MARTIN CURRIE
A Legg Mason Company

Securities Trust of Scotland

Annual report – year to 31 March 2017

Registered in Scotland, no SC283272

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. Dividends are currently paid in March, June, September and December. Please see page 13 for details of changes to the company's dividend payment dates.

Focused portfolio managed by Martin Currie

The manager typically runs a high conviction 35-55 stock equity portfolio that is unconstrained by geography, sector, stock or market capitalisation. Martin Currie is an active equity specialist, driven by investment expertise and focused on managing money for a wide range of clients.

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 57).

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.

Peer group

From 1 June 2016, the company's investment performance (on a total return basis) is 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.

Capital structure

112,162,368 ordinary shares of 1p, each entitled to one vote.

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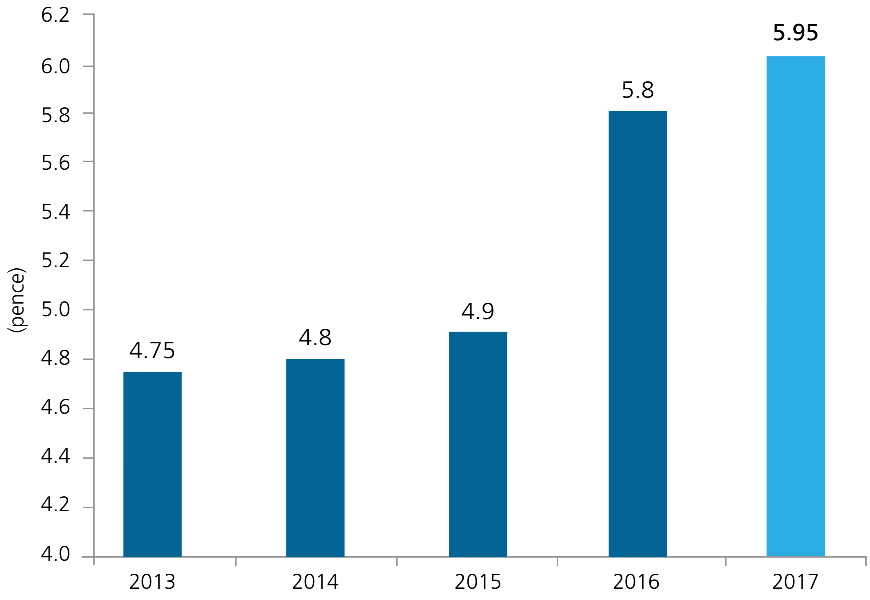
Financial Highlights

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

Rising dividend

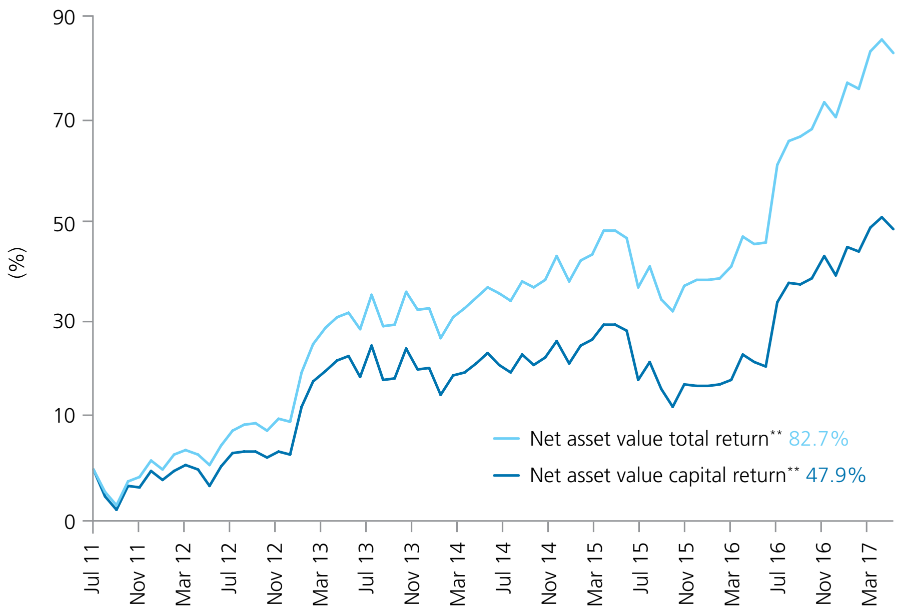
Dividend per share (pence)



A total annual dividend of 5.95p represents a yield of 3.6%*

Source: Martin Currie Investment Management.

Long-term capital growth



The net asset value ('NAV') total return is over 82% since the adoption of a global mandate on 1 August 2011.

Source: Martin Currie Investment Management.

*As at 31 March 2017. **See glossary on page 57 for definitions

Past performance is not a guide to future returns.

Source for historic yield: Martin Currie as at 31 March 2017. The yield reflects dividends declared for the year end 31 March 2017 as a percentage of the mid-market share price, as at 31 March 2017. Investors may be subject to tax on their distributions. NAV and share price total return figures are quoted in £ net of fees as at 31 March 2017. Chart shows performance since the adoption of a global investment mandate in July 2011.

Financial Highlights

Total returns‡ (including reinvested dividends)

	Year ended 31 March 2017	Year ended 31 March 2016
Net asset value per share*	26.7%	0.0%
Share price	27.7%	(2.2%)
Peer group†	26.1%	—

Key data

	As at 31 March 2017	As at 31 March 2016	% change
Net asset value per share (cum income)	177.83p	145.61p	22.1%
Net asset value per share (ex income)	176.44p	145.18p	21.5%
Share price	166.00p	135.00p	23.0%
Discount	6.65%	7.29%	
Average discount**	3.48%	6.97%	
Net assets	£199,463,000	£164,488,000	21.3%

Income

	Year ended 31 March 2017	Year ended 31 March 2016	% change
Revenue return per share	5.74p	4.73p	21.4%
Dividend per share	5.95p	5.80p	2.6%

Ongoing charges^

	Year ended 31 March 2017	Year ended 31 March 2016
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.

*The net asset value ('NAV') per share total return is calculated using cum-income NAV with dividends reinvested.

† From 1 June 2016 the company's investment performance (on a total return basis) is measured against the median of all relevant open and closed-end peers (sourced from the Lipper Global Equity Income sector and AIC Global Equity Income sector). Prior to this date, the company's benchmark was MSCI High Dividend Yield Index. Please see page 15 for further details on performance including data prior to 1 June against MSCI High Dividend Yield Index.

**Average discount over 12 week period to 31 March (based on ex income 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

	2017	2016	2015	2014	2013
Net asset value per share	26.7%	0.0%	11.3%	3.3%	23.8%
Share Price	27.7%	(2.2%)	3.1%	2.2%	24.4%

Source: Martin Currie Investment Management Limited.

Introduction

The past twelve months have been an extraordinary period politically with surprise outcomes to both the Brexit referendum in the UK and the election of Donald Trump as US president. It has nonetheless been a strong period for the equity investor and indeed your company, as investors responded to an upswing in growth expectations globally, and increased expectations of inflation re-emerging. This was driven by higher resources prices, and a supportive switch in emphasis by governments from monetary to fiscal support for economic growth. For the sterling investor, returns were even higher as the post-Brexit devaluation of sterling benefitted those investing in overseas assets.

