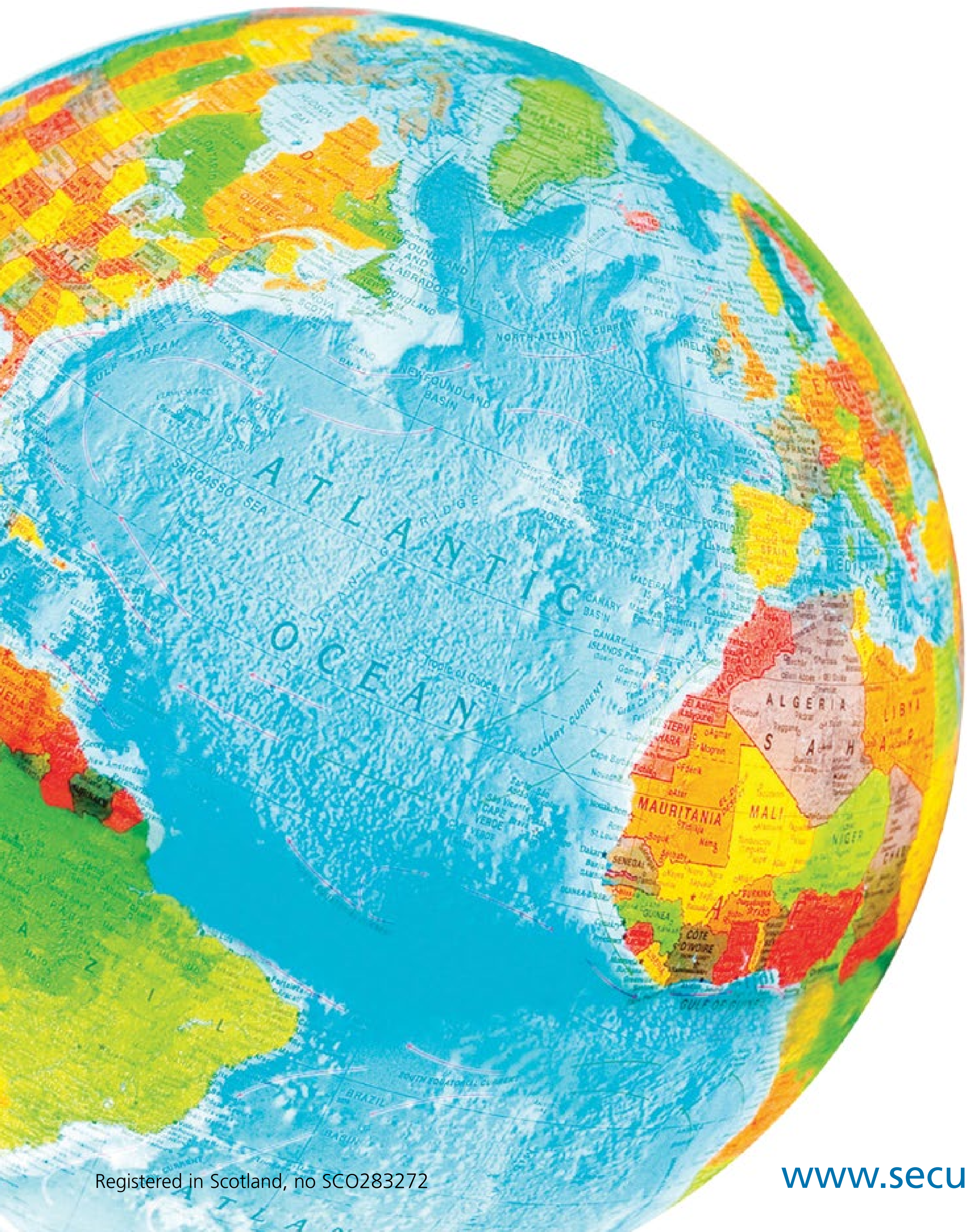
martin currie

Securities Trust of Scotland

Annual report year to 31 March 2016



Registered in Scotland, no SCO283272

www.securitiestrust.com

About Securities Trust of Scotland

Growing long-term, delivering rising income

Securities Trust of Scotland plc ('the company') aims to achieve rising income and long-term capital growth through investment in a balanced portfolio constructed from global equities.

Dividends paid quarterly

We pay quarterly dividends to provide investors with a regular income.

Focused portfolio managed by Martin Currie

The manager typically runs a focused 40-60 stock equity portfolio that is unconstrained by geography, sector, stock or market capitalisation.

Discount management

The company has the authority to repurchase shares at any time. If the average discount exceeds 7.5% in the 12 weeks prior to the financial year-end, a redemption opportunity is triggered (please see page 51).

Independent board

The company is overseen by an independent board. By engaging with and listening to shareholders, the board ensures that the company continues to offer a distinctive investment proposition that is relevant to investors' needs.

Objective

Rising income and long-term capital growth

Portfolio focus

Global income and growth

Benchmark

MSCI World High Dividend Yield index

Capital structure

112,965,486 ordinary shares of 1p, each entitled to one vote

Dividends paid

March, June, September and December

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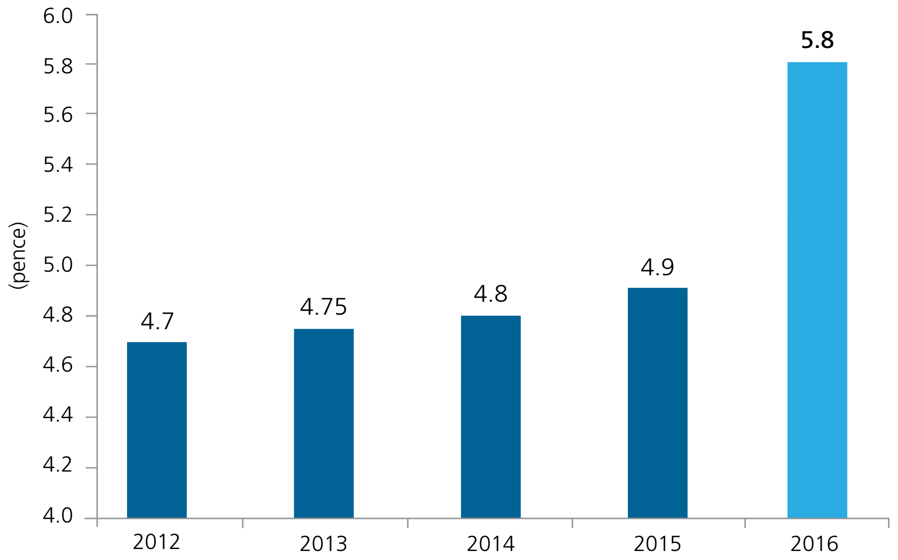
Financial Highlights

Our objective is deliver rising income and long-term capital growth.

Rising income

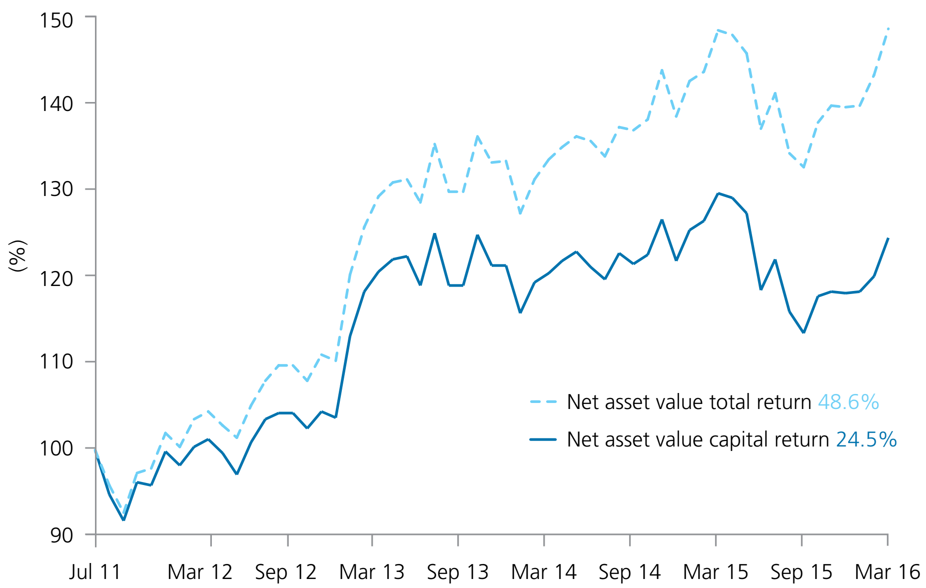
Dividend per share (pence)



Source: Martin Currie Investment Management.

A total annual dividend of 5.8p represents an attractive yield of 4.3%* and is over 18% higher than the previous year.

Long-term capital growth



The net asset value ('NAV') total return has increased over 48% since the adoption of a global mandate.

Source: Martin Currie Investment Management.

The net asset value capital return is calculated using the ex-income net asset value per share.

The net asset value total return is calculated using the ex-income net asset value per share with dividends reinvested.

*Based on the share price as at 31 March 2016.

Financial highlights

Total returns‡ (including reinvested dividends)

	Year ended 31 March 2016	Year ended 31 March 2015
Net asset value per share	0.0%	11.3%*
Share price	(2.2%)	3.1%
Benchmark†	4.4%	13.4%

Key data

	As at 31 March 2016	As at 31 March 2015	% change
Net asset value per share (cum income)	145.61p	152.93p	(4.8)
Net asset value per share (ex income)	145.18p	151.25p	(4.0)
Share price	135.00p	144.25p	(6.4)
MSCI World High Dividend Yield Index	728.34	725.63	0.4
Discount/(premium)	7.29%	5.68%	
Average discount/(premium)**	6.97%	5.49%	

Income

	Year ended 31 March 2016	Year ended 31 March 2015	% change
Revenue return per share	4.73p	5.11p	(7.4)
Dividend per share	5.80p	4.90p	18.4

Ongoing charges^

	Year ended 31 March 2016	Year ended 31 March 2015
Ongoing charges	1.0%	1.0%

Source: Martin Currie Investment Management Limited.

‡The combined effect of any dividend paid, together with the rise or fall in the share price, net asset or benchmark.

*Misstatement in annual report 2015. In the annual report for the year end 31 March 2015 the NAV total return was incorrectly stated as 12.5%, the correct figure was 11.3%. The underperformance for the year end 31 March 2015 should have been shown as 2.1%, not 0.9%.

†MSCI World High Dividend Yield index.

**Average discount/(premium) over 12 week period to 31 March (based on capital only net asset value).

^Ongoing charges (as a percentage of shareholders' funds) are calculated using average net assets over the year. The ongoing charges figure has been calculated in line with the AIC's recommended methodology.

Five-year record

Annual total returns with dividends reinvested over 12 month periods to 31 March

	2016	2015	2014	2013	2012
Share Price	(2.2%)	3.1%	2.2%	24.4%	17.8%
Net asset value per share	0.0%	11.3%	3.3%	23.8%	5.8%
Benchmark‡	4.4%	13.4%	5.8%	23.0%	5.0%

Source: Martin Currie Investment Management Limited.

‡Prior to 1 August 2011, the company's benchmark was the FTSE All-Share index and the MSCI World High Dividend Yield index thereafter.

Following a challenging year for all markets, I am pleased to report to you and to announce some positive developments that will position Securities Trust of Scotland favourably for the future.

Performance in the year under review

Over the year, global markets experienced heightened volatility on the back of geo-political issues and the manager's review picks up on these points in more detail. Against this backdrop, the net asset value ('NAV') was flat and the share price was down 2.2%, both on a total return basis for the period. This compares to a 4.4% rise in the benchmark.

Discount and share buy backs

Discounts have widened considerably across the sector and this was also experienced by your company. The board continually monitors the company's discount against net asset value, both in absolute terms and also against peers and has the authority to repurchase shares at any time. In order to prevent the discount from widening excessively, the company bought back 8,025,891 shares over the year at an average discount of 7.3%. Of these, 3,666,664 were bought in the last 12 weeks of the financial year in line with our discount management strategy. At the year end, the discount was 7.4% and the average cum income discount throughout the year was 6.4%.

Growing dividend

With interest rates remaining near record lows and some government bond yields turning negative, it is difficult for investors to generate a reasonable income, and I have commented previously that your board recognises the attraction to shareholders of real yields and income predictability.

I am delighted to declare a fourth dividend of 1.45p, bringing the total annual dividend to 5.8p, a very healthy rise of 18% on the previous year. Based on the company's year-end share price, this represents a yield of 4.3%. This will be paid on 17 June 2016 to shareholders on the register at 27 May 2016. This is in line with the new progressive dividend policy announced last year and follows the decision to take advantage of the flexibility inherent in the investment trust structure to pay some of the dividend from capital, if necessary.

The revenue return per share for the year end 31 March 2016 is 4.73p, a fall of 7.4% compared to the 5.11p for the year end 31 March 2015. This is due to a number of factors, notably a shift in the portfolio to some lower yielding stocks which offer a greater degree of income security, and better growth prospects.

New portfolio manager

I am delighted to introduce Mark Whitehead who takes over as portfolio manager on 11 May 2016. Mark was recently appointed Head of Equity Income at Martin Currie and leads the new income team. Income is one of the three central pillars of Martin Currie's investment proposition and the board wholeheartedly welcomes this commitment and the formation, and subsequent strengthening, of this specialist team.

Mark is a highly respected global equity income portfolio manager with over 17 years' experience and his track record ranks him highly amongst his peers for producing real dividend growth with less volatility than the relevant benchmark. His focus will remain on investing in undervalued, high quality and growing companies to deliver the company's investment objective. Mark aims to fully utilise the investment instruments available to help improve future returns and he will introduce the use of options, in a limited and carefully controlled manner, in the new financial year. The board believes that this will enhance the total return potential for shareholders.

I would like to take this opportunity to thank Alan Porter for his careful stewardship of the portfolio through a period of tough and testing markets and am delighted that he continues his close relationship with the company as a senior member of Martin Currie's income team.

"I am delighted to declare a fourth interim dividend of 1.45p, bringing the total annual dividend to 5.8p, a very healthy rise of 18% on the previous year."

Review of investment objective and how we monitor the performance of your company

Five years ago, the board took the decision to progress from a UK equity only mandate to a global equity income mandate, and that decision has been justified by the significant outperformance of global equities, by more than 22%*, over the period. The approaching five year anniversary of that change provided a sensible juncture to review the company's current objective and benchmark to ensure that they remain appropriate. The board believes that the current objective is in line with shareholders' needs

*Source: Martin Currie Investment Management Limited. MSCI World High Dividend Yield index as compared to the FTSE Allshare total return (1 August 2011 to 31 March 2016).

but would like the portfolio manager to be able to select stocks on a truly unconstrained basis. Consequently, the current benchmark, the MSCI World High Dividend Yield index, will be dropped, effective from end May 2016.

It is important, however, that you and your board are able to evaluate the success of the manager in achieving the investment objective and consequently, the company's investment performance (on a total return basis) will be measured against the median of all relevant open and closed-ended peers (sourced from the Lipper Global Equity Income sector and AIC Global Equity Income sector) on a rolling three-year basis. In addition, and to ensure that our investment objective is met, the manager will aim to grow both the revenue earnings and the cum income NAV in real terms over a rolling five year period. This real growth target, in income and capital, is critical to our long term success and we will measure this objective against global developed market inflation.

