Chairman's Statement

Performance
In the twelve months to 31 October 2015, the net asset value per share (NAV) total return (with borrowings at market value) was 4.0%. The share price total return over the same period was 3.7%. The Manager's review provides more detail regarding the contributing factors to this performance.

The portfolio is not modelled on any index and, to reflect this, the company does not have a formal benchmark. Performance is instead reviewed in the context of returns from broad baskets of UK and international equities. Over the same period, the FTSE All-World Index sterling total return was 4.2% and the FTSE All-Share Index total return was 3.0%.

Income and Dividends
Earnings per share were higher by 38.2% at 15.91p (2014: 11.51p), due mainly to a higher level of income generation from the portfolio but also to a greater use of our borrowings throughout the year, higher special dividends and successful tax reclaims relating to historic overseas dividends.

The board recommends a final dividend of 7.50p per share (2014: 7.20p) which, if approved, and combined with the interim dividend of 5.00p, will mean that the total regular dividend for the year will increase by 4.2%, from 12.00p to 12.50p, ahead of the main measures of UK inflation. The board also recommends the payment of a special dividend of 3.50p which, if approved and combined with the total regular dividend, will mean that the total dividend for the year will increase by 33.3% to 16.00p.

Commentary
Global stockmarkets made a very strong start to our financial year, peaking at around the end of the first half, as investors remained sensitive to the intentions of the major central banks. The highly benign monetary environment was maintained as the US Federal Reserve (Fed) backed away from a suggested increase in interest rates while the European Central Bank and the Bank of Japan engaged in additional stimulus.

Markets fell heavily following the devaluation of the Chinese currency in August, which suggested that future Chinese economic growth was likely to be slower than had been previously assumed. Markets were further disturbed by a concern that the Fed would ignore the slowdown in global economic activity and fulfil a long-mooted ambition to start increasing interest rates. However, markets recovered late in our financial year as the Fed again shied away from such a course of action.

Gearing
Gearing was modestly increased through the year from 4% to 5%. The deployment of debt added to the capital return and income account and partially offset the effect of interest payments.

Discount and Share Buybacks
The discount at which the share price trades to the NAV was again broadly stable and finished the year at 8.6% (2014: 8.7%).

The company has for a number of years followed a policy that aims to maintain the discount at or below 9%. During the year, 2.5m (2014: 1.9m) shares were repurchased for cancellation at an average discount of 8.9% (2014: 9.7%) and at a cost of £15.4m (2014: £11.3m).

Appointment of Manager and Restructuring
Alasdair McKinnon was appointed Manager of the company in February 2015 after serving as Acting Manager since July 2014.

We have restructured our operations to reflect the fact that the portfolio is managed as a unified global entity and to ensure that our costs remain competitive. We have also closed our defined benefit pension scheme to future accrual.

Our ongoing charges ratio for the year under review was 0.52% which is among the lowest in the industry and compares with 0.68% in the previous year.

Board
I shall retire from the board following the annual general meeting and I am delighted to be succeeded as Chairman by James Will. I am confident of the future of the company in the hands of James and his colleagues.

Outlook
We exist in an investment climate that owes much to the continued availability of cheap credit. Complicating this is the fact that the credibility of the US Federal Reserve has been staked on a desire to 'normalise' interest rate policy while other important central banks continue to discuss further extraordinary stimulus. It is unclear how this will eventually end.

Regardless of the above uncertainty, we believe that we have a portfolio of sound companies which should work to the long-term advantage of our shareholders.

Douglas McDougall.

Douglas McDougall
Chairman
14 December 2015