Company developments over the year

Following the conclusion of a strategic review by the board the company moved to an investment mandate unconstrained by geography or benchmark in May 2016, and Mark Whitehead, head of Martin Currie's newly resourced income team, was appointed as portfolio manager.

Since taking over as portfolio manager, Mark has repositioned the portfolio with a greater focus on companies that exhibit growth and have a strong degree of security in their dividend payouts. It has been encouraging to see the manager using the wider opportunity set offered by the more flexible investment mandate with some exposure to alternative asset classes and smaller capitalisation stocks introduced.

The board also decided to take advantage of prevailing low interest rates and, in September 2016, agreed a seven year £15m multi currency fixed rate facility* alongside a £10m revolving credit facility to replace the £17m sterling revolving credit facility which expired at that time. The gearing at the year end remained a conservative 12.7% and, in aggregate, average borrowing costs are currently just 1.94%.

The majority of the gearing has been used to invest in global equities, with the remaining proceeds available to fund a carefully executed and controlled options writing strategy of which I write more below.

Performance

The performance of the company reflected the positive investment backdrop. The share price and NAV rose by 27.7% and 26.7% respectively on a total return basis over the period under review. This was marginally ahead of the Lipper peer group** median, which rose by 26.1% on the same basis.

The discount over the course of the year responded well to both company developments and the positive market backdrop: whilst there was a modest improvement to the year end discount of 6.7% (previous year end 7.3%), there was much less use of the company's liquidity to keep the discount within acceptable levels. The company bought back 803,118 shares at an average cum income discount of 7.6%, in comparison with the previous years' out turn with 8,025,891 shares being bought back at an average discount of 7.3%. The average cum income discount over the course of the year was 5.7% (2016: 6.4%).

'The performance of the company reflected the positive investment backdrop. The share price and NAV rose by 27.7% and 26.7% respectively on a total return basis over the period under review.'

Revenue earnings and growth in dividend

The revenue return per share for the year was 5.74p, an increase of 21.4% on the previous year. This is a good out turn against the backdrop of the portfolio repositioning described above, as a greater exposure to stocks with growth characteristics has meant a reduction in the yield on the portfolio. This was more than offset by the introduction of a limited and carefully executed options writing strategy. It has been particularly pleasing to see this factor contribute positively to income for the first time, as well as to total return: income from options contributed 11.3% of the income generated by the portfolio.

*See note 11 for more details of the multi currency facility.

**From 1 June 2016, the company's investment performance (on a total return basis) is 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. Prior to this period the company was benchmarked against the MSCI High Dividend Yield Index.

As a result, the board is delighted to declare a fourth dividend of 1.6p, bringing the total dividend for the year to 5.95p, a rise of 2.6%. This represents a yield of 3.6% (as at 31 March 2017) and follows the dividend increase of the previous financial year of 18.4%.

The majority of this dividend is funded from the revenue earnings with just 0.21p per share from retained revenue reserves. The portfolio manager is focussed on growing the income from the portfolio over the longer term with the medium term objective of generating sufficient income to cover the current level of dividend payment. In the meantime, the board will continue to use the remaining revenue reserves and the flexibility inherent in the investment trust structure to fund a portion of the dividend payment from capital reserves, if necessary.

The payment date will be 30 June 2017 for shareholders on the register on 16 June 2017.

Board

Andrew Irvine will be retiring from the board at the annual general meeting ('AGM') on 21 July 2017, after serving as a director since the company's inception. On behalf of the board and shareholders, I would like to thank Andrew for his dedication and service over the past 12 years during which your company has evolved significantly and delivered strong returns for shareholders. Angus Gordon Lennox will take over the role of Senior Independent Director and I will chair the Nominations Committee following the conclusion of the AGM.

The board is satisfied that following Andrew's retirement, it has a sufficient spread of skills and experience to allow us not to replace Andrew, although this will remain under review as required by the UK Corporate Governance Code. In an environment of substantial competition from passive savings products, your board is sensitive to the need to minimise on-going charges and the number of directors on the board will, therefore, reduce from 5 to 4.

Outlook

After a disappointing 2016, the world economy is gaining momentum and there are expectations of stronger demand and increased inflationary pressures. This improved economic outlook has been driven by a partial recovery in commodity prices, the benefits of policy support in China, and improved consumer and business confidence in the US. There are potential risks to this more optimistic outlook from a number of fronts, including a faster-than-expected pace of interest rate hikes in the US, lack of progress in some of President Trump's more business friendly policies, fall out from mounting vulnerabilities in China's financial system, and a number of political threats, including the Brexit negotiations and elections in Germany and now the UK.

Valuations in the US look to be discounting much of the good news, leaving downside surprises if the risks emerge. But there is better value to be found elsewhere, particularly in Europe. The opportunities for the global stock picker, unconstrained by geography or benchmark, remain.

Don't miss our updates

The company's website at securitiestrust.com is a comprehensive source of information and includes regular portfolio manager updates and outlook videos, monthly performance factsheets, interactive market analyses and independent research reports.

I recommend that you subscribe for regular email updates that will keep you abreast of the key information. I thank you for your continued support.

Rachel Beagles
6 June 2017

Market review

The past year will be remembered for two momentous political events: the UK's vote to leave the EU and Mr Trump's election success in the US. The first initially caused UK domestic stocks to fall sharply on the threat of recession, but have since regained some of this loss. It also led to the FTSE 100 moving higher as a large proportion of the constituent companies earn and report US dollar earnings which, when translated into weaker sterling, rose strongly. Mr Trump's win caused unexpected euphoria in the markets as they soared on the back of his acceptance speeches which offered promises of de-regulation, infrastructure spend, Affordable Care Act reform and lower corporate taxes.

'Overall, the twelve months under review can be characterised as a stellar period for the equity investor.'

Overall, the twelve months under review can be characterised as a stellar period for the equity investor. Markets rose strongly, shrugged off negativity with disdain, and volatility remained unusually benign. As a UK sterling-based investor, equity returns from a global portfolio have been fantastic. However, it's easy to forget where we have come from; one only has to cast one's mind back to the same point in 2016 when market sentiment looked markedly more gloomy compared with today. Steadily, throughout 2016 we have begun to get confirmation of improving macro economic activity in the US which has filtered out into Europe and across to the developing world such as China.

Recent economic data is now pointing toward a much healthier global economy. In many countries, business and consumer confidence is hitting multi-year highs, unemployment figures are at their lowest levels since the global financial crisis and manufacturing is also strengthening. We have seen a significant rally in commodities which had suffered huge falls in recent years to reach their nadir in early 2016. All this is causing economists to raise guidance on GDP growth for 2017 and for the Federal Reserve to be confident enough to recommence tightening policy through an interest rate hike in March.