"Rachel Beagles will be taking over from me as chairman and Rachel's extensive knowledge of the investment industry will serve the company well."

To achieve this end, the manager will operate a focused portfolio of 35-55 stocks which will be benchmark agnostic and unconstrained by geography, sector and market weighting. This creates a wider opportunity set and the board believes that this updated investment approach is more likely to deliver the returns that can fulfil the investment objective and satisfy shareholders who are looking for an increase in the value of their income and capital.

Borrowing

As stated above, interest rates remain low and your board intends to take advantage by modestly increasing the structural gearing of the company from £17 million to £20 million. The company currently intends to enter into a two year rolling credit facility for £5 million and a seven year fixed facility for £15 million. To improve flexibility in volatile markets, the board will increase the current gearing limit from 15% to 20% of net assets, in line with many companies in the sector.

Board

I shall be retiring from the board at the AGM on 27 July 2016 after serving as a director of the company since its inception. I am honoured to have fulfilled this role, and my commitment as a shareholder has only deepened as a result of the proposals outlined above.

Rachel Beagles will be taking over from me as chairman and Rachel's extensive knowledge of the investment industry will serve the company well. Rachel has over 25 years' experience working in investment markets, including over 10 years as a non-executive director within the investment company industry. She is a board member of the Association of Investment Companies (AIC) and a director of BlackRock Emerging Europe plc and New India Investment Trust plc. She has served on the board of your company for six years.

I am also very pleased to welcome John Evans as a director of the company. He has a wealth of experience having worked in the industry for over 30 years. Throughout his career, John has been closely involved with the management of investment companies and, in particular, those with an income objective. His strong specialist knowledge of the investment trust sector will be invaluable and complements the blend of skills and knowledge on the board. John is currently non-executive director of Investors Capital Trust plc and is the chairman of Drum Income Plus REIT.

As a result of these changes, Angus Gordon Lennox will replace Rachel as chairman of the Marketing & Communications Committee, and John will replace Angus as chairman of the Management Engagement Committee, both with immediate effect.

Subscribe for monthly updates

I would like to thank you again for your continued support. As ever, please feel free to contact me, or Rachel following my retirement, if you have any questions regarding your company.

To learn more about your company, including the views of the new portfolio manager Mark Whitehead, I encourage you to visit the company's revitalised website at www.securitiestrust.com, which is a comprehensive source of detailed information. You can register for monthly email updates that will keep you informed and provide useful information on the company.

Neil Donaldson
11 May 2016

Market review

Global equity markets experienced mixed fortunes in the 2016 fiscal year. The MSCI World High Dividend Yield index, our benchmark, was up by 4.4%. This compares with an unchanged move in the MSCI World index and a decline of 4% for the FTSE All-Share index (all returns in sterling terms). The strongest region was North America and the weakest Asia. In sector terms, consumer staples, utilities and telecoms fared the best, each up 11–13%; meanwhile, materials and energy were the worst-performing sectors, falling 10–12%.

Key drivers to equity markets over the year have been the volatility of commodity prices, uncertainty over central bank policies and continuing concerns over Chinese growth. The oil price exemplifies the volatility that commodity prices have experienced over the last couple of years. The Brent Crude oil price was over US$110 a barrel in June 2014, but by mid-January 2016, was trading below US$30 a barrel. Many metal prices have experienced similarly extreme moves. For equity investors this has meant that the energy and materials sectors have had another weak year extending their underperformance to over five years. Key for the capital return of any portfolio will be at what point these sectors start recovering. Our focus remains on the sustainability of cash flows generated by companies. This is because we want to see dividend growth as well as stable long–term revenue growth.

The biggest central bank event of the year came in December when the US Federal Reserve raised short-term interest rates for the first time in nearly a decade. This brings to an end an era of near-zero interest rates that has existed since late 2008. The US economy is approaching full employment (a key criterion in the journey towards interest rate normalisation), but we have yet to see this feed through to wage inflation. Economic statistics remain mixed, so the pace of US interest rate rises is by no means clear. By contrast, many economies are pursuing monetary easing policies which have included negative interest rates – notably the European Central Bank and the Bank of Japan.

Growth in China is expected to slow in 2016 and 2017, primarily reflecting weaker levels of investment as it continues to rebalance its economy towards a consumption-based model. With the country investing close to 45% of its GDP, how it manages this transition has important implications for the rest of the world. The most obvious being the effect this will have on global demand, particularly for commodities. Another is the outflow of surplus funds and its tendency to weaken the exchange rate with implications for global competitiveness.

There is, of course, inherent uncertainty in the outcomes of such macro factors. This is precisely why we aim to create a balanced, diversified portfolio, with the risk budget focused on stock–specific, rather than exogenous factors. This does not guarantee success, but it is well suited to the volatility prevalent in the current environment.

Portfolio review

Performance

The total return of the NAV was flat for the full year, which compares with the muted returns of the MSCI World index, but is below that of our benchmark. In aggregate, our positive contributors in the stronger sectors such as staples, utilities and telecoms were not enough to positively offset the weakness of stocks owned in the materials and energy sectors.

At the stock level, WEC Energy Group, Philip Morris and UPS were among the most positive contributors. Bucking the sector trend, WEC Energy Group performed well as it completed the acquisition of its neighbouring utility Integrys, creating the leading electric and natural gas utility in the US Midwest. We believe WEC Energy is a low-risk business that is well positioned because it has a diversified (and healthy) balance sheet, attractive growth potential and an experienced management team. Philip Morris, the tobacco producer, has also fared well. Its revenues have continued to grow, costs have been kept under control and it has progressed development of reduced-risk products which it believes will encourage smokers to switch to less harmful products. UPS, the small-package delivery firm, has been another notable positive, as it transforms its business model to capture the growth of online retail in the US.

"There is, of course, inherent uncertainty in the outcomes of such macro factors. This is precisely why we aim to create a balanced, diversified portfolio, with the risk budget focused on stock-specific, rather than exogenous factors."

The weakest contributors included Kinder Morgan and BHP Billiton. The former, one of our top contributors of the previous year, suffered as the oil price collapsed and investors and credit markets worried about the sustainability of its business model given its high levels of debt. In response, Kinder looked to resolve some of its problems during the year by reducing its dividend to allow it to self-fund its future projects.

Meanwhile, BHP Billiton suffered as metal prices fell, reflecting the lower overall demand. Despite being a low-cost producer with quality assets, the Anglo-Australian mining multinational has not been immune to the impact of low prices and we decided to sell our position. Since then, the firm has cut its dividend.

Activity

As mentioned in the chairman's statement there was a decline in revenue per share this year. This partly reflects a shift in the portfolio towards lower yielding stocks with faster growing and more secure dividends. Focusing more on owning companies that are exhibiting attractive growth, such as UPS mentioned below, will better enable us to meet the objective of rising income over the longer term even if that means sacrificing some yield in the short term. The board allowed the manager more flexibility here by using the company's authority to distribute some capital profit by way of dividend if so required.

Notable new stock purchases in the year included UPS and Unibail-Rodamco. UPS is the world's largest package delivery firm and is enjoying structural revenue expansion driven by online retail growth which it estimates is increasing at a multiple of US GDP. Its operating margins and capital expenditure are both stable, so returns on capital should remain at current, high levels. We expect the resultant excess cash generated to allow for generous returns to shareholders by means of sustainable, growing dividends as well as buybacks. Unibail-Rodamco is Europe's leading listed commercial property business, specialising in shopping centres in European capital cities. Unibail's current performance reflects robust rental growth of its shopping centres driven by good execution in renewals and re-lettings. The firm enjoys one of the strongest credit ratings in the sector, as well as strong financial ratios reflecting the quality of the business. We expect its dividend to continue to grow in line with its earnings.

On the other side, notable sales in the year included Kraft Foods Group and BASF. Kraft Foods Group and Heinz merged in 2015 to create the Kraft Heinz Company, the fifth-largest food and beverage producer in the world. Our investment case for Kraft was based on improved revenue growth from adding innovative new products in faster-growing segments and on improved profitability from the management focus on lowering the cost base. We felt the positive share price reaction to the deal took away the upside we could see from potential revenue and cost-synergy opportunities derived from the merger. With regard to BASF, its inclusion in the portfolio was based on its innovation-led revenue growth, as the German chemical giant moves further downstream from bulk chemicals to consumer-facing products (other reasons also included its continued emphasis on long-term value creation through maintaining cost control and a strong balance sheet). However, despite these attractive attributes, the firm's fortunes are being influenced by external factors such as the oil price, and with the general weakening of commodity prices we became concerned about the risks to the dividend and decided to sell our holding.

Outlook

The global economic backdrop remains volatile as developed market economies experience modest and uneven recoveries and many developing market economies continue to face challenging times. Management teams are generally cautious on their outlook and are hoping for a stronger US recovery, a sustained European recovery and for weakness in Asia, particularly China, to be contained. Surveys suggest that global fund managers are also cautious and are most fearful of a potential US recession, the failure of loose monetary policies and Chinese capital controls. However, on the brighter side, global equities continue to offer an attractive dividend yield relative to other asset classes.

The appointment of Mark Whitehead as portfolio manager and the creation of the new, strengthened income team represents an exciting development in the resource behind the company. Our focus will remain on investing in undervalued, high quality and growing companies to deliver on our objective of providing rising income and long term capital growth.

Alan Porter
11 May 2016

Portfolio Summary

Portfolio distribution as at 31 March 2016

By region (excluding cash)

	2016 %	2015 %
North America	50	43
Developed Europe	39	47
Developed Asia Pacific ex Japan	7	4
Japan	2	3
Global Emerging Markets	2	3
	100	100

By sector (excluding cash)

	2016 %	2015 %
Financials	20	15
Industrials	16	9
Consumer goods	14	16
Healthcare	13	15
Consumer services	9	14
Telecommunications	8	7
Oil & gas	7	11
Utilities	6	5
Basic materials	5	7
Technology	2	1
	100	100

By asset class (including cash and borrowings)

	2016 %	2015 %
Equities	110	109
Less borrowings	(10)	(9)
	100	100

Largest 10 holdings

	31 March 2016 Market value £000	31 March 2016 % of total portfolio	31 March 2015 Market value £000	31 March 2015 % of total portfolio
British American Tobacco	7,887	4.4	6,774	3.4
Phillip Morris International	7,195	4.0	5,727	2.9
Chevron	7,194	4.0	8,977	4.5
Pfizer	5,605	3.1	6,458	3.3
United Parcel Service	5,452	3.0	—	—
Verizon Communications	5,417	3.0	6,768	3.4
Paychex	5,319	3.0	4,612	2.3
Anheuser-Busch Inbev	5,021	2.8	—	—
Givaudan	4,915	2.7	4,441	2.2
Bank of Montreal	4,904	2.7	4,272	2.2

Portfolio Holdings

As at 31 March 2016

	Sector	Country	Market value £	% of total portfolio
North America			89,526,448	49.76
Phillip Morris International	Consumer goods	United States	7,194,597	4.00
Chevron	Oil & gas	United States	7,194,237	4.00
Pfizer	Healthcare	United States	5,605,399	3.11
United Parcel Service	Industrials	United States	5,451,665	3.03
Verizon Communications	Telecommunications	United States	5,417,157	3.01
Paychex	Industrials	United States	5,318,990	2.96
Bank of Montreal	Financials	Canada	4,904,136	2.72
Merck & Co	Healthcare	United States	4,619,916	2.57
Crown Castle International	Financials	United States	4,502,156	2.50
Waste Mangement	Industrials	United States	4,456,431	2.48
Eaton	Industrials	United States	4,181,517	2.32
Caterpillar	Industrials	United States	3,828,364	2.13
Apple	Technology	United States	3,760,117	2.09
Procter & Gamble	Consumer goods	United States	3,630,734	2.02
Wec Energy Group	Utilities	United States	3,542,921	1.97
Sempra Energy	Utilities	United States	3,540,002	1.97
International Paper Company	Basic materials	United States	3,241,616	1.80
Johnson & Johnson	Healthcare	United States	2,950,160	1.64
Occidental Petroleum	Oil & gas	United States	2,718,934	1.51
Kinder Morgan	Oil & gas	United States	1,754,301	0.98
Credicorp	Financials	United States	1,713,098	0.95

	Sector	Country	Market value £	% of total portfolio
Developed Europe			70,927,545	39.42
British American Tobacco	Consumer goods	UK	7,886,706	4.38
Anheuser-Busch Inbev	Consumer goods	Belgium	5,020,719	2.79
Givaudan	Basic materials	Switzerland	4,914,947	2.73
Eutelsat Communications	Consumer services	France	4,450,301	2.47
SSE	Utilities	UK	4,357,149	2.42
Roche Holdings	Healthcare	Switzerland	4,297,617	2.39
Novartis	Healthcare	Switzerland	4,053,945	2.25
SKY	Consumer services	UK	3,960,176	2.20
Unibail Rodamco	Financials	Netherlands	3,841,245	2.14
Kingfisher	Consumer services	UK	3,743,509	2.08
Sanofi	Healthcare	France	3,142,750	1.75
Inmarsat	Telecommunications	UK	3,090,572	1.72
Lloyds Banking Group	Financials	UK	3,077,552	1.71
TeliaSonera	Telecommunications	Sweden	3,030,984	1.69
Intesa Sanpaolo	Financials	Italy	3,009,376	1.67
Direct Line Insurance	Financials	UK	2,979,179	1.66
Airbus	Industrials	France	2,490,298	1.38
Prudential	Financials	UK	2,331,458	1.30
Hugo Boss	Consumer goods	Germany	1,249,062	0.69
Developed Asia Pacific Ex Japan			13,256,011	7.37
ASX	Financials	Australia	4,007,978	2.23
Transurban Group	Industrials	Australia	3,692,363	2.05
United Overseas Bank	Financials	Singapore	2,801,519	1.56
Singapore Telecommunications	Telecommunications	Singapore	2,754,151	1.53
Japan			3,609,501	2.01
Lawson	Consumer services	Japan	3,609,501	2.01
Global Emerging Markets			2,583,236	1.44
Fibra Uno	Financials	Mexico	2,583,236	1.44
Total portfolio			179,902,741	100.00

Business model

The company, as an investment trust, is a UK closed end public limited company which invests in a diversified portfolio of assets meeting certain tax conditions. The primary objective is to achieve rising income and long-term capital growth which it seeks to deliver for shareholders through investment in a balanced portfolio constructed from global equities. The performance of the company is currently measured against the MSCI World High Dividend Yield index.

The company has no employees, and the board outsources its entire operational infrastructure to third party organisations. In particular, the board appoints and oversees an independent investment manager to manage the investment portfolio. The board sets the company's strategy, decides the appropriate financial policies to manage the assets and liabilities of the company, ensure compliance with tax, legal and regulatory requirements and reports regularly to shareholders on the company's performance. The directors do not envisage any change to this model in the foreseeable future.

For more information on investment trusts please visit www.theaic.co.uk.

