Directors' Report

Business Review

Investment policy

The company carries on business as a global growth investment trust. Its objective is to provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation.

In order to achieve this objective, the company invests in an integrated global portfolio constructed through an investment process whereby assets are primarily allocated on the basis of the investment merits of individual stocks rather than those of regions, sectors or themes.

The company's portfolio is actively managed and typically will contain 70 to 120 listed international equity investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is compared against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the company's investment portfolio and performance may deviate from the comparator indices.

Since the company's assets are invested globally and without regard to the composition of any index, there are no restrictions on maximum or minimum exposures to specific geographic regions, industry sectors or unlisted investments. However, such exposures are reported in detail to, and monitored by, the board at each board meeting in order to ensure that adequate diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. In pursuing its investment objective, from time to time the company will hold certain financial instruments comprising equity and non-equity shares, fixed income securities, interests in limited partnerships, structured products and cash and liquid resources. The company may use derivatives, other than in relation to the sale of index futures, for hedging or tactical investment purposes. The company may only sell index futures for efficient portfolio management purposes. For the avoidance of doubt, any derivative instrument may only be used with the prior authorisation of the board. The company has the ability to enter into contracts to hedge against currency risks on both capital and income.

The company's investment activities are subject to the following limitations and restrictions:

- under the company's articles of association, up to 40% of the company's total assets on the last audited balance sheet may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made;
- the levels of gearing and potential gearing are monitored closely by the board and the manager. The company applies a ceiling on gearing of 20%. While gearing will be employed in a typical range of 0% to 20%, the company retains the ability to lower equity exposure to a net cash position if deemed appropriate;
- the company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds; and
- the company may not make investments in respect of which there is unlimited liability except that the company may sell index futures for efficient portfolio management purposes.

Investment policy – implementation

During the year under review, the assets of the company were invested in accordance with the company's investment policy. For details of how the company's absolute performance and relative performance compared to its comparator indices, please refer to the Management Review on pages 6 to 12.

A full list of holdings is disclosed on page 14 and detailed analyses of the spread of investments by geographic region and industry sector are shown on pages 6, 7 and 13. Further analyses of changes in asset distribution by industry and region over the year including the sources of appreciation and depreciation are shown on pages 6 and 7. Attributions of NAV relative performance, by industry and region, against a global equity index are shown on page 10.

At the year end, the number of listed holdings was 114. The top ten holdings comprised 16.2% of total assets (2011: 16.1%).

Details of the extent to which the company's objective has been achieved and how the investment policy was implemented are provided in the Chairman's Statement on pages 4 and 5 and the Management Review on pages 6 to 12.

Additional limitations on borrowings

Under the company's articles of association, the directors control the borrowings of the company and its subsidiaries to ensure that the aggregate amount of borrowings does not, unless approved by an ordinary resolution of shareholders, exceed the aggregate of the reserves excluding unrealised capital profits of the company and its subsidiaries, as published in the latest accounts. In addition, the directors are entitled to incur temporary borrowings in the ordinary course of business of up to 10% of the company's issued share capital. Such temporary borrowings are to be for no longer than six months.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are as follows:

- investment and market price risk;
- interest rate risk;
- liquidity risk;
- foreign currency risk; and
- credit risk.

These and other risks facing the company are reviewed regularly by the audit committee and the board. Further information is given in Note 17 to the accounts on pages 37 to 42.

Performance

Management provides the board with detailed information on the company's performance at every board meeting. Performance is measured in comparison with the company's peers and comparator indices.

Key Performance Indicators are:
- NAV total return;
- NAV total return against comparators;
- NAV and share price total return against peers;
- discount with debt at market value;
- dividend growth against UK inflation; and
- total expense ratio.

Dividends

The board may declare dividends, including interim dividends, but no dividend is payable except out of the company's revenue returns or in excess of the amount recommended by the directors. Neither unrealised appreciation of capital assets nor realised profits arising from the sale of capital assets are available for dividend.

The directors recommend a final dividend of 6.65p per share payable on 4 February 2013. With the interim dividend of 4.60p already paid in July 2012, this makes a total of 11.25p for the year. Based on shares in issue at 31 October 2012 the final dividend will cost £7,438,000. The total dividend for the year will cost £12,616,000.

Status

The company is a self-managed investment trust and is an investment company within the meaning of the Companies Act 2006. HM Revenue and Customs approved the company as an investment trust under Section 1158 of the Corporation Tax Act 2010 up to the accounting period ended 31 October 2011. This approval is subject to any subsequent enquiry by HM Revenue and Customs. The company continues to satisfy the conditions for such approval and approval is expected for the accounting period ended 31 October 2012.

Share Capital

General

The company had 111,857,926 shares in issue on 31 October 2012. The rights attaching to shares in the company are set out in the company's articles of association. The company's articles of association may be amended by the passing of a special resolution of shareholders, that is, by the approval of a majority of not less than 75% of votes cast.