Equity market lustre over the period masked some seismic shifts in leadership underlying the headline absolute performance numbers. 'Value' stocks (perceived to be the cheapest in the market, with sensitivity to economic activity) responded to better economic data, but also greater political overtures for 'Keynesian' big budget deficit fiscal spending plans to kick-start economies. Commodities and their related equities took up the running first as the Chinese authorities instituted some production curbs for steel production which led to the commodity price rebounding strongly. Financials and, in particular, banks, began to perk up half way through the year as investors extrapolated less regulation, lower corporate taxes and central bankers hawkish comments, into higher lending growth, better lending margins and profitability. Towards the end of the year it was the turn of the energy sector to lead markets higher as the oil price began to revive with the help of the OPEC decision to curb production for the first half of 2017.

A consequence of this rise in animal spirits was that those equity sectors with less cyclical drivers struggled to keep up. Areas which receive significant focus from equity income strategies such as ours lagged somewhat. Real estate, telecommunications, utilities and consumer discretionary sectors, all of which offer the highest sector yields in the global market place, underperformed the wider market. But gearing helped close this gap, which we increased effectively in September.

In recent months the S&P 500 has broken its 108-day run of not moving more than 1% in either direction, and Mr Trump's credibility balloon has begun to leak air with his failure to repeal the Affordable Care Act (Obamacare). Geopolitical tensions are also rising worryingly too, with Mr Trump angering Russia with a missile strike on a Syrian airbase allegedly linked to the deadly gas attack. US warships have separately been ordered to sail to the North Korean peninsula, an act of defiance against the regime's long-range weapons testing.

The past year has witnessed not only significant change to the economic and political backdrop, but to the strategy of the company as well. At the beginning of the period the board undertook a strategic review. This culminated with a number of changes in May 2016. The removal of the benchmark was confirmed with a move toward a benchmark-agnostic approach, allowing the managers to roam the globe to find the best income ideas without the restriction of a large, market capitalisation concentrated stock index to follow. We have also begun to use options to generate income and as we finish the fiscal year we have generated 11% of the year's total income using them. In September, we increased the strategic gearing of the company to 14% of NAV from 9%, by introducing a £15 million seven-year fixed facility combined with a £10 million, two-year rolling credit facility. All of these changes should give the company greater flexibility to pursue its objective of producing rising income and capital growth for shareholders from today's rapidly evolving investment backdrop.

Manager's Review

Portfolio review

The NAV of the company produced a strong total return of 26.7% over the past 12 months. The leading sectors for the fund were those where we held the largest absolute weightings, including financials, healthcare and industrials. The sectors that produced lacklustre returns included real estate, consumer discretionary, telecoms and utilities.

At the stock level Chevron, Philip Morris and British American Tobacco produced the strongest absolute returns. It is really interesting to see two tobacco firms in the top three performers of the portfolio, against a more cyclical backdrop. This is as a result of the market becoming excited about the tobacco industry's ability to stem the continual decline of volumes through the launch of next-generation products that reduce the health risks from smoking. Philip Morris's heat-not-burn tobacco product 'iQOS' is beginning to improve the company's growth profile after strong consumer take up. It should enable the company to generate high returns on invested capital on a sustainable basis which is beginning to be priced in.

Apple, which we purchased in early 2016, was among the top five performers. The company has come through a softer demand patch, weathering currency headwinds. And after success with recent iPhone shipments, we believe it is set up well for the launch of the next generation product later this year.

The weakest contributors included EutelSat Communications, Fibra Uno Administracion and Inmarsat. Although they sit in different sectors, the two satellite communications businesses are not dissimilar. Both have suffered from concerns over future profitability and, more recently, have been rebounding. We sold EutelSat to reduce exposure but Inmarsat remains in the portfolio. The latter's business has two main segments, marine & aerospace communications. The market potential of these segments has been continually revised lower by analysts over the past year, but the company is confident that the growth is still available for them – it has just been pushed out a year or so.

Fibra Uno, a small Mexican Real Estate position was sold after protracted underperformance culminating in uncertainty surrounding the possibility of trade barriers either physical or tax based being erected by Mr Trump's administration. Currency weakness also continues to weigh heavily on the stock.

Activity

Over the course of the past twelve months we have been revisiting the investment case on every stock held in the portfolio which has resulted in a number of sales and new stocks identified and purchased after extensive research. We broadened our research system, building in methods such as credit analysis and scenario testing to better understand the risks inherent in the business models proposed for investment. This led us to sell companies such as Direct Line, the UK insurance company that has been returning large special dividends to shareholders through large reserve releases, a practice we believe is ultimately not sustainable as the business model lacks organic growth. We also sold Novartis the healthcare company, a favourite of many global income funds, as we have concerns over its lack of growth over the coming years, and the likelihood it will undertake more acquisitions which could well be costly and bring execution risk. We ran scenarios which culminated in the sale of Caterpillar which after a very strong year as a top-ten performer finds itself now discounting a rebound in earnings that might prove difficult to deliver.

Of the more notable purchases we have made are the likes of Civitas Social Housing, a new listing small cap which came to the market in November 2016 raising £350 million. Civitas is buying social and assisted housing for the elderly from housing authorities as a 'sale and lease back' arrangement. Civitas can then benefit from an inflation-protected income stream to pay to investors once they have become fully invested. The beauty of the business model is that the income stream is effectively guaranteed, as most tenants are paid housing benefit from the government and there is a structural undersupply of this type of housing which Civitas hopes to relieve as housing authorities will be able to re-capitalise their balance sheets before developing further new projects.

More recently, we have started a position in ING, the Dutch universal bank offering services to retail and wholesale clients. We believe ING has a targeted and disciplined growth plan combined with stringent cost management. The retail bank is challenging incumbents by offering an uncluttered digital product that is efficient and easy to use, leading to it to take market share. As a leader in fintech, we are excited about the prospects for this bank.

In general terms, we have been looking to ensure all of the companies in the portfolio exhibit growth in a low-growth environment. Structural trends driving revenue growth that can be converted through efficient operating execution into profitability and cash flows are of paramount importance to enable dividend growth and to allow us to deliver on our objective over time.

Outlook

US equity markets are likely discounting more than the improving economic backdrop. Recent strength is unlikely to be repeated this year, particularly as much of the exuberance has been driven by President Trump's intended fiscal stimulus plan, which (with the Obamacare repeal hitting a wall of dissenting voices) now perhaps looks as it if it was too hopeful. Corporate tax rate reform is also likely to be hotly debated, but politicians will be eager to understand how it will be funded as the country continues to be burdened with record (and growing) levels of indebtedness. The Fed will also have to tread a careful path to ensure it does not tighten policy and choke off demand too quickly.

In Europe, economic indicators have also recovered, with economic confidence near a six-year high. The European Central Bank is now talking about the future path of policy, which could see a tapering of current quantitative easing and the first steps to normalising interest rates. This view seems, in part, to be predicated on building inflationary pressure; while currently on the upswing, this may well roll over later in the year as the effects of the recent oil price and commodities rally pass through.