Strategy

The board's principal strategies are:

Current investment strategy

The company invests in predominantly global equities. The majority of the portfolio is invested in large capitalisation companies; companies with market capitalisations over £1 billion. The resulting diversified portfolio of international quoted companies is focused, containing between 40 and 60 high conviction stocks selected on the basis of detailed research analysis. This active portfolio management strategy will inevitably involve separate periods where, at different times, the company's portfolio outperforms and underperforms the market as a whole (as represented by the company's reference benchmark, which is the MSCI World High Dividend Yield index).

Investment objective

The investment objective of the company is to achieve rising income and long-term capital growth through investment in a balanced portfolio constructed from global equities. The board does not impose any limits on the manager's discretion to select stocks, except that:

- no more than 15% of the company's gross assets may be invested in limited investment companies (including UK-listed investment trusts);
- the board must approve in advance all investments in Martin Currie sponsored investment schemes;
- the sum of all holdings over 5% of the total portfolio must not exceed 40% of the portfolio;
- no more than 10% of the total portfolio can be invested in collective investment schemes, of which no holding can exceed 10% of the value of the collective investment scheme; and
- warrants cannot exceed 5% of the total portfolio.

Beyond this, the investment manager analyses the overall shape of the portfolio to ensure that investment risk is dominated by the high conviction stocks in the portfolio and that the combination of stocks held does not lead to unintended reliance on a particular macroeconomic factor (for example, a higher oil price or lower interest rates) in accordance with parameters set by the board.

Risk management

As set out above, risk management is largely focused on managing investment risk in accordance with the investment policy guidelines set by the board. The board has established risk parameters for the investment manager within which the portfolio will be managed. The board reviews, at each board meeting, the relevant risk metrics presented by the manager to ensure that the manager is working within the risk parameters set by the board and that there is appropriate but not excessive risk being taken within the portfolio.

The wider corporate risks relate mainly to the challenges of managing the company in an increasingly regulated and competitive market place. These risks are each actively managed through mitigation measures which the board has put in place and which are discussed on pages 12 and 13 of this report.

Marketing

The marketing strategy seeks to:

- maximise the sales opportunities for new share issuance;
- obtain ratings and buy recommendations from key wealth managers; and
- grow the profile of the company across the wider market.

This is achieved through active promotion by the investment manager and through the company's website which contains information relating to performance, outlook and significant developments as they occur. In addition, the company utilises best practice marketing tools such as advertising, public relations and research. The manager also meets regularly with existing and potential institutional shareholders.

Financial

The main focus is on the management of shareholder capital; the use of gearing; and the management of the risks to assets and liabilities of the company.

The board's principal goal for the management of shareholder capital is to achieve rising income and long-term capital growth. The company's dividend policy is to provide shareholders with regular income paid quarterly in March, June, September and December.

From time to time the company finances its operations through bank borrowings. However, the board monitors such borrowings (gearing) closely and takes a prudent approach. At the year end, there was a bank facility of £17,000,000 which was fully drawn down. In accordance with the investment policy the current limit on gearing is 15% of net assets.

Principal developments and future prospects

The principal business developments over the course of the year are set out in the chairman's statement on pages 4 and 5 and the manager's review on pages 6 and 7. The future performance of the company depends upon the success of the company's investment strategy in light of economic factors and equity markets developments. Please refer to the chairman's statement on pages 4 and 5 and the manager's review on pages 6 and 7 for an update on future prospects for the company.

As set out in the chairman's statement, the board believes that the current investment objective is in line with shareholders' needs but would like the portfolio manager to be able to select stocks on a truly unconstrained basis. Consequently, the current benchmark, the MSCI World High Dividend Yield index, will be dropped, effective from end May 2016. The manager will operate a focused portfolio of 35-55 stocks which will be benchmark agnostic and unconstrained by geography, sector and market weighting.

To allow you and your board to evaluate the success of the manager in achieving this investment objective, the company's investment performance (on a total return basis) will be measured against the median of all relevant open and closed-ended peers on a rolling three-year basis. In addition, and to ensure that our investment objective is met, the manager will aim to grow both the revenue earnings and the cum income NAV in real terms over a rolling five year period. This real growth target, in income and capital, is critical to our long term success and we will measure this objective against global developed market inflation.

Further as interest rates remain low your board currently intends to take advantage by modestly increasing the structural gearing of the company from £17 million to £20 million.

Principal risks and uncertainties

Risk and mitigation

The company's business model is longstanding and resilient to most of the short term uncertainties that it faces, which the board believes are effectively mitigated by its internal controls and the oversight of the investment manager, as described in the table below. The principal risks and uncertainties are therefore largely longer term and driven by the inherent uncertainties of investing in global equity markets. The board believes that it is able to respond to these longer term risks and uncertainties with effective mitigation so that both the potential impact and the likelihood of these seriously affecting shareholders' interests are materially reduced.

Risks are regularly monitored at board meetings and the board's planned mitigation measures are described in the table below. The board maintains a risk register and also carries out a risk workshop as part of its annual strategy meeting. The board has identified the following principal risks to the company:

Risk	Mitigation
Loss of S1158-9 tax status	Loss of S1158-9 tax status would have serious consequences for the attractiveness of the company's shares. The board considers that, given the regular oversight of this risk carried out by the investment manager and reviewed by the board, the likelihood of this risk occurring is minimal.
Long-term investment underperformance	The board manages the risk of investment underperformance by relying on good manager stock selection skills within a framework of diversification and other investment restrictions and guidelines. The board monitors the implementation and results of the investment process with the manager (who attends all board meetings) and reviews data that shows statistical measures of the company's risk profile.

Risk	Mitigation
Market, financial and interest rate risk	The company's portfolio is invested in listed equities and is therefore exposed to market risk. Adherence to investment process is intended to ensure portfolios are optimally positioned for market turbulence. A significant proportion of the company's investment portfolio is invested in overseas securities and the balance sheet can be significantly affected by movements in foreign exchange rates. It is not the company's policy to hedge this risk on a continuing basis but the company may, from time to time, match specific overseas investment with foreign currency borrowings. As a consequence of investing in overseas securities the statement of comprehensive income is subject to currency fluctuation arising on overseas income. In order to retain its place in the FTSE All-Share index, the company must satisfy the liquidity test criteria set by the FTSE at each annual review. The liquidity of the company's shares is monitored by the board, the investment manager and the company's broker with a report being reviewed at every board meeting. The board regularly discusses ways to improve the liquidity position of the company. As announced in 2015, the company intends to use its authority to distribute some capital profit by way of dividend if so required. If the company distributes capital profit by way of dividend, the board is aware that it cannot support the payment of dividends partly out of capital on an indefinite basis in certain investment scenarios. The board actively manages this risk with the investment manager by seeking to grow the company's income and capital in real terms over the longer term.

Key Performance Indicators and Performance

The board provides certain key performance indicators ('KPIs') to monitor and assess the performance of the company. The principal KPIs are:

1. Performance relative to the benchmark index

Performance is measured on a fiscal year basis against the benchmark. The total return of NAV was 0.0% and of the benchmark 4.4% over the financial year, resulting in an underperformance of 4.4%. The chairman's statement on pages 4 and 5 and manager's review on pages 6 and 7 provide more information on the performance relative to the benchmark.

2. Ongoing charges

The board monitors the ongoing charges to ensure it stays at or below 1.0%. The ongoing charges for the year end 31 March 2016 were 1.0% (2015: 1.0%) and therefore the KPI was achieved.

3. Discount to NAV

The company has a policy of maintaining the average discount in the last 12 weeks of the financial year at below 7.5%. As at 31 March 2016, the cum income NAV was 145.61p and the share price was 135.00p giving a discount of 7.29%. The average discount over the 12 week period to 31 March 2016 based on the ex income NAV was 6.97%.

4. Growth in dividend per share

The board aims to achieve rising income through investment in a balanced portfolio constructed from global equities.

The annual dividend for the year end 31 March 2016 was 5.8p, an increase of 18.4% on the annual dividend for the year end 31 March 2015 of 4.9p.

Summary of KPIs	Target	Actual	Achieved
1. Performance relative to benchmark	Outperform at least 1% per annum	(4.4%)	✗
2. Ongoing charges	1.0%	1.0%	✓
3. Average discount to net asset value*	Below 7.5%	7.0%	✓
4. Growth in dividend per share	Dividend per share growth	18.4%	✓

*Average discount over twelve week period to 31 March 2016 (based on capital only net asset value).

Left to right, top: Andrew Irvine, Angus Gordon Lennox, John Evans. Bottom: Rachel Beagles, Neil Donaldson, Mark Little.

Neil Donaldson, chairman

Neil has been chief executive of James Donaldson & Sons Limited, the independent Fife based timber merchants, since 1985. He is currently chairman of MGM (Timber) Ltd and also deputy chairman of the general committee of the R&A Limited and a director of R&A Trust Companies (No.1) and (No.2) Limited. He has recently been appointed as Chairman of Baillie Gifford Shin Nippon Investment Trust. He is a former chairman of Crieff Hydro Ltd and the Timber Research and Development Association and President of the Timber Trade Federation. Neil has been involved with many other companies in the past and also currently holds a number of appointments with several charities. Neil brings a wide range of good business skills and experience to the board. He also brings more than 15 years' experience in the investment trust sector. He was appointed to the board of Securities Trust of Scotland on 11 May 2005.

Rachel Beagles, chairman of the marketing and communications committee

Rachel is a non-executive director of the Association of Investment Companies, BlackRock Emerging Europe plc and New India Investment Trust plc. She worked in financial markets, primarily in equity research and sales from 1990 until 2003 and was co-head of the Pan-European Banks Equity Research and Sales Team and a managing director at Deutsche Bank AG from 2000 until 2003. After leaving Deutsche Bank, she has become involved with a number of companies in a non-executive capacity, primarily in the investment trust industry, but also including the social housing and charity sector. She brings experience of the investment industry, including investment companies and equity research. She was appointed to the board of Securities Trust of Scotland in July 2010.

Mark Little, chairman of the audit committee

Mark has an extensive knowledge of the investment industry, as the former Managing Director of Barclays Wealth Scotland and Northern Ireland. Mark held this position for eight years until 2013 when he retired. Prior to this, Mark held the position of Global Head of Automotive Research at Deutsche Bank where he managed and coordinated its global automotive research product. He is currently an Investment Director with Tcam Asset Management and sits on the board as a non executive director to UWI Technology Ltd. He also acts as a consultant to Lindsays LLP and as a tutor at the University of Edinburgh on Financial Accounting for the Legal Diploma. He was appointed to the board of Securities Trust of Scotland in October 2014.

Andrew Irvine, senior independent director

Andrew was appointed chairman of the Scottish business of Jones Lang LaSalle, international property consultants, in 2005 having been managing director since 1999. He is also chairman of Montanaro European Smaller Companies Trust plc, director of Fidelity Special Values plc and BlackRock North American Income Trust plc and holds several appointments with various charities. With over 30 years involvement in the commercial property sector, he is an acknowledged expert in the fields of property development and investment. He also brings to the board more than 20 years' experience in the investment trust sector. He was appointed to the board of Securities Trust of Scotland on 11 May 2005.

Angus Gordon Lennox, chairman of the management engagement committee

Angus has an extensive knowledge of the investment industry with 23 years' experience at Cazenove, latterly JPMorgan Cazenove, working in a variety of positions. As a partner of Cazenove he was appointed Head of the Investment Companies Department, the leading franchise in the City. Following the joint venture between Cazenove and JP Morgan in 2005, Angus became a Managing Director of JPMorgan Cazenove and continued to Head the Investment Companies Department. He held this position until 2010 when he retired. Angus is also the Executive Chairman of two family businesses, and a director of a number of organisations involved with fishery management on the River Spey and a non-executive director of The Mercantile Investment Trust plc. He joined the board of Securities Trust of Scotland in November 2013.

John Evans

John joined the board of Securities Trust of Scotland in February 2016. He commenced his career at Ivory & Sime in 1979. In 1990, John was one of the founding partners of Aberforth Partners, a specialist investment management firm that invests in UK smaller quoted companies largely on behalf of institutional investors. John retired from Aberforth in 2011 and is currently a non-executive director of Investors Capital Trust plc and the Chairman of Drum Income Plus REIT.

The directors present their report and the audited financial statements of the company for the year ended 31 March 2016.

Status

The company carries on business as an investment trust whose shares are listed on the London Stock Exchange. The company has been approved by the HM Revenue & Customs as an investment trust in accordance with section 1158 of the Tax Act and the Investment Trust (Approved Company) (Tax) Regulations 2011. The company will continue to conduct its affairs in a manner which will enable it to retain this status. The company is domiciled in the UK and is an investment company within the meaning of section 833 of the Companies Act 2006. It is not a close company for taxation purposes.

Share capital

The company bought back 8,025,891 shares during the year to be held in treasury at a cost of £10,653,000. This represented 6.6% of the called up share capital and had a nominal value of £80,259. As at 31 March 2016 the issued share capital of the company was 112,965,486. A special resolution to renew the authority to repurchase shares will be put to shareholders for approval at the AGM. The full text of the resolution is set out in the notice of meeting.

Shareholders analysis as at 31 March 2016	% of shareholders	% of equity capital
Individuals and trustees	72.2	13.4
Banks and nominee companies	25.4	75.9
Insurance & Investment companies	0.1	0.0
Other holders	2.3	10.7
	100.0	100.0

As at 31 March 2016 the company was notified of the following interests of 3% or more of the voting rights attaching to the company's issued share capital.

As at 31 March 2016	% issued share capital
Speirs & Jeffrey	13.62
Investec Wealth & Investment Limited	3.16

Approximately 13.26% of the company's share capital is held on behalf of clients through Alliance Trust Savings Nominees Limited.

As at 9 May 2016, the last practicable date prior to printing of this report, the company has 112,326,738 ordinary shares in issue.

Corporate governance statement

The company's corporate governance statement is set out on pages 19 to 21 and forms part of this report of the directors.

Revenue and dividends

The net revenue return for the year after expenses, interest and taxation was £5,546,000 (2015: £6,253,000), equivalent to a return of 4.73p per share (2015: 5.11p). Interim dividends totalling 4.35p have been paid during the year. The directors recommend a fourth interim dividend of 1.45p per share be payable on 27 May 2016 to holders on the register at the close of business on 17 June 2016, making a total for the year of 5.80p (2015: 4.90p). The revenue reserves as at 31 March 2016 are £1,978,000 and £1,638,000 of this will be used to fund the fourth interim dividend.

Regulatory

The European AIFM Directive

Under the AIFMD the company is required to appoint an external depositary and an external AIFM who is supervised by the Financial Conduct Authority. On 22 July 2014 the company appointed Martin Currie Fund Management Limited as its AIFM, an associated company of Martin Currie Investment Management Limited. There has been no changes to the way the company's assets are invested as a result of AIFMD.

Voting policy and the UK Stewardship Code

The company has given discretionary voting powers to Martin Currie. With respect to voting on behalf of clients, Martin Currie's policy is to:

- vote at all general meetings of companies in which its clients are invested;
- vote in favour of proposals which Martin Currie expects to enhance shareholder value; on routine issues Martin Currie is generally supportive of management;
- vote against proposals which it believes may damage shareholders' rights or economic interests;
- abstain on proposals which it feels unable to support, but where Martin Currie believes that it could be against its clients' interests to oppose publicly;
- ensure in all situations that the economic interests of its clients are paramount; and
- vote consistently on behalf of all clients who are invested in the particular company.