Rights to the capital of the company on winding up

Shareholders would be entitled to the assets of the company in the event of a winding up (after the company's other liabilities have been satisfied).

Voting

On a show of hands, every shareholder present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for each share.

Deadlines for exercising voting rights

If a shareholder wishes to appoint a proxy to attend, speak and vote at a meeting on his behalf, a valid appointment is made when the form of proxy (together, where relevant, with a notarially certified copy of the power of attorney or other authority under which the form of proxy is signed) is received by the company's registrar not less than 48 hours before the start of the meeting or the adjourned meeting at which the proxy is appointed to vote (or, in the case of a poll taken more than 48 hours after it is demanded, no later than 24 hours before the time appointed for taking the poll). In calculating these time periods, no account is taken of any day or part thereof that is not a working day.

Buybacks

The company's buyback policy is intended to keep the discount to ex-income NAV at or below 9%. In calculating NAV for the purposes of the buyback policy, the company's borrowings are taken at their market value so as to ensure that future repurchases of shares will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. During the year ended 31 October 2012, the company bought back for cancellation a total of 2,381,000 shares representing 2.1% of shares in issue at 31 October 2011, at a cost of £11,121,000.

At the AGM on 27 January 2012 authority was granted to repurchase up to 14.99% of shares in issue on that date. The number of shares authorised for repurchase was 17,017,686. Share buybacks from the date of the AGM to the company's year end amounted to 1,669,000 shares or 1.47 percentage points of the 14.99% authority.

Substantial Shareholdings

At 12 December 2012, the company had been notified of the following holdings in excess of 3% of its shares.

	Shares	% of issue at date of notification
AXA Investment Managers SA	13,702,595	12.0
Lloyds Banking Group	6,346,524	5.1

Directors

The company's policy on the appointment of directors is shown on the company's website.

The directors of the company on 31 October 2012 and their biographical details are shown on page 15. All are non-executive.

The performance of each director was appraised by the nomination committee during the year. The chairman's performance was appraised in his absence by the other directors and the results were communicated to him. The board believes that each director is independent of the management in character and judgement and there are no relationships with the company or its employees which might compromise this independence.

In accordance with the requirements of the UK Corporate Governance Code, all directors are standing for re-election at the AGM. Douglas McDougall, Francis Finlay and Hamish Buchan have served as directors for more than nine years. After formal performance evaluation, the board confirms that Douglas McDougall, Francis Finlay and Hamish Buchan continue to perform effectively and with great commitment, consequently, it recommends their re-election.

The appointments of Douglas McDougall, Francis Finlay and Hamish Buchan as directors run for one year at a time. James MacLeod was appointed in September 2005 and Russell Napier was appointed in July 2009 each for initial terms of three years subject to their re-election by shareholders at the first AGM after their appointment. James MacLeod's appointment was renewed in September 2008 and September 2011 and Russell Napier's appointment was renewed in July 2012. Directors' letters of appointment will be available for inspection at the AGM.

The company maintains insurance in respect of directors' and officers' liability in relation to their acts on behalf of the company. The company's articles of association provide that any director or other officer of the company may be indemnified out of the assets of the company against any liability incurred by him as a director or other officer of the company to the extent permitted by law.

Directors' Interests

The interests of the directors and their families in the company's capital are as follows:

Beneficial interests	Shares of 25p 31 October 2012	31 October 2011
Douglas McDougall	60,000	60,000
Francis Finlay	60,000	60,000
Hamish Buchan	22,325	22,325
James MacLeod	24,243	22,849
Russell Napier	14,000	14,000

There were no changes in the directors' interests between 31 October 2012 and 12 December 2012.

Corporate Governance

Compliance

The board has reviewed the principles set out in the UK Corporate Governance Code and believes that the way the company is governed is consistent with these principles. Throughout the year, the company complied with the provisions of the UK Corporate Governance Code including section 1 except that:

- there is no senior independent director; and
- the chairman is a member of the audit committee.

The directors consider that, as all directors are independent and non-executive, there is no compelling case for having a senior independent director. The board considers the chairman to be independent in character and judgement and therefore there is no reason for Douglas McDougall not to be a member of the audit committee. The UK Corporate Governance Code is available from the Financial Reporting Council – **www.frc.org.uk**

The board

The board normally meets eight times throughout the year while the audit and remuneration committees meet three times each. The nomination committee meets at least annually.

During the year Francis Finlay and Russell Napier were appointed to the audit committee and Russell Napier was appointed to the remuneration committee.

There is a schedule of matters reserved for the board which includes investment strategy, accounting and financial controls, dividends and announcements, capital structure, gearing and major contracts.

Day to day management, including the selection of investments, is delegated to the company's executive management which reports directly to the board.