In the absence of any further political shocks or hard Brexit scenario, the key to how equity markets act now may be as simple as whether or not this late-cycle surge in economic activity is about to stall. It is difficult to know whether or not the upswing has been a result of temporary stimulus, with inventory building but not final demand growth. This has certainly been the case in China where huge fiscal stimulus initiated in 2014 is now being reversed through tighter monetary policy and lower liquidity provision, through a higher reserve ratio for banks. This could have implications for the hugely indebted property market and the recent explosive performance of commodity prices and related equities.

What is certain is that, on a variety of measures, US equities look more expensive than European. One such measure is enterprise value (EV)/sales ratio (ex-financials), where the US market's ratio is currently 60% higher than its European equivalent. Some of this has been due to stronger earnings, particularly from the technology sector and the 'FANG' (Facebook, Amazon, Netflix and Google) stocks. But such a lofty valuation could be overstating US companies' capability to grow sales, margins and profits further compared with their European peers. As a result, we are finding the European equity market attractive in terms of valuation. Should earnings improve and in the absence of a political shock, it could outperform other equity markets this year.

However, we are watching this space carefully. Now that the UK has formally begun negotiations to leave the European Union, we can expect a period of uncertainty for UK and Europe's economies. It is too early to tell whether companies have materially withheld UK investment since the referendum vote last year, but we suspect that this is the case and the UK economy will experience some future weakness. We are therefore inherently more cautious currently on those sectors that have greater economic sensitivity.

'Now, more than ever, our investment 'system' is essential in unearthing high-quality companies with the ability to consistently produce sales and cash flow growth.'

Now, more than ever, our investment 'system' is essential in unearthing high-quality companies with the ability to consistently produce sales and cash flow growth. Our intrinsic valuation work is an integral part of this, as across regions and sectors we find many divergent fundamentals. The portfolio remains focused on achieving strong earnings and dividend growth combined with lower forecast volatility. In these uncertain times, we believe this an ideal combination.

Mark Whitehead
6 June 2017

Portfolio Summary

Portfolio distribution as at 31 March 2017

By region (excluding cash)

	2017 %	2016 %
North America	49.6	49.8
Developed Europe	38.0	39.4
Developed Asia Pacific ex Japan	10.9	7.4
Japan	1.5	2.0
Global Emerging Markets	—	1.4
	100.0	100.0

By sector (excluding cash)

	2017 %	2016 %
Financials	26.3	19.9
Industrials	15.2	16.3
Consumer goods	10.5	13.9
Healthcare	10.3	13.7
Consumer services	8.3	8.8
Technology	8.0	2.1
Oil & gas	7.7	6.5
Basic materials	6.1	4.5
Telecommunications	4.8	7.9
Utilities	2.8	6.4
	100.0	100.0

By asset class (including cash and borrowings)

	2017 %	2016 %
Equities	111.5	110.4
Options*	—	—
Cash	1.5	—
Less borrowings	(13.0)	(10.4)
	100.0	100.0

*Further details can be found on the portfolio holdings on page 11.

Largest 10 holdings

	31 March 2017 Market value £000	31 March 2017 % of total portfolio	31 March 2016 Market value £000	31 March 2016 % of total portfolio
Apple	7,503	3.4	3,760	2.1
Chevron	7,262	3.3	7,194	4.0
Phillip Morris International	7,142	3.2	7,195	4.0
Roche Holdings	6,951	3.2	4,298	2.4
Waste Management	6,333	2.9	4,456	2.5
Time Warner	6,275	2.9	—	—
Eaton	5,699	2.6	4,182	2.3
Cinemark Holdings	5,340	2.4	—	—
Huntington Bancshares	5,237	2.4	—	—
Merck & Co	5,187	2.4	4,620	2.6

Portfolio Holdings

As at 31 March 2017

	Sector	Country	Market value £000	% of total portfolio
North America			109,000	49.6
Apple	Technology	United States	7,503	3.4
Chevron	Oil & gas	United States	7,262	3.3
Phillip Morris International	Consumer goods	United States	7,142	3.2
Waste Management	Industrials	United States	6,333	2.9
Time Warner	Consumer services	United States	6,275	2.9
Eaton	Industrials	United States	5,699	2.6
Cinemark Holdings	Consumer services	United States	5,340	2.4
Huntington Bancshares	Financials	United States	5,237	2.4
Merck & Co	Healthcare	United States	5,187	2.4
Microsoft	Technology	United States	5,040	2.3
Bank Of Montreal	Financials	Canada	4,950	2.3
Occidental Petroleum	Oil & gas	United States	4,869	2.2
Suncor Energy	Oil & gas	Canada	4,805	2.2
Procter & Gamble	Consumer goods	United States	4,556	2.1
Paychex	Industrials	United States	4,535	2.1
Crown Castle International	Financials	United States	4,517	2.0
Credicorp	Financials	United States	4,428	2.0
International Paper Company	Basic materials	United States	4,235	1.9
Anthem	Healthcare	United States	4,232	1.9
WEC Energy Group	Utilities	United States	4,112	1.9
Pfizer	Healthcare	United States	2,743	1.2

Portfolio Holdings

	Sector	Country	Market value £000	% of total portfolio
Developed Europe			83,467	38.0
Roche Holdings	Healthcare	Switzerland	6,951	3.2
Givaudan	Basic materials	Switzerland	5,170	2.3
ING Groep	Financials	Netherlands	5,041	2.3
Civitas Social Housing	Financials	United Kingdom	4,891	2.2
British American Tobacco	Consumer goods	United Kingdom	4,800	2.2
Buwog	Financials	Austria	4,595	2.1
Koninklijke DSM	Basic materials	Netherlands	4,139	1.9
Unibail Rodamco	Financials	Netherlands	4,106	1.9
Banca Generali	Financials	Italy	4,019	1.8
Airbus	Industrials	France	4,009	1.8
Deutsche Telekom	Telecommunications	Germany	3,762	1.7
Hastings Group	Financials	United Kingdom	3,545	1.6
Sanofi	Healthcare	France	3,501	1.6
Britvic	Consumer goods	United Kingdom	3,260	1.5
Kingfisher	Consumer services	United Kingdom	3,242	1.5
DS Smith	Industrials	United Kingdom	3,239	1.5
Inmarsat	Telecommunications	United Kingdom	3,155	1.4
Apax Global Alpha	Financials	Guernsey	3,082	1.4
Securitas AB	Industrials	Sweden	2,991	1.4
Greencoat UK Wind	Financials	United Kingdom	2,070	0.9
Ibstock	Industrials	United Kingdom	1,961	0.9
SSE	Utilities	United Kingdom	1,938	0.9
Developed Asia Pacific ex Japan			24,045	10.9
Taiwan Semiconductor	Technology	Taiwan	5,069	2.3
ASX	Financials	Australia	4,403	2.0
Transurban Group	Industrials	Australia	4,335	2.0
Singapore Telecommunications	Telecommunications	Singapore	3,661	1.7
Coway	Consumer goods	South Korea	3,450	1.5
United Overseas Bank	Financials	Singapore	3,127	1.4
Japan			3,354	1.5
Lawson	Consumer services	Japan	3,354	1.5
Derivatives – written option contracts			(57)	(0.0)
Intesa Sanpaolo	Financials	Italy	(2)	(0.0)
Continental AG	Consumer goods	Germany	(55)	(0.0)
Total portfolio			219,809	100.0

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 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 the investment objective is met, the manager aims to grow both the revenue earnings and the cum income NAV in real terms over a rolling five year period.