The directors are aware that Martin Currie gives consideration to operational performance, corporate social responsibility and corporate governance issues, among many other factors, when investment decisions are taken.

The board has noted Martin Currie's adoption of the FRC Stewardship Code, and a copy of the policies and voting records can be found at www.martincurrie.com/corporate/about-us/governance-and-sustainability.

Disclosure of information to the auditor

In the case of each of the persons who are directors of the company at the time when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditor is aware of that information.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. 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), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;and
- prepare the financial statements on the 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the www.securitiestrust.com website, which is maintained by the investment manager. The maintenance and integrity of the website maintained by Martin Currie is, so far as it relates to the company, the responsibility of Martin Currie.

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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 11 May 2016 and is signed on its behalf by:

Neil Donaldson
11 May 2016

Going concern status

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the chairman's statement, manager's review, strategic report and the report of the directors.

The financial position of the company as at 31 March 2016 is shown on the statement of financial position on page 32. The cash flows of the company are set out on page 34. Note 14 on pages 43 to 47 sets out the company's risk management policies, including those covering market price risk, liquidity risk and credit risk.

The company has a loan facility of £17,000,000 which expires on 25 September 2016, which was fully drawn down at the year-end date (2015: fully drawn down). The purpose of the facility is to enable the manager to enhance the return for shareholders by borrowing and investing where the return is expected to exceed the cost of borrowing. The company has adequate financial resources in the form of readily realisable listed securities and as a result the directors assess that the company is able to continue in operational existence without the facility.

In accordance with the Financial Reporting Council's guidance on going concern and liquidity risk issued in October 2009, the directors have undertaken a rigorous review of the company's ability to continue as a going concern. The company's assets consist of a diverse portfolio of listed equity shares which, in most circumstances, are realisable within a very short timescale. The directors are mindful of the principal risks and uncertainties disclosed on pages 12 and 13 and have reviewed revenue forecasts and they believe that the company has adequate financial resources to continue its operational existence for the foreseeable future, and at least one year from the date of this annual report. Accordingly, the directors continue to adopt the going concern basis in preparing these accounts.

Viability Statement

The company's business model is designed to achieve rising income and long-term capital growth through investment in a balanced portfolio constructed from global equities unconstrained by geography, sector, stock or market capitalisation. The business model is based on having no fixed or limited life provided global equity markets continue to operate normally. The board has assessed its viability over a three year period in accordance with provision C.2.2 of the 2014 UK Corporate Governance Code. The board considers that this reflects the minimum period which should be considered in the context of its long term objective but one which is limited by the inherent and increasing uncertainties involved in assessment over a longer period.

In making this assessment the directors have considered the following risks to its ongoing viability:

- the principal risks and uncertainties and the mitigating actions set out on pages 12 and 13;
- the ongoing relevance of the company's investment objective in the current environment;
- the level of income forecast to be generated by the company and the liquidity of the company's portfolio; and
- the level of fixed costs and debt relative to its liquid assets. The expectation is that the current portfolio could be liquidated to the extent of 100% within two trading days.

Based on the results of their analysis and the company's processes for monitoring each of the factors set out above, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over at least the next three years.

Directors

As set out in the board of directors on page 14, Neil Donaldson, Rachel Beagles, Angus Gordon Lennox, Andrew Irvine, John Evans and Mark Little are directors of the company. John Evans was appointed as a director on 1 February 2016. As set out in the chairman's statement on page 5, the chairman will be retiring from the board with effect from the conclusion of the AGM. Rachel Beagles will assume the role of chairman of the board. John Evans will stand for election at the AGM and the other directors, except for Neil Donaldson, will stand for re-election at the AGM. The board recognises the value of progressive refreshing of, and succession planning for, the board. The nominations committee has agreed a phased succession plan to refresh the composition of the board whilst retaining an appropriate consistency, and board changes in the last two years reflect this.

The investment manager

Martin Currie is an international equity specialist based in Edinburgh, managing money for a wide range of global clients. Its investment process is focused on selecting stocks through fundamental proprietary research and constructing well-balanced high conviction portfolios. The board closely monitors investment performance and the manager attends each board meeting to present a detailed update to the board. The board uses this opportunity to challenge the manager on any aspect of the portfolio's management.

Continued appointment of the investment manager

The board, through the work of the management engagement committee, conducts an annual performance appraisal, of the investment manager against a number of criteria, including operational performance, results and investment performance and other contractual considerations.

At the recent appraisal carried out by the management engagement committee on 15 March 2016, the committee considered the past investment performance of the company and the ability of the investment manager to produce satisfactory investment performance in the future. It also considered the management agreement and fees payable to the investment manager, together with the standard of other services provided, which include company secretarial, accounting and marketing services. Following this review, it is the directors' opinion that the continuing appointment of the investment manager on the terms agreed is in the best interests of shareholders as a whole.

Main features of the contractual arrangement with the investment manager

- Six month notice period.
- Immediate termination if Martin Currie ceases to be capable of carrying on investment business.
- In the event that the company terminates the agreement otherwise than set out above, Martin Currie is entitled to receive compensation equivalent to twice the basic quarterly management fee payable.

AIFM and company secretary fee

Martin Currie is paid an AIFM and company secretary fee of 0.6% of clients net asset value per annum, payable quarterly. The clients net asset value is defined as the NAV adjusted by adding back any borrowings of the company. Martin Currie earned an AIFM and company secretary fee during the financial year of £1,069,207 (2015: £1,145,873) of which £101,536 (2015: £100,628) has been treated as a secretarial fee.

Assets invested in companies or funds that are managed by a member of the Martin Currie group are excluded when calculating the fee.

For the year end 31 March 2016 the management fee has been allocated 65% to capital and 35% to revenue. The allocation was based on the board's expected long-term split of returns in the form of capital gains and income.

The AIFM and secretarial agreement can be terminated by the company immediately if Martin Currie ceases to be capable of carrying on investment business or to be authorised by the FCA, or becomes insolvent, is wound up or liquidated. In the event that the company terminates the AIFM and secretarial agreement otherwise than as set out above, Martin Currie is entitled to receive compensation equivalent to twice the amount of the quarterly fee payable to them immediately prior to the date of termination.

Further contractual arrangements essential to the business of the company

The operational infrastructure of company has been outsourced to third party organisations. Contracts and service level agreements have been defined to ensure that the service provided by each of the third party organisations is of a sufficiently professional and of a technically high standard as required. The audit and management engagement committees reviews all third party service providers on a regular basis.

Board diversity

The nominations committee considers diversity, including the balance of skills, knowledge, gender and experience, amongst other factors when reviewing the composition of the board. It does not consider that it is appropriate to establish targets or quotas in this regard. The board comprises six non-executive directors of whom one is a woman, thereby constituting 16.7% female representation. Following the retirement of Neil Donaldson, the board will comprise five non-executive directors and the female representation will increase to 20%. The company has no employees as its investments are managed by Martin Currie, the appointed investment manager.

Environmental matters and social/community issues

As an externally managed investment company with no employees, the company has no policies in place in relation to environmental, social or community issues. The company's greenhouse gas emissions are negligible.

Statement regarding annual report and accounts

Following a detailed review of the financial statements by the audit committee, the directors consider that taken as a whole they are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

Annual general meeting

The AGM of the company will be held at 12.30pm on 27 July 2016, at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ES.

Allotment of shares

Resolution 9 proposes empowering the directors to allot shares of the company up to a maximum aggregate nominal amount of £374,422 being an amount equal to one third of the issued share capital of the company as at 9 May 2016.

Disapplication of statutory pre-emption rights

Resolution 10 proposes as a special resolution to continue the directors' authority under s570 and s573 of the Companies Act 2006 to allot shares for cash in certain circumstances otherwise than pro rata to all the shareholders up to an aggregate nominal amount of £56,163 (representing 5% of the company's issued share capital as at 9 May 2016, the latest practicable date before publication of the accounts) and to modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. Any issue of shares would be made in accordance with the articles of association. This authority would enable the directors to issue shares for cash to take advantage of changes in market conditions that may arise in order to increase the amount of the company's issued share capital. The purpose of such an increase would be to improve the liquidity of the market in the company's shares and to spread the fixed costs of administering the company over a wider base.

For the purposes of this resolution, allotment of shares includes the sale of treasury shares.

Purchase of own shares

Each year the directors seek authority from shareholders to purchase the company's own shares. The directors recommend that shareholders renew this authority by passing resolution 11.

Any shares purchased pursuant to this authority may be automatically cancelled or held in treasury pursuant to the Companies (Acquisition of own shares) (Treasury shares) Regulations 2003. Special resolution 11 specifies the maximum number of shares that may be acquired being 14.99% of the issued share capital as at 9 May 2016, being the last practicable date before the date of this report, and the maximum and minimum prices at which they may be bought.

The main purpose of any share buybacks (whether for cancellation or to be held in treasury) will be to enhance the net asset value of the remaining ordinary shares, as the shares will only be acquired at a cost that is less than their net asset value. Purchases should also provide liquidity for shareholders wishing to sell their ordinary shares and may have a beneficial effect on the discount to their net asset value at which the ordinary shares currently trade. The purpose of holding some shares in treasury is to allow the company to re-issue those shares quickly and cost-effectively, thus providing the company with greater flexibility in the management of its capital base. Whilst in treasury no dividends are payable on or voting rights attached to the shares.

Purchases of own shares will be funded either by using available cash resources, by selling investments in the portfolio or by borrowings.

As at 31 March 2016, the company holds 9,333,662 shares in treasury representing 7.63% of the called up share capital of the company. As at 9 May 2016, being the last practictable date before publication of the accounts, the company holds 9,972,410 shares in the treasury representing 8.15% of the called up issued share capital of the company.

Recommendation

The directors believe all the resolutions proposed are in the best interests of the company and the shareholders as a whole and recommend all shareholders to vote in favour of all the resolutions.

The results of the votes on the resolutions at the AGM will be published on the company's website (www.securitiestrust.com).

Neil Donaldson
Chairman

11 May 2016

Compliance

The board of the company has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC code') by reference to the AIC Corporate Governance Guidance for investment companies ('AIC guide'). The AIC code, as explained by the AIC guide, addresses all of the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company.

The board considers that reporting against the principles and recommendations of the AIC code and by reference to the AIC guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The company has complied with all of the recommendations of the AIC code and, except as set out below, the relevant provisions of the UK Corporate Governance Code:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC guide and as explained in the UK Corporate Governance Code, the board considers these provisions not relevant to the position of the company, being an externally managed investment company. The company has therefore not reported further in respect of these provisions.

The principles of the AIC code

The AIC code is made up of 21 principles and the company has complied with all such principles with the exception of principle 11 which is not applicable. Further details of the AIC principles and how the company complies with them can be found on the company's website at www.securitiestrust.com.

Directors' Independence, Tenure and Succession Planning

The board consists of six non-executive directors, each of whom is considered independent. Directors are initially appointed until the following general meeting when, under the company's articles of association, it is required that they be elected by shareholders. Although not a FTSE 350 company, the board has decided that all directors will stand for annual re-election going forward in line with the UK Corporate Governance Code best practice.

The board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the board will take into account the ongoing requirements of the AIC Code, including the need to refresh the board and its committees. As a result of the board's evaluation process the board confirms that all directors continue to be effective directors and their election, and re-election, is recommended.

The board plans for its own succession with the assistance of the nominations committee. This process ordinarily involves the identification of the need for a new appointment, and the preparation of a brief including a description of the role and specification of the capabilities required.

The nominations committee then seeks assistance in identifying suitable candidates from the board's own contacts, and its professional advisers as is appropriate for the particular appointment. The nominations committee considers candidates from a wide range of backgrounds, having consideration for the diversity of the board as a whole, including but not limited to gender.

When considering the appointment of John Evans, the board engaged an external recruitment consultant, Trust Associates, to assist in the search for a new non-executive director. The board considered a long list of potential candidates compiled by Trust Associates. Following discussion, a short list of candidates with appropriate skills was compiled for interview by the board and, following that interview process, John Evans was appointed as an additional non-executive director.

Induction & Training

The investment manager provides all directors with induction training on appointment, tailored to the needs of individual appointees. The induction programme includes one-to-one meetings with representatives of the investment manager. Regular briefings are provided on changes in regulatory requirements that affect the company and directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts. Board meetings regularly include agenda items on recent developments in governance and investment trust issues.

Directors' indemnity

The company provides a Deed of Indemnity to each director to the extent permitted by United Kingdom law whereby the company is able to indemnify such a director against any liability incurred in proceedings brought by the company against a director in which the director successfully defends. The company also has in place a Director and Officer Liability Insurance Policy that is renewed annually.

Evaluation

The board undertakes an evaluation annually. Board evaluation questionnaires are drawn up by the company secretary, and completed by each director. The responses are collated and discussed. The chairman leads the evaluation of the board and individual directors while the senior independent director leads the evaluation of the chairman's performance. The board has given consideration to appointing an external board evaluator, however, it does not believe it is necessary at this time.

The board also regularly reviews the performance of the investment manager. The management engagement committee meets to review the continuing appointment of the investment manager and reviews the terms of the investment management and secretarial agreement, to ensure that is remains competitive and in the best interest of shareholders. The audit committee reviews the continuing appointment of other key service providers.

Company secretary

The board has direct access to company secretarial advice and services of the investment manager which, through its nominated representative, is responsible for ensuring that board and committee procedures are followed, and that applicable regulations are complied with.

Conflicts of interest

The board has approved a policy of directors' conflicts of interest. Under this policy, directors are required to disclose all actual and potential conflicts of interest to the board as they arise for consideration and approval. The board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

Anti-Bribery

The board has a zero tolerance policy towards bribery and ensures that its service providers and associated persons have adequate anti-bribery policies and procedures in place which are high level, proportionate and risk based.

Relations with Shareholders

The company places great importance on communication with shareholders. It aims to provide shareholders with a full understanding of the company's activities and performance and reports formally to shareholders twice a year by way of the annual report and the half-yearly report. The net asset value of the company's shares and monthly updates are also available through the London Stock Exchange.

The board monitors the shareholder profile of the company at every board meeting. The board communicates directly with major shareholders when reviewing marketing and strategy initiatives. All shareholders have the opportunity, and are encouraged, to attend the company's AGM at which the directors and representatives of the investment manager are available to meet shareholders and answer questions. The manager also presents a review of the company's performance and invites questions from shareholders.

The investment manager provides a dedicated client services team which maintains regular contact with the company's shareholders and reports regularly to the board. Shareholders can also contact the directors throughout the year, through the company secretary.

Board committees

Management engagement committee

The management engagement committee's responsibilities include:

- reviewing the continuing appointment of the investment manager;
- reviewing the performance of the investment manager in terms of investment performance and the company secretarial and administration services provided;
- reviewing the terms of the investment management and secretarial agreement, to ensure that it remains competitive and in the best interests of shareholders; and
- reviewing the performance of other service providers to the company including the depositary, registrar and broker.

The management engagement committee met once during the year.

Composition – All directors and chaired by Angus Gordon Lennox. John Evans assumed the role of chairman on 11 May 2016.

