Chairman's Statement

Performance
The net asset value per share (NAV) total return for the year to 31 October 2013 was 28.2% (with borrowings at market value) which compares to the 24.3% sterling total return of the global FTSE All-World Index and 22.8% from the UK FTSE All-Share Index. The share price total return was 28.6% as the share price reached a new all-time high in late October. The company's global equity portfolio achieved a total return of 25.4%, outperforming global equities for a third consecutive year, and is now ahead of the global index over 1, 2, 3, 5 and 10 years.

The NAV performance of 28.2% resulted from portfolio outperformance of a strong global equity market while the gains from gearing added 1.4% to NAV, almost fully offsetting the 1.7% charge for expenses and interest on borrowings. The increase in long-term interest rates and a change in the basis of valuing the company's long-term borrowings noted in the interim statement combined to raise the NAV by 2.7%.

The majority of the returns for the year were achieved in a strong rally between November and late May as stockmarkets responded to a series of generally supportive events which included the EU's bailout of Greece, further quantitative easing (QE) by the US Federal Reserve Bank, a resolution of the US "fiscal cliff" spending impasse and the election of Shinzo Abe as prime minister of Japan. Mr Abe's three-pronged policy measures to haul Japan out of deflation ignited a rally of almost 60% in Japanese equities. Global markets lost momentum thereafter on concerns over Cyprus and spent the second half of the year in a volatile trading range as economic uncertainties resurfaced and investors sought clarity as to when the US central bank would begin to rein in its QE stimulus programme.

Global equity returns over the year were led by Europe (ex UK), Japan and, while not dominating global returns as in recent years, North America. Currency played a significant role with euro strength boosting the Europe (ex UK) regional local currency total return to 31.5% in sterling terms. In Japan, the remarkable stockmarket rally of over 50% in yen terms reflecting optimism about the effect of "Abenomics" was reduced to a sterling return of 34.6% by the related very significant drop in the value of the yen. The pattern of global industry returns generally reflected optimism that the central bank stimulus measures would revive global growth with strongest returns coming from Consumer Services, Industrials, Financials and Consumer Goods as well as the more defensive Health Care industry.

Despite a relative under-exposure to the North America region and also to a resurgent Japanese equity market, the company's equity portfolio again outperformed, owing to material additions to a strong Europe (ex UK) market and positive regional stock selection results. The portfolio outperformed in all regions comprising the All-World Index with the exception of North America. There were notable absolute and relative sterling total returns from Japan, Asia Pacific (ex Japan), Europe (ex UK) and the UK. Our Japanese investments returned 59.8% in sterling terms, some 25 percentage points more than the index. Despite lagging global markets, our Latin American investments also beat the regional index.

The global equity portfolio's "active share" compared to the FTSE All-World Index, a measure of the portfolio's differentiation from the underlying index, at the year-end was 88% (2012: 85%).

Income
It was a strong year for income with total income increasing by 8.4% to £22.3m despite maintaining a lower level of investment in equities over the second half of the year and a smaller contribution from special dividends. Net income per share rose by 11.7% to 13.41p (2012: 12.01p).

Dividends
The board is recommending a final dividend of 6.80p per share (2012: 6.65p). If approved, taken together with the interim dividend of 4.80p per share (2012: 4.60p), this will result in an increase of 3.1% in the total regular dividend for the year to 11.60p per share (2012: 11.25p) which compares with October UK CPI inflation of 2.2% and RPI of 2.6%. If the proposal is approved, the company will have increased its dividend in each of the last 30 years. In view of the strength of the revenue account in the year under review the board is also recommending a special dividend of 1.80p per share, making a combined distribution for the year of 13.40p, an increase of 19.1% on the previous year.

Discount and Share Buybacks
The discount to ex-income NAV (with borrowings at market value) was again broadly stable, ending the year at 8.6%. The company's buyback policy is intended to keep the discount to ex-income NAV at or below 9.0% (with borrowings at market value). Under the policy, 1.9m (2012: 2.4m) shares were repurchased for cancellation over the financial year accounting for 1.7% of the shares in issue at the start of the period. The shares were repurchased at an average discount of 9.7% and a cost of £10.1m (2012: £11.1m) inclusive of dealing expenses. The average discount over the year was 9.5% and the average between the introduction of the scheme in February 2006 and the year-end was 8.8%.

Board Composition
During the year, Francis Finlay retired as a non-executive director. Francis had served on the board since 1996, over which period the company benefited greatly from his knowledge of financial markets and of investment management. On behalf of the board and shareholders, I should like to thank him for his outstanding contribution.

James Will was appointed as a non-executive director of the company during the year and will stand for election at the annual general meeting. He is chairman of Shepherd and Wedderburn, solicitors, and has extensive experience of investment trusts.

EU Alternative Investment Fund Managers (AIFM) Directive
The new obligations on investment trust companies stemming from the European Union's AIFM Directive are becoming clear and we are taking steps to meet them.

Outlook
The strong gains in major stockmarkets in the past year have owed much to the central banks' stimulus measures in the US, Japan and elsewhere, and the eventual withdrawal of these measures represents a potential danger. Furthermore, profit margins are unusually wide and the valuations of attractive companies look high. The background for equity markets is therefore challenging, but we believe that our portfolio is relatively well placed and we have over £100m of borrowings available to invest should more attractive buying opportunities arise.

Douglas McDougall.

Douglas McDougall
Chairman
12 December 2013