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, ensures 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 35 and 55 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 peer group).

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 10% of the company's gross assets may be invested in listed 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 15% 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). The board monitors investment risk on an ongoing basis.

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 and monitors investment risk on an ongoing basis.

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 13 and 14 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 currently paid quarterly in March, June, September and December. From 1 April 2018, dividends will be paid in April, July, October and January.

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. In September 2016, the company increased its structural gearing from £17 million to £25 million by entering into a two year revolving credit facility for £10 million and a multi-currency seven year fixed facility for £15 million drawn in three tranches (£1,500,000, €4,500,000 and US$12,750,000). The facilities were drawn down, in full, in sterling, US dollars and euros, and were used to repay the company's existing facility agreement of £17 million and to increase the company's gearing position with the intention of increasing income and of improving future investment returns. The gearing is being effectively employed by the portfolio manager in two different ways. Firstly, by investing the majority of the proceeds in global equities and secondly, with the tactical use of options, in a careful and controlled manner. In accordance with the investment policy the current limit on gearing is 20% 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 to 8. 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 to 8 for an update on future prospects for the company.

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. The majority 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, and currently does, 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 peer group

The target is for the NAV total return to exceed the median of the peer group on a three year rolling basis. In the absence of a three year period since changing to peer group performance measurement on 1 June 2016, relative performance against peers over the year to 31 March 2017 has been provided.

The total return of NAV during the financial year was 26.7% against the peer group total return NAV of 26.1%, over the financial year, resulting in a marginal outperformance of 0.6%.

The table below shows the performance of the company for the year end 31 March 2017 before and after the change from measurement against benchmark to peer group. See chairman's statement for details of change in performance measurement.

Total Return in GBP

	1 April 2016 to 31 May 2016	1 June 2016 to 31 March 2017	1 April 2016 to 31 March 2017
NAV	(0.9%)	27.9%	26.7%
Share price	0.0%	27.8%	27.7%
MSCI World HDY (former benchmark)	1.0%	n/a	29.4%
Peer group median	n/a	25.5%	26.1%

2. Growth in net assets

Measured by the growth in the cum income NAV during the financial year. The company's cum income NAV grew to 177.83p at 31 March 2017, from 145.61p as at 31 March 2016, an increase of 22.1%.

3. 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 2017 were 1.0% (2016: 1.0%) and therefore the KPI was achieved.

4. Discount

The company has a policy of maintaining the average ex income discount in the last 12 weeks of the financial year at below 7.5%. The average discount over the 12 week period to 31 March 2017 based on the ex income NAV was 3.5%.

5. Rising income

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 2017 was 5.95p, an increase of 2.6% on the annual dividend for the year end 31 March 2016 of 5.8p.

Summary of KPIs	Target	Actual	Achieved
1. Performance relative to peer group	Total return to exceed the median over three years on a rolling basis	0.6%*	✓
2. Growth in net assets	Growth in cum income NAV	22.1%	✓
3. Ongoing charges	1.0%	1.0%	✓
4. Average discount	Below 7.5%	3.5%	✓
5. Rising income	Dividend per share growth	2.6%	✓

*In the absence of a three year period since changing to peer group performance measurement on 1 June 2016, relative performance against peers over the year to end 31 March 2017 has been provided.

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

Rachel Beagles, chairman

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, a non-executive director and chairman of the audit committee of Sanditon Investment Trust plc, and sits on the board as a non executive director to UWI Technology Ltd. He also acts as a consultant to Lindsays LLP. 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, chairman 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 marketing and communications 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 chairman of The Mercantile Investment Trust plc. He joined the board of Securities Trust of Scotland in November 2013.

John Evans, chairman of management engagement committee

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 F&C UK High Income Trust plc, JP Morgan Mid Cap Investment Trust 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 2017.

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 803,118 shares during the year to be held in treasury at a cost of £1,103,000. This represented 0.65% of the called up share capital and had a nominal value of £8,031. As at 31 March 2017 the issued share capital of the company was 112,162,368. 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 2017	% of shareholders	% of equity capital
Individuals and trustees	79.0	12.5
Banks and nominee companies	19.0	74.5
Insurance & Investment companies	0.1	0.0
Other holders	1.9	13.0
	100.0	100.0

As at 31 March 2017 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 2017	% issued share capital
Speirs & Jeffrey	17.3

Approximately 13.3% of the company's share capital is held on behalf of clients through Alliance Trust Savings Nominees Limited.

As at 2 June 2017, the last practicable date prior to printing of this report, the company has 112,143,918 ordinary shares in issue.

Corporate governance statement

The company's corporate governance statement is set out on pages 23 to 25 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 £6,440,000 (2016: £5,546,000), equivalent to a return of 5.74p per share (2016: 4.73p). Interim dividends totalling 4.35p have been paid during the year. The directors recommend a fourth interim dividend of 1.6p per share be payable on 30 June 2017 to holders on the register at the close of business on 16 June 2017, making a total for the year of 5.95p (2016: 5.80p). The revenue reserves as at 31 March 2017 are £1,910,000 and £1,794,000 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 ('MCFM') 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. Martin Currie has gained the highest A+ rating from the United Nations Principles for Responsible Investment ('UNPRI') and is a tier 1 signatory of the FRC Stewardship Code.

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 6 June 2017 and is signed on its behalf by:

Rachel Beagles
6 June 2017

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 2017 is shown on the statement of financial position on page 37. The cash flows of the company are set out on page 39. Note 15 on pages 48 to 52 sets out the company's risk management policies, including those covering market price risk, liquidity risk and credit risk.

The company has a two year revolving credit facility for £10,000,000 and a multi-currency seven year fixed facility in three tranches of £1,500,000, €4,500,000 and US$ 12,750,000, all of which were fully drawn down at the year-end date (2016: £17,000,000). 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 facilities.

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 13 and 14 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 2016 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 13 and 14;
- 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 95% within three 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 16, Rachel Beagles, Angus Gordon Lennox, Andrew Irvine, John Evans and Mark Little are directors of the company. As set out in the chairman's statement on page 5, Andrew Irvine will be retiring from the board with effect from the conclusion of the AGM. All other directors will stand for re-election. Following Andrew Irvine's retirement, Angus Gordon Lennox will assume the role of senior independent director and Rachel Beagles will assume the role of chairman of the nominations committee.

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, investment performance and other contractual considerations.

At the recent appraisal carried out by the management engagement committee on 9 March 2017, 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.

AIFM and company secretary fee

Martin Currie is paid an AIFM and company secretary fee of 0.6% of the net asset value per annum, payable quarterly. The 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 £1,258,346 (2016: £1,069,207) of which £103,116 (2016: £101,536) 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 2017 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.