Nominations committee

The nominations committee's responsibilities include:

- assessing the skills, knowledge, experience and diversity required on the board and the extent to which each are represented;
- establishing processes for the review of the performance of the board committees and the board as a whole;
- establishing processes for the identification of suitable candidates for appointment to the board;
- overseeing succession planning for the board;
- reviewing the performance of each director during the period in which they have been a member of the board and considering the recommendation to shareholders to approve their re-appointment; and
- to consider the directors' remuneration policy and approve any changes to directors' remuneration arising as a result of such policy.

The nominations committee met once during the year.

Composition – All directors and chaired by Andrew Irvine.

Marketing and communications committee

The marketing and communications committee's responsibilities include:

- considering the marketing strategy for the company;
- reviewing the company's communications with its shareholders;
- reviewing the company's marketing budget; and
- reviewing the design and contents of the company's financial statements.

The marketing and communications committee met twice during the year.

Composition – All directors and chaired by Rachel Beagles. Angus Gordon Lennox assumed the role of chairman on 11 May 2016.

Audit committee

The audit committee's responsibilities include:

- monitoring and reviewing the integrity of financial statements and considering in particular that, taken as a whole, they are fair, balanced and understandable;
- review of the internal control framework;
- making recommendations to the board in relation to the appointment, evaluation or dismissal of the external auditor, its remuneration, terms of its engagement and reviewing its independence, objectivity, effectiveness, and overall effectiveness of the audit process;
- reviewing the external auditor's audit plan and year end report;
- developing and implementing the policy on the engagement of the external auditor to supply non-audit services; and
- reporting to the board, identifying any matter in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

The audit committee met twice during the year.

Composition – All directors and chaired by Mark Little.

Directors' meetings

The following table shows the number of formal board and board committee meetings held during the year and the number attended by each director or committee member.

	Formal board meetings (6 meetings)	Management engagement committee (1 meeting)	Audit committee (2 meetings)	Nominations committee (1 meeting)	Marketing and communications committee (2 meeting)
Neil Donaldson	6	1	2	1	2
Rachel Beagles	6	1	2	1	2
John Evans*	1	1	0	1	0
Angus Gordon Lennox	6	1	2	1	2
Andrew Irvine	6	1	1	1	2
Mark Little	6	1	2	1	2
Edward Murray**	2	0	1	0	0

*Appointed on 1 February 2016, Mr Evans attended all board and committee meetings held since that date. **Retired on 31 July 2015.

Internal control

The AIC Code and the Disclosure and Transparency Rules require directors, at least annually, to review the effectiveness of the company's system of internal control and include a description of the main features relating to the financial reporting process.

Since investment management and all administrative services are provided to the company by Martin Currie, the company's system of internal control mainly comprises monitoring the services provided by Martin Currie, including the operating controls established by them, to ensure that they meet the company's business objectives. The company does not have an internal audit function of its own, but relies on the risk and compliance department of Martin Currie. This arrangement is kept under review. Martin Currie also carries out a review of the custodial and administration activities carried out by State Street.

The board, either directly or through committees, reviews the effectiveness of the company's system of internal control by monitoring the operation of the key controls of Martin Currie and:

- reviews an internal control report as provided to the board twice yearly by the investment manager. This report details significant risks, regulatory issues, error management and complaint handling;
- reviews the terms of the management agreement;
- reviews reports on the internal controls and the operations of the investment manager and of the custodian; and
- reviews the risk profile of the company and considers investment risk at every board meeting.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the company including the principal risks as outlined on pages 12 and 13. This process accords with the Turnbull guidance on internal controls.

During the course of its review of internal controls, the board has not identified or been advised of any failings or weaknesses which it has determined to be significant, and is satisfied with the arrangements.

Internal control and risk management systems in relation to the financial reporting process

The directors are responsible for the company's system of internal control, designed to safeguard the company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable.

Martin Currie has in place stringent controls that monitor the following activities within the financial reporting process:

- investment and related cash transactions are completely and accurately recorded and settled in a timely manner;
- corporate actions and proxy voting instructions are identified and generated respectively, and then processed and recorded accurately and in a timely manner;
- investment income is accurately recorded in the proper period;
- investments are valued using current prices obtained from independent external pricing sources;
- cash and securities positions are completely and accurately recorded and reconciled to third party data; and
- investment management fees are accurately calculated and recorded.

The system of internal control can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can provide only reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

By the means of the procedures set out above, the board confirms that it has reviewed the effectiveness of the company's systems of internal control for the year ended 31 March 2016, and to the date of approval of this annual report.

Neil Donaldson
Chairman
11 May 2016

Remuneration statement

The board has prepared this report in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution to approve this report will be put to the members at the AGM.

Company law requires the company's auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on pages 28 to 30.

AIFM Remuneration Policy

Under AIFMD, MCFM is required to adopt a remuneration policy that complies with the FCA's AIFM Remuneration Code.

PricewaterhouseCoopers LLP reviewed the Martin Currie Group Remuneration and Reward Policy, and the policy that was signed off by the Remuneration Committee of Martin Currie (Holdings) Ltd is confirmed as AIFMD compliant. This policy applies to the whole group of Martin Currie companies including MCFM.

Directors' remuneration policy

As the board is composed wholly of non-executive directors, the nominations committee considers directors' remuneration in addition to its nominations function.

The board's policy is that the remuneration of non-executive directors should reflect the experience of the board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure (ordinary shares and borrowings), and have similar investment objectives (principally global growth and income). It is intended that this policy will continue for three years ending 31 March 2017. The fees for the non-executive directors are determined within the limits set out in the company's articles of association. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors do not have a service contract but are provided with letters of appointment.

All directors are appointed for an initial term covering the period from the date of appointment until the first AGM at which they are required to stand for election in accordance with the company's articles of association. Thereafter the directors have chosen to be re-elected annually. There is no notice period and no provision for compensation upon early termination of appointment. The directors' remuneration policy will be put to shareholders' every three years and was last approved by shareholders at the AGM in 2014.

Annual report on remuneration

The nominations committee carried out a review of the level of directors' fees on 15 March 2016. It was agreed that the level of directors' fees remained appropriate and no increase to the fees was proposed.

The graph on page 25 compares, for the ten financial years ended 31 March 2016, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total return benchmark.

Directors' shareholdings (audited)

As at 31 March	2016	2015
Neil Donaldson	104,588	100,112
Rachel Beagles	30,000	30,000
John Evans*	—	n/a
Angus Gordon Lennox	20,000	20,000
Andrew Irvine**	80,000	80,000
Mark Little	10,562	10,562
Edward Murray***	n/a	7,448

*Appointed 1 February 2016.

**Andrew Irvine's holding of 80,000 shares includes a beneficial and family interest of 50,000 shares.

***Retired on 31 July 2015.

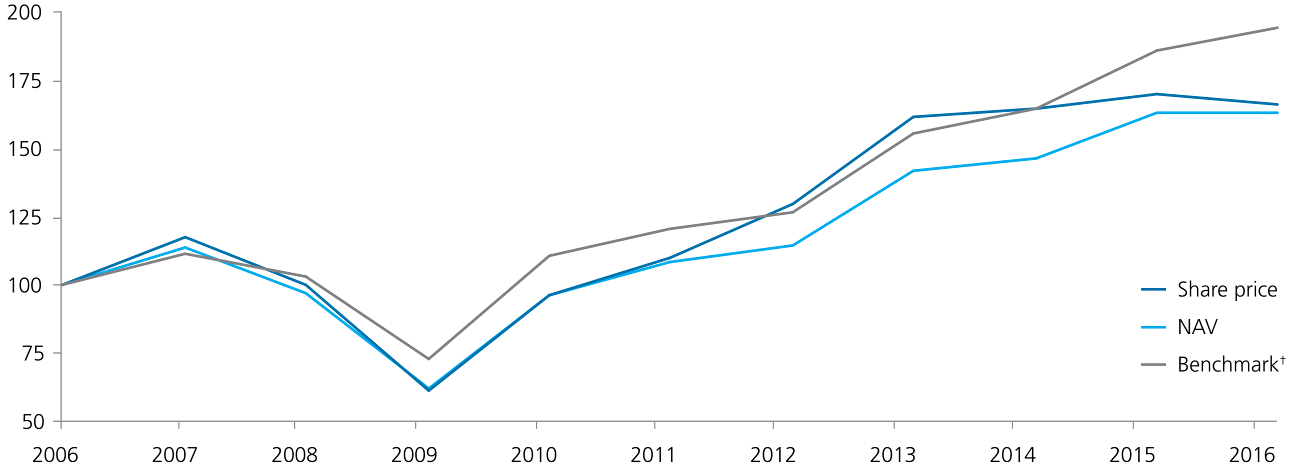
Since the year end Neil Donaldson's holding has increased by 177 shares.

Approval

An ordinary resolution for the approval of the directors' annual report on remuneration will be put to shareholders at the AGM.

At the annual general meeting on 31 July 2015, the shareholders voted in favour of the directors' remuneration report for the year ended 31 March 2015.

Benchmark and share price total return comparison (% change over 10 years)



Past performance is not a guide to future returns.

Source: Martin Currie Investment Management Limited.

†Prior to 1 August 2011, the company's benchmark was the FTSE All-Share index and the MSCI World High Dividend Yield index thereafter.

Directors' emoluments for the year (audited)

	2015/2016 £	2014/2015 £
Neil Donaldson (chairman of the board)	35,000	35,000
Mark Little (chairman of the audit committee)*	25,000	11,000
Rachel Beagles	22,000	22,000
John Evans**	4,000	—
Angus Gordon Lennox	22,000	22,000
Andrew Irvine	22,000	22,000
Edward Murray (chairman of the audit committee)***	9,000	27,000
	139,000	139,000

*Appointed on 1 October 2014. **Appointed on 1 February 2016. ***Retired on 31 July 2015.

Relative importance of spend on directors' remuneration

To enable shareholders to assess the relative importance of spend on remuneration, the directors' total remuneration has been shown in a table below compared with the company's dividend distributions.

	2015/2016 £000's	2014/2015 £000's	Change £000's
Directors' total remuneration	139	139	0
Dividends paid and payable	6,698	5,972	726

On behalf of the board

Andrew Irvine
Chairman of nominations committee
11 May 2016

Audit committee report

To discharge its duties, the audit committee meets twice per year. A list of the responsibilities of the committee is set out on page 22.

At the conclusion of the audit, Deloitte LLP did not highlight any issues to the audit committee which would cause it to modify its audit report, which is included on pages 28 to 30.

The audit committee takes account of the most significant issues and risks, both operational and financial, likely to impact the company's financial statements.

The following significant issues were considered by the audit committee in relation to the financial statements:

Matter	Action
Accuracy of portfolio valuation	All listed investments are valued at bid prices provided by third party service providers in accordance with the price source agreement in place. The investment manager reviews and summarises the SOC 1 report, prepared annually by State Street covering Global Fund Accounting and Custody and the audit committee reviews this summarised report annually.
Ownership of investments	The audit committee reviews a summary of the SOC 1 report on State Street, prepared by the investment manager, on key controls over the assets of the company. Any significant issues are reported by the investment manager to the audit committee. The investment manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the company's assets.
Strength of processes and internal controls at outsourced providers	The investment administration function is outsourced by Martin Currie to State Street. Custodial services are provided to the company by State Street as appointed by the depositary. The directors, having carried out due diligence at the time of appointment and subsequently with State Street are satisfied that State Street are acceptable providers. The audit committee receive regular reports from Martin Currie on the effectiveness of these arrangements. Martin Currie has reviewed and checked State Street's processes, procedures and internal controls. The audit committee also reviews the summary of the SOC 1 report on State Street and the SSAE 16 report on Martin Currie Limited annually.
Mis-statement of revenue returns	The board reviews income forecasts (including special dividends) and receives explanations from the investment manager for any variations or significant movements from previous forecasts and prior year figures. The allocation of expenses is reviewed by the audit committee annually taking into account the long-term split of returns from the portfolio, both historic and projected and the objectives of the company. The management fee is calculated in accordance with the contractual terms in the investment management agreement by State Street and is reviewed in detail by the investment manager and is also subject to analytical review by the board.

Auditor's independence

The company has in place a policy governing and controlling the provision of non-audit services by the external auditor, so as to safeguard its independence and objectivity. This is achieved by prohibiting non-audit work where independence may be compromised or conflicts arise. Any non-audit work other than tax advice requires specific approval of the audit committee in each case.

The audit fees amount to £16,850 for the year ended 31 March 2016 (2015: £16,200). Non-audit fees amounted to £nil for the year ended 31 March 2016 (2015: £nil).

Following review, the audit committee is satisfied that the company's auditor, Deloitte LLP, remains independent.

Auditor's rotation

A competitive tender for the audit of the company was last held in late 2008, with Deloitte LLP being selected as auditor on 26 January 2009, and have therefore been the company's auditors for seven years. The company's audit engagement partner will rotate every five years. Under the rotation policy, the current senior statutory auditor was engaged for the first time during the year ended 31 March 2014. There is currently no intention to put the audit out to tender.

Effectiveness of the external audit process

The audit committee evaluated the effectiveness of the external auditor and the external audit it undertook prior to making a recommendation on the re-appointment of Deloitte LLP at the forthcoming AGM. This evaluation involved an assessment of the effectiveness of the auditor's performance against criteria including qualification, expertise and resources, independence and effectiveness of the audit process. Having reviewed the performance of the external auditor as described above, the audit committee considered it appropriate to recommend the re-appointment of Deloitte LLP as external auditor. Deloitte LLP has expressed its willingness to remain in office and a resolution to re-appoint it as auditor to the company and to authorise the directors to determine the remuneration payable will be proposed at the forthcoming AGM.

Conclusions in respect of the annual report

The production and audit of the company's annual report is a comprehensive process which requires input from a number of different contributors. One of the key governance requirements of the company's annual report is that it is fair, balanced and understandable. The board has requested that the audit committee confirm whether it considers that the annual report, when taken as a whole, fulfils this requirement. The board is satisfied that the annual report is fair, balanced and understandable after debating the following matters considered by the audit committee:

- the comprehensive reviews that are undertaken at different levels in the production process of the annual report by the investment manager, third party service providers and the audit committee that aim to ensure consistency and overall balance; and
- the controls that are in place at the investment manager and third party service providers ensure the completeness and accuracy of the company's financial records and the security of the company's assets.

Mark Little

Chairman of audit committee

11 May 2016

Independent auditor's report to the members of Securities Trust of Scotland plc ('the company')

Report on the financial statements

Opinion on financial statements of Securities Trust of Scotland plc

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law, FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland".