Prior to each board meeting, directors are provided with a comprehensive set of papers giving detailed information on the company's transactions, financial position and performance. There is a procedure for directors to seek independent professional advice at the expense of the company and training is available to directors as required.

The Companies Act 2006 requires that a director of the company must avoid a situation in which he has, or might have, an interest that conflicts, or may conflict, with the interests of the company. Each director submits a list of potential conflicts prior to each meeting. The other board members consider these and recommend whether or not each potential conflict should be authorised. No situation arose during the year whereby an interest of a director conflicted with the interests of the company.

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2012.

	Board	Audit	Remuneration	Nomination
Number of meetings	**8**	**3**	**3**	**1**
Douglas McDougall	8	3	3	1
Francis Finlay	6	2	n/a	1
Hamish Buchan	8	3	3	1
James MacLeod	8	3	3	1
Russell Napier	8	2	n/a	1

Nomination committee

There is a nomination committee comprising the whole board. The committee meets at least annually to review the structure, size and composition of the board and is responsible for identifying and nominating candidates to fill board vacancies as and when they arise. It has written terms of reference which are shown on the company's website.

Unless nominated by the board, a person nominated as a director is not eligible for election at a general meeting unless a shareholder who is entitled to vote at the meeting gives the company secretary at least six clear days' written notice of his intention to propose the relevant nominee for election, along with a notice in writing signed by the nominee confirming his willingness to be elected.

Remuneration committee

The board has appointed a remuneration committee to recommend pay and conditions for the board and employees. It has written terms of reference which are shown on the company's website.

Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. No other benefits are provided to directors. Fees recommended by the remuneration committee are subject to approval by the board. The company's articles of association provide for a maximum level of total remuneration of £250,000 in the aggregate payable to directors in any financial year.

The company aims to provide levels of employee remuneration which reward responsibility and achievement and are comparable with other fund management organisations operating in Scotland. Remuneration is reviewed annually.

Every employee is entitled to a salary and other benefits including a contributory pension scheme. In addition, there is a discretionary performance-related bonus scheme. For investment staff, bonuses payable depend, inter alia, on individual performance, the company's NAV total return and the NAV total return relative to comparator indices and peers. For other staff, bonuses depend, inter alia, on individual performance and share price total return. Notice periods for all members of staff range from three to twelve months.

Relations with shareholders

The company recognises the value of good communication with its shareholders. The management meets regularly with private client stockbrokers and the company's major institutional shareholders. The board receives regular briefings from the company's broker. Newsletters are sent to shareholders during the year and are posted on the company's website.

The annual general meeting of the company is the main forum at which shareholders can ask questions of the board and the management. All shareholders are encouraged to attend the AGM and to vote on the resolutions which are contained in the Notice of Meeting on page 46 and which is posted to shareholders at least 21 days prior to the meeting. Shareholders who cannot attend the AGM are encouraged to vote by proxy on the resolutions. Proxy voting figures are given at the end of the meeting.

Any shareholder who wishes to ask a question at another time should write to the chairman.

Accountability and audit

The responsibilities of the directors and auditor in respect of the financial statements are given below and on page 23.

The audit committee has written terms of reference which are shown on the company's website. Its duties include risk assessment, reviewing internal controls, the company's accounting policies, financial statements prior to their release and the company's procedures on whistleblowing. The committee is also responsible for all aspects of the company's relationship with its external auditor including:

- reviewing the scope and effectiveness of the annual audit;
- the auditor's remuneration;
- the terms of engagement; and
- the level of non-audit work, if any, carried out by the auditor.

The committee also ensures that the level of non-audit work does not compromise the auditor's independence.

The company does not have an internal audit function as the audit committee believes that the company's straightforward structure and small number of employees do not warrant such a function. This is reviewed by the committee annually.

The board is responsible for ensuring that the company has in place an effective system of internal controls designed to maintain the integrity of accounting records and to safeguard the company's assets. The board has applied the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces.

This process, which has existed throughout the year, is in accordance with 'Internal Control: Revised Guidance for Directors on the UK Corporate Governance Code' published in October 2005 (The Turnbull Guidance). In compliance with the UK Corporate Governance Code, the board reviews the effectiveness of the company's system of internal control at six-monthly intervals.

The board's monitoring covers all controls, including financial, operational, and compliance controls and risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied or require more extensive monitoring. During the course of its review of the system of internal control, the board has not identified, nor been advised of, any material failings or weaknesses. Therefore a confirmation in respect of necessary actions has not been considered appropriate. The audit committee assists the board in discharging its review responsibilities.

There are procedures in place to ensure that:
- all transactions are accounted for accurately and reported fully to the board;
- management observes the authorisation limits set by the board;
- there is clear segregation of duties so that no investment transaction can be completed by one person;
- control activities are regularly checked; and
- legal and regulatory obligations are met.