Main features of the contractual arrangement with the investment manager

The AIFM and secretarial agreement can be terminated by either party on on six months' notice, or by the company immediately if Martin Currie ceases to be capable of managing investment trust 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 review 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 five non-executive directors of whom one is a woman, thereby constituting 20% female representation. Following Andrew Irvine's retirement, the board will comprise four non-executive directors and the female representation will increase to 25%. 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 21 July 2017, at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ES.

Allotment of shares

Resolution 10 proposes empowering the directors to allot shares of the company up to a maximum aggregate nominal amount of £373,813 being an amount equal to one third of the issued share capital of the company as at 2 June 2017.

Disapplication of statutory pre-emption rights

Resolution 11 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 £56,072 (representing 5% of the company's issued share capital as at 2 June 2017, 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 company's 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 12.

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. Resolution 12 specifies the maximum number of shares that may be acquired being 14.99% of the issued share capital as at 2 June 2017, 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.

As at 31 March 2017, the company holds 10,136,780 shares in treasury representing 8.29% of the issued share capital of the company. As at 2 June 2017 being the last practictable date before publication of the accounts, the company holds 10,155,230 shares in the treasury representing 8.30% of the 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.

Rachel Beagles
Chairman
6 June 2017

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 applicable principles. 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 five 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 re-election is recommended. As set out in the chairmans statement on page 5, Andrew Irvine will step down as a director of the company at the AGM and will not seek re-election to the board.

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.

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 and on the company's website.

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.

Corporate Governance Statement

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, marketing 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 John Evans.

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. Rachel Beagles will assume the role of chairman following Andrew Irvine's retirement.

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 Angus Gordon Lennox.

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*	2	0	1	0	0
Rachel Beagles	6	1	2	1	2
John Evans	6	1	2	1	2
Angus Gordon Lennox	6	1	2	1	2
Andrew Irvine	6	1	1	1	2
Mark Little	6	1	2	1	2

*Retired on 27 July 2016.

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 13 and 14. 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 2017, and to the date of approval of this annual report.

Rachel Beagles
Chairman
6 June 2017

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 30 to 35.

AIFM Remuneration Policy

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

The Martin Currie Group Remuneration and Reward Policy was signed off by the Remuneration Committee of Martin Currie (Holdings) Ltd and 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 the year ending 31 March 2018 and subsequent periods. 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' at least once every three years and was last approved by shareholders at the AGM in 2014. An ordinary resolution for the approval of director's remuneration policy is put to shareholders at the AGM.

Annual report on remuneration

The nominations committee considered the directors' fees in the context of the benchmark data from its peer group, and taking into account the fact that directors fees have not increased since 1 October 2013, more demanding regulatory and compliance requirements on the board, and the need to remain competitive against similar sized investment trusts, it was agreed that directors' fees should be increased. With effect from 1 April 2017, it was agreed the chairman would receive a fee of £37,500 per annum (an increase from £35,000), each director would receive £23,500 per annum (an increase from £22,000) and the chairman of the audit committee would receive £28,500 per annum (an increase from £27,000).

Directors' shareholdings (audited)

As at 31 March	2017	2016
Neil Donaldson*	—	104,765
Rachel Beagles	30,000	30,000
John Evans**	50,000	—
Angus Gordon Lennox	100,000	20,000
Andrew Irvine***	80,000	80,000
Mark Little	10,562	10,562

*Retired on 27 July 2016.

**Appointed on 1 February 2016.

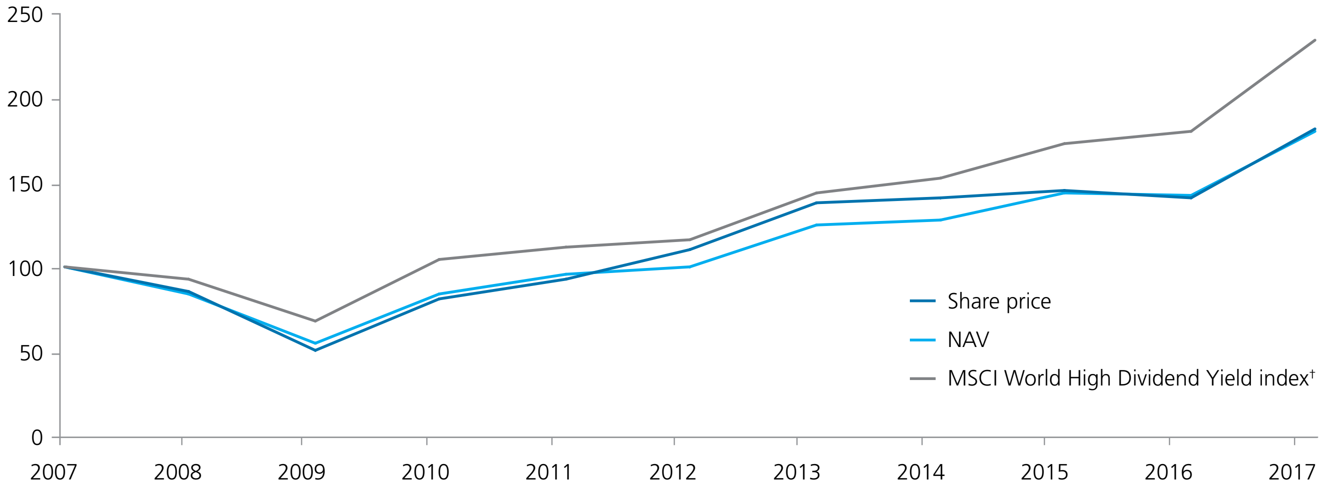
***Andrew Irvine's holding of 80,000 shares includes a beneficial and family interest of 50,000 shares.

Approval

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

At the annual general meeting on 31 July 2016, the shareholders voted in favour of the directors' remuneration report for the year ended 31 March 2016. Of the proxy votes received, 98.21% of votes were cast in favour of the directors' remuneration report. At the AGM on 24 July 2014, 96.53% of proxy votes were cast in favour of the directors' remuneration policy.

Total return (% change over 10 years)



Past performance is not a guide to future returns.
Source: Martin Currie Investment Management Limited.
†The MSCI World High Dividend Yield is used as a proxy for the market.

Directors' emoluments for the year (audited)

	2016/2017 £	2015/2016 £
Neil Donaldson (former chairman of the board)*	11,000	35,000
Rachel Beagles (chairman of the board)**	31,000	22,000
Mark Little (chairman of the audit committee)	27,000	25,000
John Evans***	22,000	4,000
Angus Gordon Lennox	22,000	22,000
Andrew Irvine	22,000	22,000
Edward Murray (former chairman of the audit committee)****	—	9,000
	135,000	139,000

* Retired 27 July 2016. **Appointed as chairman on 27 July 2016. ***Appointed 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.

	2016/2017 £000's	2015/2016 £000's	Change £000's
Directors' total remuneration	135	139	(4)
Dividends paid and payable	6,673	6,698	(25)

On behalf of the board

Andrew Irvine
Chairman of nominations committee
6 June 2017

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 24.

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 30 to 35.

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 £17,350 for the year ended 31 March 2017 (2016: £16,850). Non-audit fees amounted to £4,000 for the year ended 31 March 2017 (2016: £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. This is the ninth time that Deloitte have undertaken the company's annual audit. In accordance with the engagement between the company and Deloitte, 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.

