Chairman's Statement

Performance

Over the year to 31 October 2011, the net asset value per share (NAV) total return (with borrowings at market value) was -2.4% which compares with the -0.3% sterling total return of the global FTSE All-World Index and 0.6% from the UK FTSE All-Share Index. The company's global equity portfolio achieved a total return of 1.6% which was ahead of both of the company's global and UK comparator indices.

The company's NAV with borrowings taken at market value was 2.3 percentage points behind the company's NAV with borrowings taken at par, which was unchanged and just ahead of the global index. This differential was due to the increase in the market value of the borrowings caused by the sharp decline in UK gilt yields, which are now much lower than the yield on good quality corporate bonds.

The company has for several years estimated the market value of its borrowings using an assumption of a one percentage point spread above the relevant benchmark gilts. The persistent drop in gilt yields has inflated the value of the borrowings and lowered the NAV. Given the current gulf between government and corporate bond yields, the board believes that it is appropriate to adopt a new basis for valuing borrowings from the beginning of the new financial year which will give a less distorted measure of the market value of the borrowings. The new valuation basis is set out in the directors' report. Had the new valuation methodology been in force over the year, the market NAV performance would have been 1.5 percentage points better than on the prevailing valuation basis.

Global equity returns over the year were driven by North America, which accounts for almost half of the FTSE All-World Index and achieved a total return of 6.1% compared to a total return for the rest of the world of around -5%. Despite our relative under-exposure to North America, the global portfolio outperformed owing to strong regional stock selection, with all six of the overseas regional sub-portfolios beating the local indices. There were especially strong absolute and relative sterling total returns from our Japanese investments which returned 25.0% against a Japan market return of -2.3% and from our North America holdings which returned 10.4%, ahead of the index return (+6.1%). While our Asia Pacific (ex Japan) holdings were down 0.6% in total return terms, they exceeded the -4.7% regional market return. Latin America, Europe (ex UK) and Middle East & Africa regions all outperformed while our UK holdings, down 0.7%, fell behind the UK index, up 0.4%. On an industry sector analysis of performance, stock selection and global industry positioning both contributed positively.

Gearing

Over the year, effective equity gearing was lowered from around 110% to around 94% (with borrowings at market value), partly in response to the eurozone crisis. Potential gearing (with borrowings at market value) at the year end amounted to 124%.

Income

Total income increased by 10.2% to £21.5m, including £1.8m of special dividends, reflecting good dividend growth and a higher dividend yield achieved on investment purchases than on investment sales. Expenses rose by 3.7%, a rate below the level of UK inflation. With a lower average number of shares outstanding following share buybacks, net income per share rose by 21.2% on the year to 12.43p (2010: 10.26p).

Dividend

The board is recommending a final dividend of 5.80p per share (2010: 5.60p). Taken together with the interim dividend of 4.60p per share (2010: 4.45p), this would result in an increase of 3.5% in the total dividend for the year to 10.40p per share (2010: 10.05p) which compares with October UK CPI inflation of 5.0% and RPI of 5.4%. If the proposal is approved, the company will have increased its dividend in each of the last 28 years.

Share Price, Buybacks and Discount

The share price fell by 3.7% over the year and the discount to ex-income NAV (with borrowings at market value) tightened to 8.2% from 9.0% at the previous year-end. The company's buyback policy is intended to keep the discount to ex-income NAV with borrowings at market value at or below 9.0%. Under the policy, 3.9m (2010: 8.1m) shares were repurchased for cancellation over the financial year, utilising 2.24% of the 14.99% authority renewed at the January 2011 AGM. The shares were repurchased at an estimated average discount of 10.0% and at a cost of £19.3m (2010: £36.0m) inclusive of dealing expenses. The buybacks were funded from sales of equity investments. The average discount over the year was 9.2% and the average between the introduction of the scheme in February 2006 and the year end was 8.6%.

The company's savings schemes, ISA and SIPP operated by its regulated subsidiary, SIT Savings Ltd, continued to provide steady net demand for the company's shares over the year.

AGM – Alteration to Company's Articles

The company's Articles of Association currently prohibit the company from entering into contracts giving rise to an unlimited liability. Consequently, it has been unable to sell futures contracts to allow efficient implementation of infrequent large changes to equity exposure – hitherto the company has had to sell equity holdings. While the sale of equity futures contracts gives rise to an unlimited liability owing to the unknown price to be paid on delivery or on early settlement of the contract, in practical terms this liability would always be capped by the company's diverse holdings of highly liquid international listed equities in the regions in which the futures contracts would be sold. Consequently, the practical risk of an unlimited liability arising from such futures contract sales is extremely remote.

Moreover, it is intended that the sale of equity futures contracts would be infrequent and only when specifically authorised by the board. The directors therefore recommend that shareholders vote in favour of the proposed amendment to the Articles which is resolution 11 on the AGM Notice of Meeting.

Outlook

The near term outlook for equity markets remains clouded by the credit crisis within the eurozone. Globally, corporate balance sheets are generally healthy and profit growth has remained robust, albeit with profit margins at elevated levels. While conventional valuation measures such as current PE ratios may make equity markets appear cheap, near term earnings growth forecasts are being reined in around the world, especially in cyclical industries. At end-November, the company's global portfolio was standing at a valuation of approximately 11x historic earnings with a dividend yield of 3%, which is a lower valuation than that of the global market.

The eurozone credit crisis shows worrying signs of spreading to the core members and is likely to lead to further austerity measures which will raise the risk of recession there and in surrounding areas, while it is possible that the common currency will break up, with unpredictable consequences for markets around the world. Though the US economy appears more robust, it is still very subdued, further stimulus from the authorities is not assured and the fractious political system is failing to cope with the excessive budget deficit. Consequently, the board has opted to keep effective gearing at a low level with a view to deploying the substantial liquidity to hand, amounting to over 25% of shareholders' funds, should stockmarkets drop materially.

Douglas McDougall.

Douglas McDougall
Chairman
16 December 2011