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the company

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1(a) to the financial statements and the directors' statement on the longer-term viability of the company contained within The Directors' Report on page 17.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 12 that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 12 and 13 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 1(a) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on page 17 as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Valuation and ownership of investments The investments of the company are valued at £179.9m (2015: £198.7m). There is a risk that the prices quoted for the investments may not be reflective of fair value. There is a risk that the assets recorded may not represent the property of the company. For the accounting policy in relation to valuation of investments see note 1. For details of the balance see note 8.	We documented and assessed the design and implementation of controls in place to value the investment portfolio by obtaining and reviewing the SOC1 report for State Street. We agreed the valuation of 100% of the investment portfolio to third party pricing sources. We tested the ownership of investments by verifying 100% of the portfolio to an independent confirmation from the custodian, State Street Global Services. In order to confirm that investments are actively traded, we verified the trading activity and volume, on a sample basis, of investments held around the year we reviewed a report prepared on the design and operation of controls at the custodian, who are responsible for holding the investments on the company's behalf, to confirm that no issues with the controls in place over the safekeeping of assets at the custodian had been identified.
Recognition of Investment Income Investment income for the year was £7.2m (2015: £7.9m). Revenue may be understated where it is not recognised or recognised in the incorrect period. There is a risk that not all accrued revenue has been recorded by the company. For the accounting policy in relation to recognition of investment income see note 1. For details of the balance see note 3.	We performed the following testing over revenue recognition: ▪ evaluated the design and implementation of controls for monitoring completeness of revenue and key controls over revenue recognition by obtaining and reviewing the SOC1 report for State Street; ▪ for a sample of corporate actions and all special dividends, we challenged management's rationale for the allocation between revenue and capital against the requirements of the Association of Investment Companies Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") and agreed details of the dividend to a third party source to evidence the nature of the dividend; and ▪ for a sample of investments, we obtained the ex-dividend dates and rates for dividends declared from an independent pricing source and compared these to the company's dividend listing and bank statements to assess whether the dividends have been correctly recorded and the listing is complete.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be £1.6m (2015: £1.8m), which is below 1% (2015: 1%) of total equity shareholders' funds. Equity shareholders' funds was deemed an appropriate benchmark for materiality as the entity is an Investment Trust therefore a stakeholder would put most focus on the net-asset value as an indicator of overall performance of the business.

A tolerance of 30% of materiality was agreed as a reliable estimate of anticipated uncorrected misstatements and used to adjust for performance materiality. This is the standard Deloitte methodology for an entity of this size and type, which does not have a history of material misstatement. Performance materiality was therefore calculated to be £1.15m (2015: £1.3m).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £32,944 (2015: £37,002) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

As part of our audit we assessed the controls in place at the fund administrator who prepares the financial statements of the company by reviewing a controls report over their activities.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Partridge CA

(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Edinburgh, United Kingdom

11 May 2016

Statement of Comprehensive Income

		Year to 31 March 2016			Year to 31 March 2015		
	Note	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Net (losses)/gains on investments	8	—	(7,866)	(7,866)	—	14,119	14,119
Net currency gains/(losses)		21	(10)	11	(10)	7	(3)
Income	3	7,306	—	7,306	8,003	—	8,003
Investment management fee		(339)	(629)	(968)	(366)	(679)	(1,045)
Other expenses	4	(634)	—	(634)	(526)	—	(526)
Net return before finance costs and taxation		6,354	(8,505)	(2,151)	7,101	13,447	20,548
Finance costs	5	(76)	(141)	(217)	(64)	(119)	(183)
Net return on ordinary activities before taxation		6,278	(8,646)	(2,368)	7,037	13,328	20,365
Taxation on ordinary activities	7	(732)	—	(732)	(784)	—	(784)
Net return attributable to ordinary redeemable shareholders		5,546	(8,646)	(3,100)	6,253	13,328	19,581
Return per ordinary redeemable share	2	4.73p	(7.37p)	(2.64p)	5.11p	10.90p	16.01p

The total columns of this statement are the profit and loss accounts of the company.

The revenue and capital items are presented in accordance with the Association of Investment Companies Statement of Recommended Practice (2014).

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

The notes on pages 35 to 48 form part of these financial statements.

A statement of recognised gains and losses is not required as all gains and losses of the company have been reflected in the statement of comprehensive income.

Statement of Financial Position

	Note	As at 31 March 2016 £000	As at 31 March 2016 £000	As at 31 March 2015 £000	As at 31 March 2015 £000
Fixed assets					
Investments at fair value through profit or loss					
Listed on Exchanges in the UK			31,426		39,863
Listed on Exchanges abroad			148,477		158,846
	8		179,903		198,709
Current assets					
Trade and other receivables	9	947		2,310	
Cash and cash equivalents		1,267		3,762	
		2,214		6,072	
Current liabilities					
Trade payables	10	(17,629)		(19,749)	
Net current liabilities			(15,415)		(13,677)
Total assets less current liabilities			164,488		185,032
Equity					
Called up ordinary share capital	11		1,223		1,223
Capital redemption reserve			78		78
Share premium account			30,040		30,040
Special distributable capital reserve*			96,795		107,448
Capital reserve*	11		34,374		43,020
Revenue reserve*			1,978		3,223
Total shareholders' funds			164,488		185,032
Net asset value per ordinary redeemable share	2		145.61p		152.93p

*These reserves are distributable.

The company is registered in Scotland no. 283272.

The notes on pages 35 to 48 form part of these financial statements.

The aggregate amount of called up share capital as at 31 March 2016 is £1,222,991(2015: £1,222,991).

The financial statements were approved by the board and signed on its behalf by

On behalf of the board

Neil Donaldson
Chairman
11 May 2016

Statement of Changes in Equity

For the year ended 31 March 2016	Note	Called up ordinary share capital £000	Capital redemption reserve £000	Share premium account £000	Special distributable reserve* £000	Capital reserve* £000	Revenue reserve* £000	Total £000
As at 31 March 2015		1,223	78	30,040	107,448	43,020	3,223	185,032
Return attributable to shareholders		—	—	—	—	(8,646)	5,546	(3,100)
Ordinary shares bought back during the year	11	—	—	—	(10,653)	—	—	(10,653)
Dividends paid	6	—	—	—	—	—	(6,791)	(6,791)
Balance at 31 March 2016		**1,223**	**78**	**30,040**	**96,795**	**34,374**	**1,978**	**164,488**
As at 31 March 2014		1,223	78	30,040	109,299	29,692	2,839	173,171
Return attributable to shareholders		—	—	—	—	13,328	6,253	19,581
Ordinary shares bought back during the year	11	—	—	—	(1,851)	—	—	(1,851)
Cost of ordinary shares issued during the period		—	—	—	—	—	—	—
Dividends paid	6	—	—	—	—	—	(5,869)	(5,869)
Balance at 31 March 2015		1,223	78	30,040	107,448	43,020	3,223	185,032

*These reserves are distributable.

The notes on pages 35 to 48 form part of these financial statements.

Statement of Cashflow

	Note	Year ended 31 March 2016 £000	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000	Year ended 31 March 2015 £000
Cash flows from operating activities					
(Loss)/profit before tax			(2,368)		20,365
Adjustments for:					
Loss/(gains) on investments		8,190		(14,072)	
Finance costs		217		183	
Purchases of investments*	8	(68,918)		(78,258)	
Sales of investments*	8	79,534		72,668	
Dividend income	3	(7,216)		(7,993)	
Interest income	3	(3)		(10)	
Stocklending income	3	(87)		—	
Dividend received		6,540		7,134	
Interest received		3		10	
Stock lending received		81		—	
Decrease/(increase) in receivables		2,045		(366)	
(Decrease)/increase in payables		(2,379)		9,387	
Overseas withholding tax suffered		(732)		(784)	
			17,275		(12,101)
Net cash flows from operating activities			14,907		8,264
Cash flows from financing activities					
Repurchase of ordinary share capital		(10,397)		(1,851)	
Equity dividends paid	6	(6,791)		(5,869)	
Interest paid on borrowings		(214)		(183)	
Net cash flows from financing activities			(17,402)		(7,903)
Net (decrease)/increase in cash and cash equivalents			(2,495)		361
Cash and cash equivalents at the start of the year			3,762		3,401
Cash and cash equivalents at the end of the year			1,267		3,762

*Receipts from the sale of, and payments to acquire, investment securities have been classified as components of cash flows from operating activites because they form part of the fund's dealing operations.

The notes on pages 35 to 48 form part of these financial statements.

Note 1: Accounting policies

(a) For the year ended 31 March 2016, the company is applying for the first time, Financial Reporting Standard 102 ('FRS 102') applicable in the UK and Republic of Ireland, which forms part of the revised Generally Accepted Accounting Practice (New UK GAAP) issued by the Financial Reporting Council (FRC) in 2012 and 2013.

These financial statements have been prepared on a going concern basis in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, FRS 102 issued by the FRC in August 2014 and the revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') issued by the AIC in November 2014.

The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2014.

As a result of the first time adoption of New UK GAAP and the revised SORP, comparative amounts and presentation formats have been amended where required. The net return attributable to ordinary shareholders and total shareholders' funds remain unchanged from under previous UK GAAP basis, as reported in the preceding annual and interim reports. The Statement of Cash Flows has been restated to reflect presentational changes required under FRS 102 and does not include any other material changes. There are no changes to the financial performance or position as a result of the fund adopting FRS 102.

Functional currency – the company is required to nominate a functional currency, being the currency in which the company predominately operates. The board has determined that sterling is the company's functional currency, which is also the currency in which these financial statements are prepared.

(b) Income from equity investments is determined on the date on which the investments are quoted ex-dividend, or where no ex-dividend date is quoted, when the company's right to receive payment is established. Income from fixed interest securities is recognised on an effective yield basis. UK dividends received are accounted for at the amount receivable and are not grossed up for any tax credit. Other income includes any taxes deducted at source. Gains and losses arising from the translation of income denominated in foreign currencies are recognised in the revenue reserve. Scrip dividends are treated as unfranked investment income; any excess in value of shares received over the amount of the cash dividend is recognised in capital reserve. Income from underwriting commission and traded options is recognised as earned.

(c) Interest receivable and payable and management expenses are treated on an accruals basis.

(d) The management fee and interest costs are allocated 65% to capital and 35% to revenue in accordance with the board's expected long-term split of returns in the form of capital gains and income, respectively. All other expenses are wholly allocated to revenue.

(e) Gains and losses on the realisation of investments and changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms, together with exchange adjustments to overseas currencies are taken to capital reserve.

(f) Transactions in foreign currencies are recorded in the operational currency of the company at the prevailing exchange rate on the date of the transaction and re-translated at the rates of exchange ruling on the date of the statement of financial position. Investments are recognised initially as at the trade date of a transaction. Subsequent to this, the disposal of an investment is accounted for once again as at the trade date of a transaction.

(g) Revenue received and interest paid in foreign currencies are translated at the rates of exchange on the transaction date. Any exchange differences between the recognition and settlement both for revenue transactions are recognised as revenue in the statement of comprehensive income.

(h) The company's investments are classified as 'financial assets at fair value through profit or loss' and are valued at fair value. For listed investments this is deemed to be bid market prices. Gains and losses arising from changes in fair value are included in the capital return for the year.

(i) All financial assets and liabilities are recognised in the financial statements.

(j) Deferred taxation – deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the statement of financial position date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying temporary differences can be deducted. Timing differences are differences arising between the company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods. Due to the company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

(k) Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the statement of comprehensive income.

(l) The cost of share buybacks include the amount of consideration paid, including directly attributable costs and are deducted from the special distributable reserve until the shares are cancelled.

(m) The company uses derivative financial instruments to manage the risk associated with foreign currency fluctuations arising on dividends received in currencies other than sterling. This is achieved by the use of forward foreign currency contracts. The company does not hold or issue derivative financial instruments for speculative purposes. Derivative financial instruments are recognised initially at fair value on the contract date and subsequently remeasured to the fair value at each reporting date. The resulting gain or loss is recognised as revenue or capital in the statement of comprehensive income depending on the nature and motive of each derivative transaction. Derivative financial instruments with a positive fair value are recognised as financial assets and derivative financial instruments with a negative fair value are recognised as financial liabilities. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Note 2: Returns and net asset value

	Year to 31 March 2016	Year to 31 March 2015
Revenue return		
Revenue return attributable to ordinary redeemable shareholders	£5,546,000	£6,253,000
Weighted average number of shares in issue during the year	117,264,778	122,262,535
Revenue return per ordinary redeemable share	4.73p	5.11p
Capital return		
Capital return attributable to ordinary redeemable shareholders	(£8,646,000)	£13,328,000
Weighted average number of shares in issue during the year	117,264,778	122,262,535
Capital return per ordinary redeemable share	(7.37p)	10.90p
Total return		
Total return per ordinary redeemable share	(2.64p)	16.01p
Net asset value per share		
Net assets attributable to shareholders	£164,488,000	£185,032,000
Number of shares in issue at year end	112,965,486	120,991,377
Net asset value per share	145.61p	152.93p

Note 3: Income

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
From listed investments		
Franked income - equities	1,474	1,883
Unfranked income - equities	5,742	6,110
	7,216	7,993
Other income		
Interest on deposits	3	10
Stock Lending	87	—
	7,306	8,003

Capital dividend received

During the year ended 31 March 2016, the company received a capital dividend of £324,486 from Direct Line Insurance Group, as shown in note 8. During the year ended 31 March 2015, the company also received a capital dividend of £47,000 from Direct Line Insurance Group.

Note 4: Other expenses

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Bank charges and custody fees	22	20
Depositary fees	39	27
Directors' fees	139	139
Employers' national insurance contributions	13	13
Irrecoverable VAT	51	49
Legal fees	2	14
Printing and postage	18	30
Registrar's fees	50	49
Secretarial fee	102	101
Other	181	68
Total	617	510
Auditors' remuneration:		
– audit services	17	16
– non-audit services	—	—
	634	526

Details of the contract between the company and Martin Currie for the provision of the investment management and secretarial arrangements are provided on page 18.

Note 5: Finance costs

	Year to 31 March 2016			Year to 31 March 2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Interest payable on bank loans and overdrafts	76	141	217	64	119	183

Note 6: Dividends

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Year ended 31 March 2014 – fourth interim dividend of 1.35p	—	1,651
Year ended 31 March 2015 – first interim dividend of 1.15p	—	1,406
Year ended 31 March 2015 – second interim dividend of 1.15p	—	1,406
Year ended 31 March 2015 – third interim dividend of 1.15p	—	1,406
Year ended 31 March 2015 – fourth interim dividend of 1.45p	1,731	—
Year ended 31 March 2016 – first interim dividend of 1.45p	1,698	—
Year ended 31 March 2016 – second interim dividend of 1.45p	1,695	—
Year ended 31 March 2016 – third interim dividend of 1.45p	1,667	—
	6,791	5,869

Set out below are the total dividends payable in respect of the period, which forms the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered.

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
First interim dividend of 1.45p for the year ended 31 March 2016 (2015: 1.15p)	1,698	1,406
Second interim dividend of 1.45p for the year ended 31 March 2016 (2015: 1.15p)	1,695	1,406
Third interim dividend of 1.45p for the year ended 31 March 2016 (2015: 1.15p)	1,667	1,406
Proposed fourth interim dividend of 1.45p for the year ended 31 March 2016 (2015: 1.45p)	1,638	1,754
	6,698	5,972

During the year the directors received dividends of 5.80p (2015: 4.80p) per share. Directors' shareholdings are disclosed on page 24. The revenue reserves as at 31 March 2016 are £1,978,000, of this £1,638,000 will be used to fund the fourth interim dividend. At the AGM held on 16 May 2012, the board received shareholder approval to amend the articles of association of the company to enable dividends to be paid out of capital.

