Statement and Report on Remuneration.
4. To re-elect Mrs Beatrice Hollond a Director of the Company.
5. To re-elect Mr Ian Armfield a Director of the Company.
6. To re-elect Mr William Kendall a Director of the Company.
7. To re-elect Mr Peter Readman a Director of the Company.
8. To re-elect Mr John Wood a Director of the Company.
9. To reappoint Ernst & Young LLP as auditor to the Company and authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions of which Resolution 10 will be proposed as Ordinary Resolution and Resolutions 11, 12 and 13 will be proposed as Special Resolutions.

10. THAT:

    the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to exercise all powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount (within the meaning of Sections 551(3) and (6) of the Act) of £2,253,133, such authority to expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this Resolution had not expired.

11. THAT:

    the Directors be and they are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to allot equity securities for cash or (if such allotment constitutes the sale of relevant shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, pursuant to the authority given by Resolution 9 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 £675,940; and

(c) to the allotment of equity securities at a price not less than the net asset value per share calculated with debt at fair value

and this power shall expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this Resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this Resolution.

12. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ('the Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued ordinary shares of 50p each ('Shares').

PROVIDED ALWAYS THAT:

(a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares on 23 January 2014, being the date of the Annual General Meeting (equivalent to 2,026,467 shares at 19 November 2013);

(b) the minimum price which may be paid for a Share shall be 50p;

(c) the maximum price which may be paid for a Share be an amount equal to 105% of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for five business days immediately preceding the day on which the Share is purchased;

(d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share;

(e) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company or, if earlier, on the expiry of 15 months from the passing of this Resolution unless the authority is renewed at any other general meeting prior to such time; and

(f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

13. THAT:

the period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 clear days.

Please refer to the Directors' Report on pages 55 and 56 for further explanations of all the Resolutions.

Dated this 20th November 2013

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 Capita Asset Services' website *www.capitashareportal.com*; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
   - In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

   and in each case to be received by the Company not less than 48 hours before the time of the meeting.

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

3. A form of appointment of proxy is enclosed. Appointment of a proxy (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST proxy instruction) does not prevent a member from attending and voting at this meeting.

   To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 11 am on 21 January 2014.

4. A person entered on the Register of Members at close of business on 21 January 2014 ('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 19 November 2013 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 13,518,799 ordinary shares of 50p each carrying one vote for every £1 nominal held; and 250,000 5% Cumulative Preference Shares of £1 each carrying no voting rights.

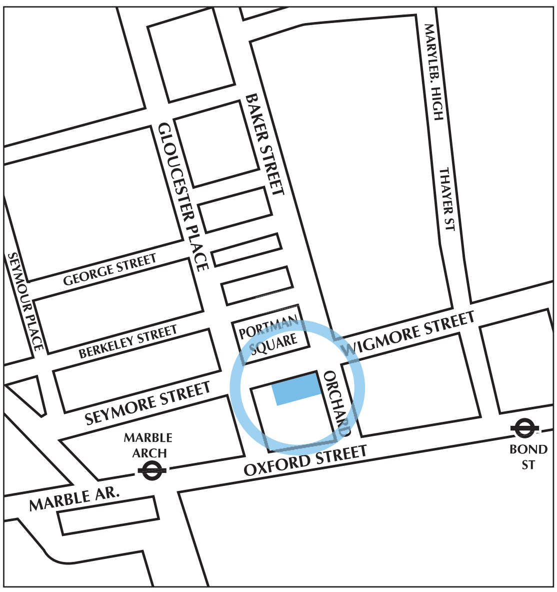
12. This notice is sent for information only to the holders of the 7.75% Debenture Stock (redeemable 1 October 2020), 6.5% Debenture Stock (redeemable 27 April 2023) and 5% Cumulative Preference Shares, who are not entitled to attend and vote at the meeting.

13. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at *www.invescoperpetual.co.uk/investmenttrusts*

14. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006 (the '2006 Act'), the company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 October 2012; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 October 2012 ceasing to hold office since the previous meeting at which annual financial reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant Annual General Meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

The Annual General Meeting will be held at 11 am on 23 January 2014 at the offices of Invesco Perpetual on the first floor of 43-45 Portman Square, London W1H 6LY. The Manager will be giving a presentation following the Annual General Meeting.