Following the introduction of the EU Audit Regulations, which came into force in 2016, it is mandatory for audit firms to rotate at least every 10 years, this can be extended to 20 years where a public tender has been conducted after 10 years.

In accordance with the EU Audit Regulations, the company is required to undertake a public tender of its audit firm, given the tenure of Deloitte. The intention is for the company to undertake an audit tender prior to the year ended 31 March 2018. The results of the audit tender will then be announced in the annual report to 31 March 2018 to allow for the company's auditor to be re-appointed/appointed by the company's shareholders at the AGM in July 2018.

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 resolutions 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 the audit committee

6 June 2017

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

Opinion on financial statements of Securities Trust of Scotland plc (the 'company')

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements that we have audited comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flow; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: 1. valuation and ownership of fixed asset investments; and 2. recognition of investment income. All risks within this report are in line with prior year.
Materiality	The materiality that we used in the current year was £2.0m which was determined on the basis of 1% of net asset value.
Scoping	All audit work for the company was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes to our audit approach since the prior year.

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 Report of the Directors on page 19.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors’ confirmation on page 19 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 13 and 14 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; and
- the directors’ explanation on page 19 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

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 confirm that we are independent of the company and we have fulfilled our other ethical responsibilities in accordance with those standards.

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 fixed asset investments The investments of the company are valued at £219.8m (2016: £179.9m). 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.	We reviewed and assessed the Global Custody SOC1 controls report of State Street, the administrator and custodian for the company, over the valuation and ownership of investments. We evaluated the design and implementation of the controls in place at State Street according to that report. We agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an independent pricing source. We also agreed 100% of the bid prices of written options outstanding at year end to prices published by an independent pricing source. We challenged the investment managers and directors regarding their assessment of the portfolio pricing and liquidity. We reviewed the completeness and appropriateness of disclosures in relation to fair value measurements and liquidity risk. We agreed 100% of the company's investment portfolio at the year end to the confirmation received directly from the independent custodian. **Key Observations** No misstatements were identified which required reporting to those charged with governance in regards to the valuation and ownership of the portfolio.
Recognition of Investment Income Investment income for the year was £8.1m (2016: £7.2m). 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. There is also a risk that revenue may be misstated due to income being misallocated between revenue and capital; this could result in a change in the level of distribution required under the investment trust regulations. See note 1 of the financial statements for the company's accounting policies regarding revenue recognition.	We reviewed and assessed the Global Custody SOC1 controls report of State Street, the administrator and custodian for the company, over the recognition, completeness and allocation of revenue. We evaluated the design and implementation of the controls in place at State Street according to that report. For a sample of corporate actions and special dividends received, we challenged the investment manager's rationale for the allocation between revenue and capital against the requirements of Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') and agreed details of the dividend to a third party source to evidence the nature of the dividend. We developed an expectation of the dividends received for the year using market yield to assess the reasonableness of the dividends recorded. To test the completeness of investment income, for a sample of investments held in the year, we agreed the ex-dividend dates and rates for dividends declared, obtained from an independent pricing source, and traced these to the dividend entitlement report to ensure that investment income has been recorded appropriately. The premium on written options traded in the year represents a new source of income for the year to 31 March 2017. We have tested a sample of written options by recalculating the premium income generated according to an independent third party source, and agreeing to the transaction report. We also critically assessed the allocation of income generated by writing options as revenue or capital against the requirements of the SORP. **Key Observations** No misstatements were identified which required reporting to those charged with governance in regards to the completeness of dividend income. Accounting policies in relation to revenue recognition were found to be in line with FRS 102, the SORP and industry peers.

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 £2.0m (2016: £1.7m), which is 1% of net assets. Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is a key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £39,800 (2016: £32,944), 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

There were no changes to the scope of our audit since the prior year. 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 designed 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 administrator who prepares the financial statements of the company by reviewing a controls report over their activities.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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.

Matters on which we are required to report by exception

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 in respect of 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 to be 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
Statutory Auditors
Edinburgh, United Kingdom

6 June 2017

Statement of Comprehensive Income

		Year to 31 March 2017			Year to 31 March 2016		
	Note	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Net gains/(losses) on investments	8	—	37,335	37,335	—	(7,866)	(7,866)
Net currency (losses)/gains		86	(143)	(57)	21	(10)	11
Income	3	8,174	—	8,174	7,306	—	7,306
Investment management fee		(404)	(751)	(1,155)	(339)	(629)	(968)
Other expenses	4	(603)	—	(603)	(634)	—	(634)
Net return before finance costs and taxation		7,253	36,441	43,694	6,354	(8,505)	(2,151)
Finance costs	5	(174)	(295)	(469)	(76)	(141)	(217)
Net return on ordinary activities before taxation		7,079	36,146	43,225	6,278	(8,646)	(2,368)
Taxation on ordinary activities	7	(639)	—	(639)	(732)	—	(732)
Net return attributable to ordinary redeemable shareholders		6,440	36,146	42,586	5,546	(8,646)	(3,100)
Return per ordinary redeemable share	2	5.74p	32.21p	37.95p	4.73p	(7.37p)	(2.64p)

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 (AIC) Statement of Recommended Practice (SORP 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 40 to 54 form part of these financial statements.

Statement of Financial Position

	Note	As at 31 March 2017 £000	As at 31 March 2017 £000	As at 31 March 2016 £000	As at 31 March 2016 £000
Fixed assets					
Investments at fair value through profit or loss	8		219,809		179,903
Current assets					
Trade and other receivables	9	2,790		947	
Cash and cash equivalents		2,911		1,267	
		5,701		2,214	
Current liabilities					
Trade payables – amounts falling due within one year	10	(10,502)		(17,629)	
Net current liabilities			(4,801)		(15,415)
Total assets less current liabilities			215,008		164,488
Trade payables - amounts falling due after more than one year	11		(15,545)		—
Net assets			199,463		164,488
Capital and reserves					
Called up ordinary share capital	12		1,223		1,223
Capital redemption reserve			78		78
Share premium reserve			30,040		30,040
Special distributable reserve*			95,692		96,795
Capital reserve*	12		70,520		34,374
Revenue reserve*			1,910		1,978
Total shareholders' funds			199,463		164,488
Net asset value per ordinary redeemable share	2		177.83p		145.61p

*These reserves are distributable.
The company is registered in Scotland no.283272.
The notes on pages 40 to 54 form part of these financial statements.
The aggregate amount of called up share capital as at 31 March 2017 is £1,222,991 (2016: £1,222,991).