Note 7: Taxation on ordinary activities

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Foreign tax	732	784

In accordance with the SORP issued in 2014, the company has adopted the marginal method for allocating tax relief between income and capital. The revenue account tax charge for the year was lower than the standard rate of corporation tax in the UK for an investment trust company 20% (2015: 21%). The differences are explained below.

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Net return on ordinary activities before taxation	(2,368)	20,365
Corporation tax at standard rate of 20% (2015: 21%)	(474)	4,277
Effects of:		
Gains/(losses) on investments not taxable	1,573	(2,965)
UK dividends not taxable	(292)	(396)
Overseas dividends not taxable	(1,151)	(1,283)
Overseas tax suffered	732	784
Currency losses not taxable	(2)	1
Excess management expenses not utilised	346	366
Total tax charge	732	784

As of 1 April 2015, the UK Corporation tax rate fell from 21% to 20%.

At the year end, the company has, for taxation purposes only, accumulated unrelieved management expenses and loan relationship deficits of £13,756,000 (2015: £12,372,000). A deferred tax asset in respect of this has not been recognised and these expenses will only be utilised if the company has profits chargeable to corporation tax in the future.

Due to the company's status as an investment trust and the intention to continue to meet the conditions required to obtain approval in the foreseeable future, the company has not provided deferred tax on capital gains and losses arising on the revaluation or disposal of investments.

During the year, as a result of the provision in the Finance Act 2015 the main rate of corporation tax reduced to 19% for the financial year 2017 and 18% for the financial year 2020.

Note 8: Investments at fair value through profit or loss

	As at 31 March 2016 £000	As at 31 March 2015 £000
Opening valuation	198,709	179,047
Opening investment holding gains	(26,510)	(20,650)
Opening cost	172,199	158,397
Acquisitions at cost	68,918	78,258
Disposal proceeds	(79,534)	(72,668)
Less: net (loss)/gain on disposal of investments	(966)	8,212
Disposals at cost	(80,500)	(64,456)
Closing cost	160,617	172,199
Add: investment holding gains	19,286	26,510
Closing valuation	179,903	198,709

There were no fixed interest securities as at 31 March 2016 (2015: nil).

An analysis of the investment portfolio by sector is on page 8, and a list of all the investments and their market value is detailed on pages 9 and 10.

(Losses)/gains on investments	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Net (loss)/gains on disposal of investments	(966)	8,212
Movement in investment holdings unrealised (losses)/gains	(7,224)	5,860
Capital distributions	324	47
	(7,866)	14,119

Capital dividend received

During the year ended 31 March 2016, the company received a capital dividend of £324,486 from Direct Line Insurance Group. During the year ended 31 March 2015, the company also received a capital dividend of £47,000 from Direct Line Insurance Group.

Transaction costs

During the year, expenses were incurred in acquiring or disposing of investments classified as fair value though profit or loss. These have been expensed through capital and are included within gains on investments in the statement of comprehensive income. The total costs were as follows:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Acquisitions	134	151
Disposals	96	94
	230	245

Note 9: Trade and other receivables

	As at 31 March 2016 £000	As at 31 March 2015 £000
Dividends receivable	676	859
Special dividends to capital receivable	—	47
Tax recoverable	252	222
Prepayments and other debtors	13	1,182
Stock lending income receivable	6	—
	947	2,310

Note 10: Trade payables

	As at 31 March 2016 £000	As at 31 March 2015 £000
Amounts falling within one year:		
Interest accrued	3	—
Due to brokers	—	1,164
Sterling bank revolving loan	17,000	17,000
Amount due on ordinary shares bought back	256	—
Other creditors	370	1,585
	17,629	19,749

The company has a £17,000,000 revolving loan facility with State Street Bank and Trust Company which expires on 25 September 2016. Under this agreement £17,000,000 was drawn at 29 March 2016 at a rate of 1.211% with a maturity date of 29 April 2016, and on 29 April 2016 £17,000,000 was drawn down at a rate of 1.209% with a maturity date of 31 May 2016.

The fair value of the sterling loan is not materially different from its carrying value. The interest rate is set at each roll-over date at LIBOR plus a margin.

Note 11: Called up share capital

	Number of shares	As at 31 March 2016 £000	Number of shares	As at 31 March 2015 £000
Ordinary shares of 1p				
Ordinary shares in issue at the beginning of the year	120,991,377	1,210	122,299,148	1,223
Ordinary shares bought back to Treasury during the year	(8,025,891)	(80)	(1,307,771)	(13)
Ordinary shares in issue at the end of the year	112,965,486	1,130	120,991,377	1,210
Treasury shares (Ordinary shares 1p)				
Treasury shares in issue at the beginning of the year	1,307,771	13	—	—
Ordinary shares bought back to Treasury during the year	8,025,891	80	1,307,771	13
Treasury shares in issue at end of the year	9,333,662	93	1,307,771	13
Total ordinary shares in issue and in Treasury at the end of the year	122,299,148	1,223	122,299,148	1,223

There were 8,025,891 shares bought back during the year to 31 March 2016 at a cost of £10,653,000 (2015: 1,307,771 at a cost of £1,851,000). During the year, the company issued no shares (2015: nil). The share premium represents the surplus amount over the nominal value of the issued share capital excluding costs, with any related issuance cost allocated to the special distributable capital reserve.

The analysis of the capital reserve is as follows:

	Realised capital reserve £000	Investment holding gains £000	Total capital reserve £000
As at 31 March 2015	16,510	26,510	43,020
Losses on realisation of investments at fair value	(966)	—	(966)
Realised currency losses during the year	(10)	—	(10)
Movement in investment holdings' unrealised losses	—	(7,224)	(7,224)
Capitalised expenses	(770)	—	(770)
Capital distributions	324	—	324
As at 31 March 2016	**15,088**	**19,286**	**34,374**

The above split in capital reserve is shown in accordance with provisions of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', 2014.

Note 12: Analysis of debt

	As at 31 March 2015 £000	Cash flows £000	As at 31 March 2016 £000
Cash at bank	3,762	(2,495)	1,267
Bank borrowings – sterling revolving loan	(17,000)	—	(17,000)
Net debt	(13,238)	(2,495)	(15,733)

Note 13: Related party transactions

With the exception of the management fees and secretarial fees (as disclosed on page 18), directors' fees (disclosed on page 25) and directors' shareholdings (disclosed on page 24), there have been no related party transactions during the year, or in the prior year.

Note 14: Derivatives and other financial instruments

The company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The company also has the ability to enter into derivative transactions in the form of forward foreign currency contracts, futures and options, for the purpose of managing currency and market risks arising from the company's activities.

The main risks the company faces from its financial instruments are (i) market price risk (comprising interest rate risk, currency risk and other price risk), (ii) liquidity risk and (iii) credit risk.

The board regularly reviews and agrees policies for managing each of these risks. The investment manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term receivables and creditors.

(i) Market price risk

The fair value or future cash flows of a financial instrument held by the company may fluctuate because of changes in market prices. This market risk comprises three elements - interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate movements may affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits; and
- the level of interest payable on borrowings.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

The board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis. The company has a revolving loan with State Street Bank and Trust Company which provides flexibility to finance opportunities in the short term. Current guidelines state that the total borrowings will not exceed 15 per cent of the net assets of the company. Details of borrowings at 31 March 2016 are shown in note 10 on page 41.

Interest risk profile

The interest rate risk profile of the portfolio of financial assets (comprising cash balances only) at the balance sheet date was as follows:

As at 31 March 2016	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £000	Floating rate £000	Non-interest bearing £000
Assets					
Sterling – undated	—	0.25	—	1,267	179,903
			—	1,267	179,903
Liabilities					
Bank loan – sterling	0.1	1.21	17,000	—	—

As at 31 March 2015	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £000	Floating rate £000	Non-interest bearing £000
Assets					
Sterling – undated	—	0.25	—	3,762	198,709
			—	3,762	198,709
Liabilities					
Bank loan – sterling	0.3	1.27	17,000	—	—

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on the bank loan is based on the interest rate payable on each tranche drawn down, which is set at each tranche drawn down, weighted by its value. The maturity date of the company's loan is shown in note 10 on page 41.

The floating rate assets consist of cash deposits on call earning interest at prevailing market rates.

The non-interest bearing assets represent the equity element of the portfolio.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates at the statement of financial position date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

The following table illustrates the sensitivity of the return after taxation to an increase or decrease of 100 basis points in interest rates. This is mainly attributable to the company's exposure to the interest rate on its bank loan.

	Year to 31 March 2016		Year to 31 March 2015	
	Increase in rate £000s	Decrease in rate £000	Increase in rate £000s	Decrease in rate £000
Effect on revenue return	(60)	60	(60)	60
Effect on capital return	(111)	111	(111)	111
Effect on total return and on net assets	(171)	171	(171)	171

In the opinion of the directors, the above sensitivity analysis is not representative of the year as a whole, since exposure changes as investments are made, borrowings are drawn down and repaid throughout the year.

Foreign currency risk

A significant proportion of the company's investment portfolio is invested in overseas securities and the statement of financial position can be significantly affected by movements in foreign exchange rates. It is not the company's policy to hedge this risk on a continuing basis but the company may, from time to time, match specific overseas investment with foreign currency borrowings.

The revenue account is subject to currency fluctuation arising on overseas income.

Foreign currency risk profile

Foreign currency risk exposure by currency of denomination:

	As at 31 March 2016			As at 31 March 2015		
	Investment exposure £000	Net monetary exposure £000	Total currency exposure £000	Investment exposure £000	Net monetary exposure £000	Total currency exposure £000
US dollar	84,622	146	84,768	81,574	204	81,778
Euro	23,204	99	23,303	34,126	81	34,207
Swiss franc	13,267	153	13,420	16,768	141	16,909
Canadian dollar	4,904	—	4,904	4,272	—	4,272
Australian dollar	7,700	—	7,700	2,871	65	2,936
Japanese yen	3,610	42	3,652	5,923	75	5,998
Swedish krona	3,031	—	3,031	3,638	—	3,638
Hong Kong dollar	—	—	—	1,661	—	1,661
Singapore dollar	5,556	—	5,556	2,884	—	2,884
Thailand baht	—	—	—	2,266	59	2,325
Mexican peso	2,583	—	2,583	2,863	—	2,863
Total overseas investments	148,477	440	148,917	158,846	625	159,471
Pound Sterling	31,426	(15,855)	15,571	39,863	(14,302)	25,561
Total	179,903	(15,415)	164,488	198,709	(13,677)	185,032

The asset allocation between specific markets can vary from time to time based on the manager's opinion of the attractiveness of the individual markets.

Foreign currency sensitivity

At 31 March 2016, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2015.

	2016 £000	2015 £000
US dollar	4,231	4,079
Euro	1,160	1,706
Swiss franc	663	838
Canadian dollar	245	214
Australian dollar	385	144
Japanese yen	181	296
Swedish krona	152	182
Hong Kong dollar	—	83
Singapore dollar	278	144
Thailand baht	—	113
Mexican peso	129	143

Other price risk

Other price risks (i.e. changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

It is the board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets and the stock selection process, as detailed on pages 6 to 10, both act to reduce market risk. The manager actively monitors market prices throughout the year and reports to the board, which meets regularly in order to review investment strategy. All investments held by the company are listed on stock exchanges worldwide.

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation and the net asset value to an increase or decrease of 15% in the fair value of the company's equities. The calculations are based on the portfolio valuations, as at the respective statement of financial position dates, and are not representative of the year as a whole.

	Year to 31 March 2016		Year to 31 March 2015	
	Increase in fair value £000s	Decrease in fair value £000s	Increase in fair value £000s	Decrease in fair value £000s
Effect on revenue return	(57)	57	(63)	63
Effect on capital return	26,880	(26,880)	29,690	(29,690)
Effect on total return and on net assets	26,823	(26,823)	29,627	(29,627)

(ii) Liquidity risk

This is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is not considered to be significant as the company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of loan and overdraft facilities (note 10).

The contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows:

	As at 31 March 2016			As at 31 March 2015		
	Three months or less £000	More than three months £000	Total £000	Three months or less £000	More than three months £000	Total £000
Trade payables: amounts falling due within one year						
Interest accrued	3	—	3	—	—	—
Due to brokers	—	—	—	1,164	—	1,164
Sterling bank revolving loan	17,000	—	17,000	17,000	—	17,000
Amount due for Ordinary shares bought back	256	—	256	—	—	—
Other trade payables	370	—	370	1,585	—	1,585
	17,629	—	17,629	19,749	—	19,749

(iii) Credit risk

This is the risk of failure of the counterparty to a transaction to discharge its obligations under that transaction that could result in the company suffering a loss.

The risk is not considered to be significant by the board, and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the investment manager, and limits are set on the amounts that may be due from any one broker; and
- cash is held only with reputable banks with high quality external credit ratings.

The maximum credit risk exposure as at 31 March 2016 was £2,214,000 (2015: £6,072,000). This was due to trade receivables and cash as per notes 9 and 12.

Please refer to note 17 on page 48 for details of the company's stock lending and related collateral.

Fair value of financial assets and financial liabilities

All financial assets and liabilities of the company are included in the statement of financial position at fair value or the statement of financial position amount is a reasonable approximation of fair value.

Note 15: Capital management policies and procedures

The company's capital management objectives are:

- to ensure that the company will be able to continue as a going concern; and
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The capital of the company consists of equity, comprising issued capital, reserves and retained earnings.

The board monitors and reviews the broad structure of the company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the manager's views on the market and the extent to which revenue in excess of that which is required to be distributed should be retained.

Note 16: Fair value hierarchy

Under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' an entity is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level a: Quoted prices for identical instruments in active markets;
- Level b: Prices of a recent transaction for identical instruments.
- Level c: Valuation techniques that use:

  (i) Observable market data; and

  (ii) Non-observable market data.

As at 31 March 2016 financial assets in the form of quoted equities held at fair value through profit or loss to the value of £179,903,000 were classified as Level 'a' in the fair value hierarchy (31 March 2015: quoted equities to the value of £198,709,000 classified as Level 1 - equivalent to the Level 'a' under FRS 102) with no assets classified as Level 'b', c(i) or c(ii) (31 March 2015: no assets classified as Level 2 or 3 - equivalent to Level 'b', c(i) or c(ii) under FRS 102).

The fair value of the company's investments in quoted equities have been determined by reference to their quoted bid prices at the reporting date.

Quoted equities included in Fair Value Level 'a' are actively traded on recognised stock exchanges.

Note 17: Stock Lending

The company has a Securities Lending Authorisation Agreement with State Street Bank & Trust Company.

As at 31 March 2016 £42,766,000 of investments were subject to stock lending agreements and £46,164,000 was held in collateral. The collateral was held in the form of cash (in GBP, USD or EUR), government securities issued by any of the OECD countries or equity securities listed and/or traded on an exchange in the following countries: Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, Switzerland and USA (2015: £nil of investments subject to stock lending, £nil held as collateral).

The gross earnings and the fees payable for the year are £115,000 (2015: £nil) and £28,000 (2015: £nil).

The maximum value of securities on loan during the year end 31 March 2016 was £67,100,000.

Note 18: Post balance sheet events

On 11 May 2016 the board declared a fourth interim dividend of 1.45p per share. As at 9 May 2016, the company had bought back a further 638,738 ordinary shares at the cost of £865,087 resulting in a further reduction of £865,087 to the special distributable reserve.

