

# Directors' Report

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## Directors

The company's policy on the appointment of directors is shown on the company's website, [www.sit.co.uk](http://www.sit.co.uk)

The directors of the company and their biographical details are shown on page 5. 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. The Board does not consider the use of an external agency would provide meaningful benefit to the evaluation process. However, the option to do so is kept under review.

The company's directors are subject to annual election by shareholders. Douglas McDougall and Hamish Buchan have served as directors for more than nine years. After formal performance evaluation, the board confirms that Douglas McDougall and Hamish Buchan continue to perform effectively and with great commitment. Douglas McDougall retires at the AGM on 29 January 2016. Ian Hunter was appointed to the board in December 2014 on the recommendation of the nomination committee and elected at the AGM on 30 January 2015. James MacLeod retired from the board on 30 January 2015.

The appointments of Douglas McDougall and Hamish Buchan as directors run for one year at a time. Russell Napier was appointed in July 2009, James Will was appointed in May 2013 and Ian Hunter was appointed in December 2014. Russell Napier's appointment was renewed in July 2012 and July 2015.

Jane Lewis and Mick Brewis were appointed as directors in December 2015, each for an initial term of three years subject to election by shareholders at the AGM on 29 January 2016. Directors' letters of appointment will be available for inspection at the AGM. No external agency was used in the selection process as the nomination committee was itself able to identify a 'long list' of high quality and diverse candidates with the skills, knowledge and experience required.

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' 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 directors have considered the Annual Report and Accounts and believe that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance and strategy.

## 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 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](http://www.frc.org.uk)

## Directors' Report (continued)

### Conflicts of interest

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 Board

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

The following table shows the attendance of directors at board and committee meetings for the year to 31 October 2015.

	Board	Audit	Remuneration	Nomination
<b>Number of meetings</b>	<b>8</b>	<b>3</b>	<b>3</b>	<b>3</b>
Douglas McDougall	8	3	3	3
Hamish Buchan	8	3	3	3
James MacLeod	1	1	1	–
Russell Napier	8	2	3	3
James Will	8	3	3	3
Ian Hunter	8	3	3	3

James MacLeod retired from the board on 30 January 2015. He attended all possible board and committee meetings prior to retirement.

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.

The board of SIT appointed the company's wholly-owned subsidiary, SIT Savings Limited, as its Alternative Investment Fund Manager (AIFM). Day to day management of the company 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.

### Committees

#### Audit committee

The audit committee comprises the whole board and is chaired by Ian Hunter. It 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 2015;

- 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 Strategic Report are consistent with the financial statements.

Further details are set out in the Report of the Audit Committee on pages 19 and 20. The terms of reference are available from the company's website.

#### Nomination committee

There is a nomination committee comprising the whole board. The committee is chaired by Douglas McDougall. The committee meets at least annually to review the structure, size and composition of the board. It has written terms of reference which are shown on the company's website.

The nomination committee is responsible for nominating, for the approval of the board, candidates to fill board vacancies as and when they arise. The committee will evaluate the skills, experience, independence, knowledge and diversity of the board and, subject to the aforementioned, prepare a description of the role and capabilities required to fulfil the appointment.

When board positions become available as a result of retirement or resignation, the committee will ensure that a diverse group of candidates is considered. In order to recruit relevant candidates, the identification of such candidates may be carried on in conjunction with the board by an independent firm of consultants. If such a process is not used, the committee will disclose the reasons in the Directors' Report in the next Annual Report and Accounts.

The committee will consider candidates on merit and against objective criteria having regard to the benefits of diversity, including gender.

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. The committee is chaired by Hamish Buchan. Further details of directors' remuneration are included in the Directors' Remuneration Report on pages 21 and 22.

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 six months.

### Diversity Policy

The company recognises the need to consider the diversity of its staff and its board of directors. As a general principle, the company will show no bias for age, gender, race, sexual orientation, marital status, religion, nationality, ethnic or national origins, or disability in considering the appointment of staff or board members.