The board recognises that such systems can only provide reasonable, but not guaranteed, assurance against material misstatement or loss.

Going concern

The accounts of the company have been prepared on a going concern basis. It is the opinion of the directors that, as most of the company's assets are readily realisable and exceed its liabilities, it is expected that the company will continue in operational existence for the foreseeable future.

Directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

United Kingdom company law requires the directors to prepare annual financial statements. Under that law, the directors have elected to prepare the 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 accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the returns and cash flows for that year.

In preparing those financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 that 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The audit committee has reviewed the matters within its terms of reference and reports as follows:
- it has approved the financial statements for the year to 31 October 2012;
- it has reviewed the effectiveness of the company's internal controls and risk management;
- it has reviewed the need for a separate internal audit function;
- it has recommended to the board that a resolution be proposed at the AGM for the reappointment of the external auditor and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditor; and
- it has satisfied itself that the terms of the business review are consistent with the financial statements.

Auditor

Re-appointment of auditor

A resolution to re-appoint Deloitte LLP as the company's auditor, and to authorise the directors to fix its remuneration, will be proposed at the forthcoming annual general meeting.

Disclosure of information to auditor

It is the company's policy to allow the auditor unlimited access to its records. The directors confirm that, so far as each of them is aware, there is no relevant audit information of which the company's auditor is unaware and they have taken all the steps which they should have taken as directors in order to make themselves 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.

Annual General Meeting

Venue

The company's 125th AGM will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ on Friday 25 January 2013 at 10.30am.

Board recommendation

The board considers that the resolutions to be proposed at the AGM are all in the best interests of the company and of shareholders as a whole and recommends that shareholders vote in favour of them.

Resolutions 1 to 9 are self explanatory. Resolution 10, set out in the Notice of the Annual General Meeting on page 46, seeks to renew the authority to repurchase shares until 30 April 2014. The principal reasons for such repurchases are to enhance the NAV of the shares by repurchasing shares for cancellation at prices which, after allowing for costs, improve the NAV for remaining shareholders and to allow implementation of the company's share buyback policy.

Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of the authority must not exceed the higher of (i) 105% of the average of the middle market quotations for the shares as derived from the Daily Official List of the London Stock Exchange over the five business days immediately preceding the date of purchase and, (ii) the higher price of the last independent trade and the highest current independent bid. The minimum price which may be paid is 25p per share.

Resolution 10 will be proposed as a special resolution that requires to be passed by a three-quarters majority of votes cast at the AGM.

Voting Policy

The management reviews resolutions put to general meetings of the companies in which it invests and, wherever practicable, will cast its vote, usually by proxy.

Socially Responsible Investing

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on the performance are considered and these may include socially responsible investment issues. If it is considered that a company's social, environmental or ethical record will adversely affect financial performance and result in poor returns, then an investment will not be made in the company.

Payment of Creditors

It is the company's policy to agree in advance the terms of business with suppliers and then to abide by those terms.

As the company has no trade creditors, no disclosure can be made of creditor days at the year end.

Donations

No charitable or political donations were made during the year (2011: same).

By order of the board

Steven Hay

Steven Hay
Company Secretary
12 December 2012

Directors’ Remuneration Report

This report has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 incorporating the Directors’ Remuneration Report Regulations 2002. An ordinary resolution for the approval of the report will be put to shareholders at the AGM on 25 January 2013.

Remuneration Committee

The company has a remuneration committee the terms of reference of which include setting the fees of the directors. The full terms of reference are posted on the company’s website. The committee is chaired by Hamish Buchan and the other members are Douglas McDougall, James MacLeod and Russell Napier.

Policy on Directors’ Fees

On 31 October 2012, the board consisted of five directors, all of whom are non-executive. Directors’ fees are set by the remuneration committee with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy will apply for the year to 31 October 2013 and to subsequent years. The directors do not receive bonuses, share options, long-term incentives, pension or other benefits.

Directors’ Emoluments (audited)

Fees	Year to 31 October 2012 £	Year to 31 October 2011 £
Douglas McDougall	45,000	45,000
Francis Finlay	27,000	27,000
Hamish Buchan	27,000	27,000
James MacLeod	27,000	27,000
Russell Napier	27,000	27,000
	153,000	153,000

Service Contracts

The directors do not have service contracts. All directors retire and seek re-election annually.

Company Performance

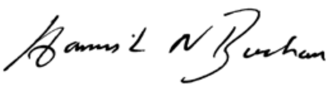
The graph below shows the company’s five year share price total return compared to the notional total return of the UK FTSE All-Share Index over the same period.

Source: Thomson Reuters

This index has been chosen as it is a common performance comparator for companies such as SIT.

Approval

The directors’ remuneration report was approved by the board on 12 December 2012 and signed on its behalf by the chairman of the remuneration committee.



Hamish Buchan
Director
12 December 2012