Note 19: AIFMD disclosures

In accordance with the AIFM Directive, information in relation to the company's leverage and the remuneration of the company's AIFM, Martin Currie Fund Management ('MCFM'), is required to be made available to investors. In accordance with the Directive, the AIFM's remuneration policy is available from MCFM on request (see contact details on the back cover). The numerical remuneration disclosures in relation to the AIFMs' first relevant accounting period (year ended 31 March 2016) are available from the company secretary on request.

The company's maximum and actual leverage levels at 31 March 2016 are show below:

Leverage Exposure	Gross method	Commitment method
Maximum permitted limit	150%	150%
Actual	110%	108%

The leverage limits are set by the AIFM and approved by the board and are in line with the maximum leverage levels permitted in the company's articles of association. The AIFM is also required to comply with the gearing parameters set by the board in relation to borrowings.

Investor Information

Directors and Advisers

Directors

Neil Donaldson (chairman)
Rachel Beagles
John Evans
Angus Gordon Lennox
Andrew Irvine
Mark Little

AIFM

Martin Currie Fund Management Limited
Saltire Court
20 Castle Terrace
Edinburgh EH1 2ES

Investment manager and company secretary

Martin Currie Investment Management Limited
Saltire Court
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Edinburgh EH1 2ES
Telephone 0131 229 5252
Fax 0131 228 5959
www.martincurrie.com

Martin Currie Investment Management Limited is authorised and regulated by the Financial Conduct Authority.

Registered office

Securities Trust of Scotland Trust plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2ES
Registered in Scotland, registered number SCO283272

Independent auditor

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Registrars

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The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone 0871 664 0300
www.capitaassetservices.com

Custodians

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20 Churchill Place
Canary Wharf
London E14 5HJ

Bankers

State Street Bank and Trust Company
20 Churchill Place
Canary Wharf
London E14 5HJ

Depositary

State Street Trustees Limited
525 Ferry Road
Edinburgh
EH15 2AW

Brokers

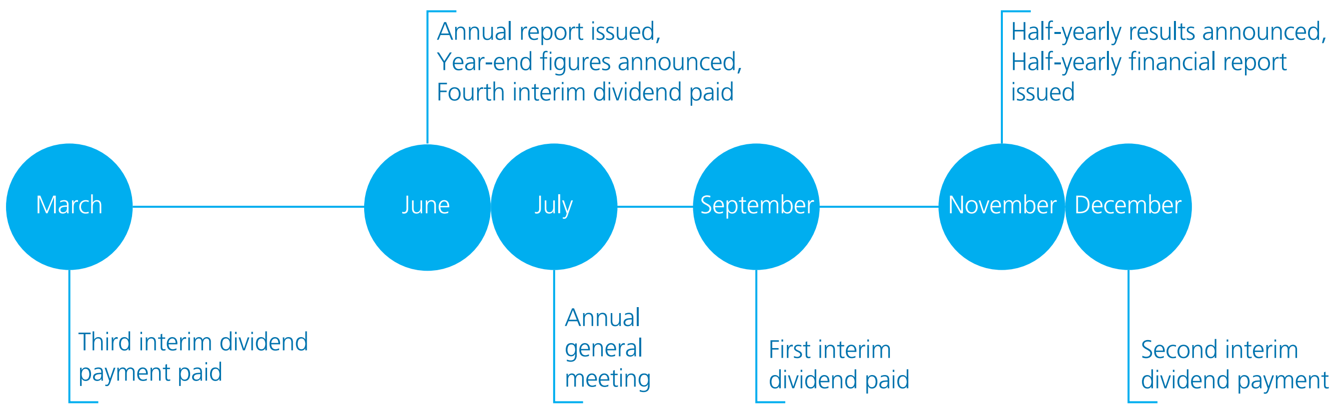
JPMorgan Cazenove
25 Bank Street
London E15 5JP

Association of Investment Companies

9th Floor
24 Chiswell Street
London EC1Y 4YY
Telephone 020 7282 5555
www.theaic.co.uk

Securities Trust of Scotland is a member of the AIC (the trade body of the investment company industry).

Financial calendar – key dates 2016



Glossary of terms

AIFM Directive

The Alternative Investment Fund Managers Directive ('AIFMD') is a European Union ('EU') directive governing the regulation of alternative investment fund managers ('AIFMs') operating in the EU. AIFMs are responsible for managing investment products that fall within the category of alternative investment funds and investment trusts, including the company, are included in this.

Assets

Anything owned or controlled that has value. For investment companies, this might include shares and securities, property, cash etc.

Benchmark

An index or other measure against which the performance of an investment company is compared or its objectives are set.

The annual report and accounts will normally include an explanation of how the company has performed against its benchmark over the year and the reasons for any under or over performance.

Bid price

The price at which you sell your shares when two prices are quoted. This is sometimes shown as the 'sell' price and will be the lower of the two prices shown.

Discount

The amount, expressed as a percentage, by which the share price is less than the net asset value per share.

Dividend

Income from an investment in shares. Dividends are usually paid twice a year but can also be paid quarterly or monthly. Not all investment companies pay dividends. Dividend income isn't guaranteed and may fall as well as rise.

Dividend yield

The annual dividends expressed as a percentage of the current share price.

Ex income

Also shown as 'ex div' or 'xd', this means that, if you buy the shares today, you won't receive the most recently declared dividend.

Shares are being traded all the time on stock markets, so for administrative reasons there needs to be a point when buyers and sellers agree whether they will receive the most recently declared dividend. The point when the shares purchased will no longer receive the dividend is known as the 'ex dividend date' and the shares are said to have 'gone ex dividend'. The share price will normally fall by the amount of the dividend to reflect this.

If you buy the shares when you're still entitled to the most recently declared dividend, this is known as the shares being cum dividend.

Gearing

At its simplest, gearing means borrowing money to buy more assets in the expectation the company makes enough profit to pay back the debt and interest and leave something extra for shareholders. However, if the investment portfolio doesn't perform well, gearing can increase losses. The more an investment company gears, the higher the risk.

Investment trust

An investment company which is based in the UK and which meets certain tax conditions so that it doesn't pay tax on gains made within the portfolio.

Investment company

A closed-ended fund which invests in a diversified portfolio of assets. Investors buy and sell their shares in the investment company on a stock exchange.

Net assets

A measure of the size of an investment company. The total value of all assets held, less liabilities and prior charges, including income for the current year.

Glossary of terms

NAV per share

A very common measure of the underlying value of a share in an investment company.

In basic terms, the net asset value ('NAV') is the value of the investment company's assets, less any liabilities it has. The NAV per share is the NAV divided by the number of shares in issue. This will very often be different to the share price. The difference is known as the discount or premium.

NAV total return performance

A measure showing how the NAV per share has performed over a period of time, taking into account both capital returns and dividends paid to shareholders.

The AIC shows NAV total return based on a hypothetical investment of £100. It assumes that dividends paid to shareholders are reinvested at NAV at the time the shares are quoted ex-dividend.

NAV total return shows performance which isn't affected by movements in discounts and premiums. It also takes into account the fact that different investment companies pay out different levels of dividends.

Options

An option is a financial derivative that represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date).

Call options give the option to buy at certain price, so the buyer would want the stock to go up.

Put options give the option to sell at a certain price, so the buyer would want the stock to go down.

Premium

The amount, expressed as a percentage, by which the share price is more than the net asset value per share.

Redemption opportunity

In accordance with the company's articles of association, and subject to the provisions of statute, ordinary shareholders shall have the right to redeem their shareholding at a price calculated in accordance with the company's articles of association ('redemption price'), if the average ex income discount is greater than 7.5 per cent in the last 12 weeks of a company's financial year. The redemption price is the net asset value per share less all costs associated with the redemption divided by the number of shares in total being redeemed.

Share buy backs

Describes an investment company buying its own shares and reducing the number of shares in existence.

Share buy backs can be used to return money to shareholders, but are also often used to tackle the company's discount. Discounts may reflect an imbalance between the demand for shares and the number of shares in existence. The hope is that, by reducing the number of shares in existence, the buy back will help to prevent the discount widening or even reduce it.

Share price

The price of a share as determined by the stock market.

If you see a single share price shown, it's likely that this is the mid-market price. This is different to the price at which you buy and sell the shares, which are known as the bid price (sell) and offer price (buy).

Treasury shares

Shares in a company's own share capital which the company itself owns and which can be sold to investors to raise new funds.

Treasury shares only come into existence when a company buys back shares. Instead of cancelling the shares (i.e. they cease to exist) they are held 'in treasury' by the company and can be sold at a later date to raise new funds.

However you choose to invest, please ensure you are aware of any charges associated with receiving advice or investing through any of the third-party providers listed below.

Independent financial advisers

An increasing number of independent financial advisers are including investment trusts within their investment recommendations for clients. To find an adviser who recommends on investment trusts, visit www.unbiased.co.uk.

Private client stockbrokers

If you have a large sum to invest, you may want to contact a private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit the Wealth Management Association: www.thewma.co.uk.

Alliance Trust Savings ('ATS')

ATS provides products to UK private investors, including a Stocks and Shares ISA and SIPP. Their website also has a research centre where you can compare different options before making investment decisions. Their trading platform allows you to invest online, by phone or by mail.

UK residents can invest in Securities Trust of Scotland shares in the following ATS products:

- Select SIPP
- Select Stocks & Shares ISA
- Child SIPP
- First Steps account
- Investment Dealing Account
- Junior ISA

For more information:
www.alliancetrustsavings.co.uk

Other online platforms and stockbroking services

A number of real-time execution-only stockbroking services and platforms allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give you advice, they simply allow you to trade. Many of these sites also offer 'wrapper' products such as ISAs, SIPPs and savings plans.

Sites include:

- Youinvest (part of AJ Bell) www.youinvest.co.uk
- Barclays Stockbrokers www.barclaysstockbrokers.co.uk
- Charles Stanley Direct www.charles-stanley-direct.co.uk
- Hargreave Hale www.hargreave-hale.co.uk
- Hargreaves Lansdown www.hl.co.uk
- HSDL www.halifax.co.uk/sharedealing
- idealing www.idealing.com
- Jarvis Investment Management www.jarvisim.co.uk
- Selftrade www.selftrade.co.uk
- Sharecentre www.share.com
- Stocktrade www.stocktrade.co.uk
- TD Waterhouse www.tddirectinvesting.co.uk
- Trustnet www.trustnet.com

Shareholder services

The registrars of the company are Capita Asset Services. You can buy and sell shares directly by calling the Capita Dealing team on 0371 664 0445.

For other services you can contact Capita by telephone or online:

Contact details	www.capitaassetservices.com	0871 664 0300*
Opening times	24 hour	9:00am – 5:30pm Monday to Friday
Change your address	✓	✓
Request tax vouchers	—	✓
Valuation	✓	✓
Online proxy voting	✓	—
Dividend payment records	✓	✓
Register and change bank mandate instructions for receipt of dividends	✓	✓
Elect to receive shareholder communication electronically	✓	✓
Request/download shareholder forms	✓	✓

*calls cost 10p per minute plus network extras.

Checking the share price

We want to make it easy for you to follow your investment and ensure that you can check the share price in the way that suits you best:

Publications	Financial Times, The Herald and The Scotsman
Telephone	FT Cityline on 09058 171 690* simply say 'Securities Trust of Scotland' when prompted.
Online	www.securities trust.com

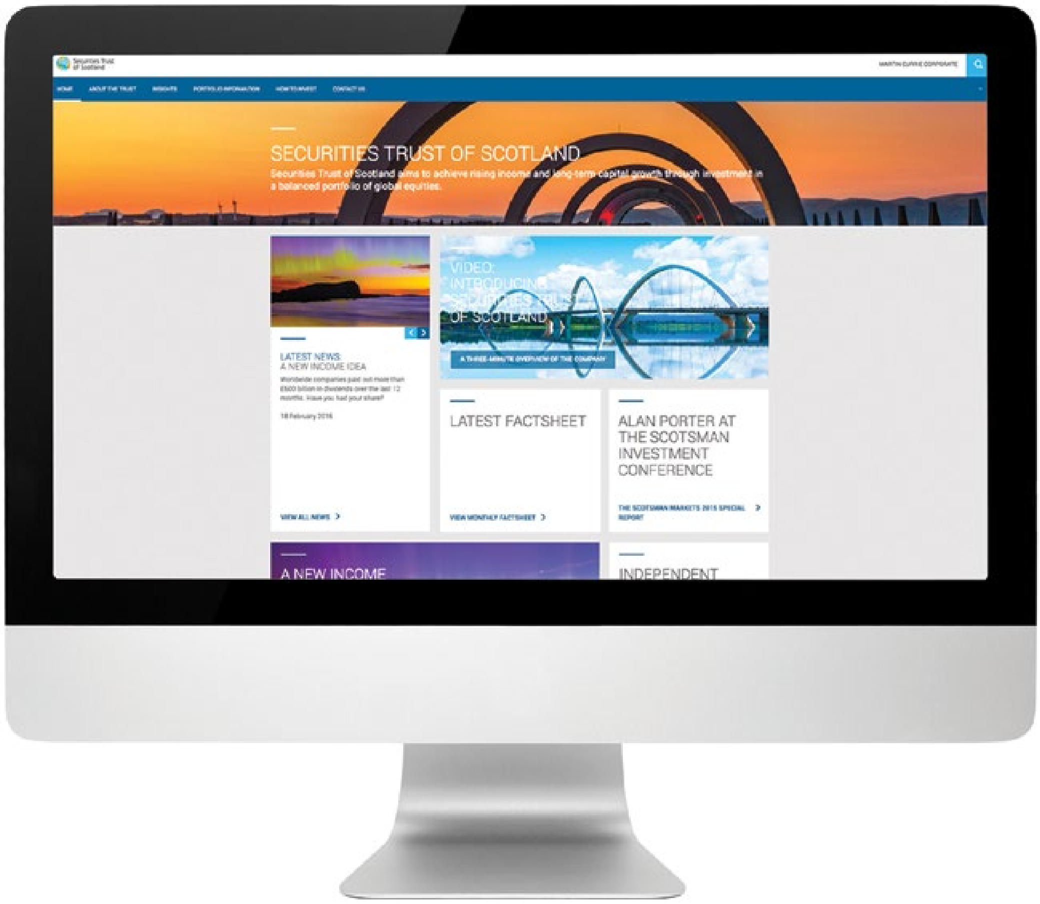
*Calls are charged at 75p per minute from a BT landline. Average call duration will be 1 minute for one stock quote. Cost from other networks and mobile phones may be higher.

www.securitiestrust.com

Securities Trust of Scotland has its own dedicated website at www.securitiestrust.com

This offers shareholders, prospective investors and their advisers a wealth of information about the company. Updated daily, it includes the following:

- latest prices
- manager videos
- performance data
- portfolio information
- latest monthly update
- research
- press releases and articles
- annual and half yearly reports



Enquiries

If you have an enquiry about Securities Trust of Scotland, please get in touch.

0131 229 5252 ▌enquiries@martincurrie.com

Mail: please refer to our address on the back page of this report

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Calls to the above may be recorded.

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c/o Company secretary
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currie