The structure, size and composition of the board of directors are reviewed at least annually by the nomination committee ensuring an appropriate balance of skills, experience, independence and knowledge. In considering new appointments to the board, the committee recognises the benefits of diversity on the board, including gender. The committee will consider both male and female candidates and ensure appointments are made on the basis of merit against objective criteria. As all appointments will be based on merit and in view of the small size of the board, the board does not consider it appropriate to set diversity targets.

### 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 48 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.

### 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.

### Annual General Meeting

#### Venue

The company's 128th AGM will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ on Friday 29 January 2016 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 11 are self explanatory. Resolution 12, set out in the Notice of the Annual General Meeting on page 48, seeks to renew the authority to repurchase shares until 29 April 2017. 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 12 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

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

### Carbon Emissions

The company's carbon emissions result predominantly from its consumption of electricity at its single office. Using Defra/DECC's GHG conversion factors for company reporting 2015, emissions for the year to September 2015 were 55.8 tonnes of CO<sub>2</sub>e (2014: 56.40 tonnes CO<sub>2</sub>e). This equates to 0.13 tonnes of CO<sub>2</sub>e (2014: 0.13 tonnes of CO<sub>2</sub>e) per square metre.

By order of the board.



Steven Hay  
Company Secretary  
14 December 2015

# Report of the Audit Committee

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The audit committee comprises the whole board and is chaired by Ian Hunter.

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.

## Annual Report

The audit committee reviews the Annual Report and Accounts to ensure it is fair, balanced and understandable.

## Internal Controls

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 committee 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 committee has applied the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces.

In compliance with the UK Corporate Governance Code, the committee reviews the effectiveness of the company's system of internal controls at six-monthly intervals.

The committee'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 controls, the committee 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 committee also monitors the controls and risk management of the company's custodian, Northern Trust.

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

## Significant Issues

The committee considers the risks that may have an impact on the company's financial statements.

The valuation and ownership of the company's investments are risks. Investments are valued in accordance with the accounting policy on page 30. The prices of all investments are agreed with an independent source and the ownership of each investment agreed through confirmation received from the company's independent global custodian, Northern Trust.

The incomplete or inaccurate recognition of income in the financial statements are also risks. Internal control systems, including frequent reconciliations, are in place to ensure income is fully accounted for. The board is provided with information on the company's income account at each meeting.

## Auditor

### Assessment

The company's auditor, Deloitte LLP, was appointed in 2002. The committee reviews annually the services provided and the related fees. The corporate governance provisions relating to audit tenure have been reviewed and the committee is of the opinion there is no need to conduct a competitive tender at the present time. The fees for audit and non-audit services were £29,100 (2014: £28,200) and £16,850 (2014: £16,550) respectively. Non-audit services include: Tax compliance £6,800; assurance services £4,400 and Pension scheme audit £5,650.

The audit committee reviews and approves any non-audit services provided by the auditor and assesses the impact of any non-audit work on the ability of the auditor to remain independent.

### Partner rotation

The audit partners responsible for the audit are rotated every five years. Andrew Partridge, the current audit partner, was appointed this year.

## Report of the Audit Committee (continued)

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### Independence

The committee has satisfied itself of the continuing independence of Deloitte LLP. The committee confirms the level of non-audit work undertaken does not compromise independence.

### 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.



**Ian Hunter**  
Director  
14 December 2015

# Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 incorporating The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the directors' remuneration report will be put to shareholders at the AGM on 29 January 2016.

## 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, Russell Napier, James Will and Ian Hunter.

## Policy on Directors' Fees

On 31 October 2015, 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. 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 policy on Directors' Fees was approved at the AGM held in January 2014 and it is intended that this policy will apply for the period up to 31 October 2016.

The remuneration committee agreed to an increase in directors' fees, with effect from 1 November 2013, to £50,000 per annum for the chairman and £30,000 per annum for other directors.