Map of venue



SHAREHOLDER INFORMATION

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

Savings Plan and ISA

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

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

Invesco Perpetual Investment Trust Savings Scheme

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

Invesco Perpetual Investment Trust ISA

The Invesco Perpetual Investment Trust ISA allows investments up to £11,520 in shares of Keystone Investment Trust plc in the 2013/14 tax year. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

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

Net Asset Value (NAV) Publication

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

Manager's Website

Information relating to the Company can be found on the Manager's website, www.invescoperpetual.co.uk/investmenttrusts.

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

Share Price Listings

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

In addition, share price information can be found using the KIT.L ticker code

Internet addresses

Invesco Perpetual	www.invescoperpetual.co.uk/investmenttrusts
Association of Investment Companies	www.theaic.co.uk

Financial Calendar

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

November

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

December

Second interim dividend paid.

January

Annual General Meeting.
Interim Management Statement.

May

Half-yearly figures announced and half-yearly financial report published.

June

First interim dividend paid.

July

Interim Management Statement.

Interest on the debenture stocks is generally paid in April and October. See note 13 for more information.

ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Manager, Company Secretary and Registered Office

Keystone Investment Trust plc is managed by Invesco Asset Management Limited. Day-to-day investment management is the responsibility of Mark Barnett who is a member of the UK equity investment team.

Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG.
☎ 020 7065 4000.
Company Secretarial Contact: Paul Griggs.

Company Number

Registered in England and Wales.
Number: 538179.

Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team, available to assist you from 8.30 am to 6 pm, Monday to Friday. Please feel free to take advantage of their expertise.
☎ 0800 085 8677.
www.invescoperpetual.co.uk/investmenttrusts.

Custodian

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

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF.

Savings Scheme and ISA Administrators

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

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

Registrars

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

If you hold your shares directly and not through a savings scheme or ISA and have queries relating to your shareholding you should contact the Registrars on ☎ 0871 664 0300.
Calls cost 10p per minute plus network charges.
From outside the UK: +44 (0)208 639 3399.

Lines are open 9 am to 5.30 pm
Monday to Friday (excluding Bank Holidays).

Shareholders can also access their holding details via Capita's websites
www.capitaassetservices.com or
www.capitashareportal.com.

Capita Asset Services provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.capitadeal.com or ☎ 0871 664 0454.
Calls cost 10p per minute plus network charges.
From outside the UK: +44 (0)203 367 2699.

Lines are open 8 am to 4.30 pm
Monday to Friday (excluding Bank Holidays).

GLOSSARY OF TERMS

Net Asset Value (NAV)

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

Discount

A description of the situation when the share price is lower than the NAV per share. The size of the discount is calculated by subtracting the share price from the NAV per share and is expressed as a percentage (%) of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Total Return

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

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or 'nil', shows a company has no borrowings.

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

Gross Gearing

This reflects the amount of gross borrowings by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of shareholders' funds.

Net Gearing

This reflects the amount of net borrowings invested, ie borrowings less cash and bond holdings. It is based on net borrowings as a percentage of shareholders' funds.

Ongoing Charges

The annualised ongoing charges, including those charged to capital but excluding interest, incurred by the Company, expressed as a percentage of the average undiluted net asset value (with debt at fair value) in the period reported.

The Manager of Keystone Investment Trust plc is Invesco Asset Management Limited.

Invesco Asset Management 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 $763.9 billion.*

We aim 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 2013.*

Linkway Financial Printers
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SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

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

City Merchants High Yield Trust Limited

A Jersey incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments combined with a degree of security. The Company may use bank borrowings.

Invesco Income Growth Trust plc

Aims to produce income and capital growth superior to that of the UK stock market and dividends paid quarterly that, over time, grow at above the rate of inflation. The Company may use bank borrowings.

Invesco Perpetual Enhanced Income Limited (formerly Invesco Leveraged High Yield Fund Limited)

A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Company uses repo financing to enhance returns.

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio

Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

Invesco Perpetual Select Trust plc – UK Equity Portfolio

Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio may use bank borrowings.

Invesco Property Income Trust Limited

The investment objective of the Company is to repay its bank borrowings and other liabilities on or before 28 September 2014 and, having met these obligations, to provide a return for shareholders. The Company holds a diversified portfolio of European commercial properties.

Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has debenture stocks in issue.

Perpetual Income and Growth Investment Trust plc

Aims to generate capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK and fixed interest markets. The Company has a debenture stock in issue and 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 by more than the growth in the FTSE All Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

The Company has two debenture stocks in issue.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders from investment in a broad cross-section of small to medium size 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 All Country Asia Pacific ex Japan Index, measured in Sterling. The Company may use bank borrowings.

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

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

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Portfolio

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

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

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

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

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

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