Directors are remunerated exclusively by fixed fees in cash and do not receive bonuses, share options, long-term incentives, pension or other benefits. There were no changes to the level of directors' fees during the financial year.

Remuneration	Proposed fees for the year to 31 October 2016 £	Actual fees for the year to 31 October 2015 £
Chairman	50,000	50,000
Non-executive director	30,000	30,000

## Directors' Emoluments (audited)

Fees	Year to 31 October 2015 £	Year to 31 October 2014 £
Douglas McDougall	50,000	50,000
Hamish Buchan	30,000	30,000
Russell Napier	30,000	30,000
James Will	30,000	30,000
Ian Hunter (appointed December 2014)	25,952	–
James MacLeod (retired January 2015)	7,500	30,000
	<b>173,452</b>	<b>170,000</b>

James MacLeod received no additional remuneration on retirement.

As all the directors are non-executive and their fees are payable quarterly with no performance-based element, there is no correlation between the directors' fees and the employees' remuneration. The company is of the view therefore, that it is not necessary to consult with employees when drawing up the remuneration report.

## Service Contracts

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

## Directors' Interests

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

	Shares of 25p	
	31 October 2015	31 October 2014
Douglas McDougall	60,000	60,000
Hamish Buchan	22,325	22,325
Russell Napier	14,000	14,000
James Will	8,000	6,000
Ian Hunter	22,608	–

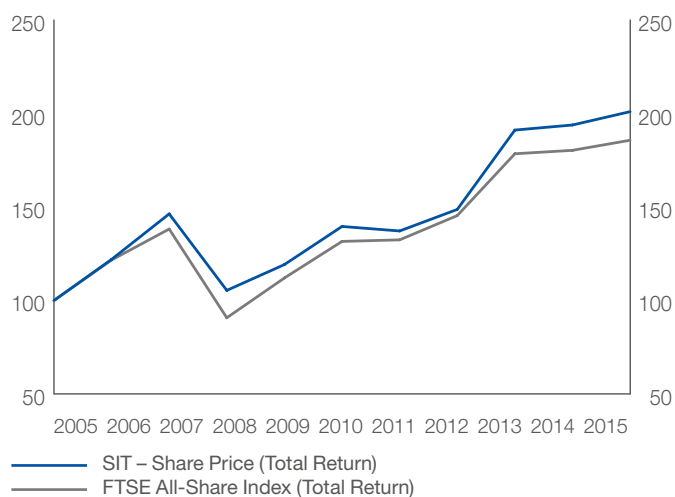
In addition to the 8,000 shares held, Mr Will is a trustee of a trust which holds 22,000 shares in the company. Mr Will is beneficially or potentially beneficially interested in this holding.

There were no changes in the directors' interests between 31 October 2015 and 9 December 2015.

## Directors' Remuneration Report (continued)

### Company Performance

The graph below shows the company's ten 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.

### Relative Importance of Directors' Fees

	2015 £'000	2014 £'000	% Change
Directors' fees	173	170	1.8
Expenses	4,900	4,887	0.3
Staff costs	3,117	3,056	2.0
Dividends paid and proposed	16,981	13,013	30.5

Directors' Fees as a Percentage of:	2015 %	2014 %
Expenses	3.5	3.5
Staff costs	5.6	5.6
Dividends paid and proposed	1.0	1.3

Excluding discretionary performance-related bonuses, expenses increased by 1.5% and staff costs increased by 4.4%.

Further details of the company's expenses and staff costs can be found in notes 2 and 3, respectively, on page 31 and of dividends paid in note 7 on page 35.

### Approval

Voting on the resolution to approve the Directors' Remuneration Report 2014, at the company's AGM on 30 January 2015, was as follows:

Resolution	% For	% Against	% Withheld
Approve directors' remuneration report	98.8	1.2	0.0

The Directors' Remuneration Report 2015 was approved by the board on 4 December 2015 and signed on its behalf by the chairman of the remuneration committee.

Hamish Buchan  
Director  
14 December 2015