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

Rachel Beagles
Chairman
6 June 2017

Statement of Changes in Equity

For the year ended 31 March 2017	Note	Called up ordinary share capital £000	Capital redemption reserve £000	Share premium reserve £000	Special distributable reserve* £000	Capital reserve* £000	Revenue reserve* £000	Total £000
As at 31 March 2016		1,223	78	30,040	96,795	34,374	1,978	164,488
Net return attributable to shareholders**		—	—	—	—	36,146	6,440	42,586
Ordinary shares bought back during the year	12	—	—	—	(1,103)	—	—	(1,103)
Dividends paid	6	—	—	—	—	—	(6,508)	(6,508)
Balance at 31 March 2017		**1,223**	**78**	**30,040**	**95,692**	**70,520**	**1,910**	**199,463**
As at 31 March 2015		1,223	78	30,040	107,448	43,020	3,223	185,032
Net return attributable to shareholders**		—	—	—	—	(8,646)	5,546	(3,100)
Ordinary shares bought back during the year	12	—	—	—	(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

* These reserves are distributable.

**The company does not have any other income or expenses that are not included in the 'Net return attributable to ordinary redeemable shareholders' as disclosed in the Statement of Comprehensive Income on page 36, and therefore this is also the 'Total comprehensive income' for the year.

The notes on pages 40 to 54 form part of these financial statements.

Statement of Cash flow

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000	Year ended 31 March 2016 £000
Cash flows from operating activities					
Profit/(loss) before tax			43,225		(2,368)
Adjustments for:					
(Gains)/losses on investments	8	(37,335)		8,190	
Finance costs	5	469		217	
Purchases of investments*	8	(102,716)		(68,918)	
Sales of investments*	8	100,145		79,534	
Dividend income	3	(7,136)		(7,216)	
Interest income	3	(3)		(3)	
Stock lending income	3	(115)		(87)	
Premium income – written options	3	(920)		—	
Dividend received		7,348		6,540	
Interest income received		3		3	
Stock lending received		54		81	
Premium income received – written options	3	920		—	
(Increase)/decrease in receivables		(1,994)		2,045	
(Increase)/decrease in payables		116		(2,379)	
Overseas withholding tax suffered	7	(639)		(732)	
			(41,803)		17,275
Net cash flows from operating activities			1,422		14,907
Cash flows from financing activities					
Repurchase of ordinary share capital		(1,359)		(10,397)	
Equity dividends paid	6	(6,508)		(6,791)	
Movement in bank borrowings – revolving loan	13	8,545		—	
Interest paid on borrowings		(456)		(214)	
Net cash flows from financing activities			222		(17,402)
Net increase/(decrease) in cash and cash equivalents			1,644		(2,495)
Cash and cash equivalents at the start of the year			1,267		3,762
Cash and cash equivalents at the end of the year			2,911		1,267

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

The notes on pages 40 to 54 form part of these financial statements.

Note 1: Accounting policies

(a) For the year ended 31 March 2017, the company is applying Financial Reporting Standard 102 ('FRS 102') applicable in the UK and Republic of Ireland, which forms part of the Generally Accepted Accounting Practice (UK GAAP) issued by the Financial Reporting Council ('FRC') in 2015.

These financial statements have been prepared on a going concern basis in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, FRS102 issued by the FRC in 2015 and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') issued by the AIC in November 2014.

Statement of estimation uncertainty – in the application of the company's accounting policies, the board is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not always readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may vary from these estimates. There have been no significant judgements, estimates or assumptions for the year.

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 are 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 at fair value, with loans/debt valued at amortised costs.

(j) 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 re-measured 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.

During the year ending 31 March 2017 the company commenced the writing of options. These derivatives are held at fair value based on the bid/offer prices of the options written to which the company is exposed. The value of the option is subsequently marked-to-market to reflect the fair value of the option based on traded prices. The primary purpose behind the writing of options is to receive the premium, thus any premium received is considered to be revenue in nature and presented under revenue in the statement of comprehensive income. When an option is closed out or exercised, the gain or loss is accounted for as a capital gain or loss.

(n) Stock lending income is received net of associated costs and recognised in revenue as earned.

Note 2: Returns and net asset value

	Year to 31 March 2017	Year to 31 March 2016
Revenue return		
Revenue return attributable to ordinary redeemable shareholders	£6,440,000	£5,546,000
Weighted average number of shares in issue during the year	112,230,759	117,264,778
Revenue return per ordinary redeemable share	5.74p	4.73p
Capital return		
Capital return attributable to ordinary redeemable shareholders	£36,146,000	(£8,646,000)
Weighted average number of shares in issue during the year	112,230,759	117,264,778
Capital return per ordinary redeemable share	32.21p	(7.37p)
Total return		
Total return per ordinary redeemable share	37.95p	(2.64p)
Net asset value per share		
Net assets attributable to shareholders	£199,463,000	£164,488,000
Number of shares in issue at year end	112,162,368	112,965,486
Net asset value per share	177.83p	145.61p

Note 3: Revenue

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
From listed investments		
UK - equities	815	1,474
Overseas - equities	6,321	5,742
	7,136	7,216
Other revenue		
Interest on deposits	3	3
Premium - written options	920	—
Stock lending	115	87
	8,174	7,306

Capital dividend received

The company did not receive any capital dividends during the year ended 31 March 2017 (31 March 2016: the company received a capital dividend of £324,486 from Direct Line Insurance Group).

Note 4: Other expenses

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Bank charges and custody fees	22	22
Depositary fees	40	39
Directors' fees	135	139
Employers' national insurance contributions	13	13
Irrecoverable VAT	23	51
Legal fees	17	2
Printing and postage	17	18
Registrar's fees	54	50
Secretarial fee	103	102
Other	158	181
Total	582	617
Auditors' remuneration:		
– audit services	17	17
– non-audit services	4	—
	603	634

Details of the contract between the company and Martin Currie for the provision of the investment management and secretarial arrangements are provided on page 20.

Note 5: Finance costs

	Year to 31 March 2017			Year to 31 March 2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Interest on bank loans and overdrafts	174	295	469	76	141	217

Note 6: Dividends

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
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
Year ended 31 March 2016 – fourth interim dividend of 1.45p	1,629	—
Year ended 31 March 2017 – first interim dividend of 1.45p	1,627	—
Year ended 31 March 2017 – second interim dividend of 1.45p	1,626	—
Year ended 31 March 2017 – third interim dividend of 1.45p	1,626	—
	6,508	6,791

Set out below are the total dividends 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 2017 £000	Year to 31 March 2016 £000
First interim dividend of 1.45p for the year ended 31 March 2017 (2016: 1.45p)	1,627	1,698
Second interim dividend of 1.45p for the year ended 31 March 2017 (2016: 1.45p)	1,626	1,695
Third interim dividend of 1.45p for the year ended 31 March 2017 (2016: 1.45p)	1,626	1,667
Proposed fourth interim dividend of 1.6p for the year ended 31 March 2017 (2016: 1.45p)	1,794	1,638
	6,673	6,698

During the year the directors (as shareholders) received dividends of 5.8p (2016: 5.8p) per share. Directors' shareholdings are disclosed on page 26. The revenue reserves as at 31 March 2017 are £1,910,000, of this £1,794,000 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 2017 £000	Year to 31 March 2016 £000
Foreign tax	639	732

The effective corporation tax rate was 20.0% (2016: 20.0%). The tax charge for the year differs from the charge resulting from applying the standard rate of corporation tax in the UK for an investment trust company. The differences are explained below.

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Net return on ordinary activities before taxation	43,225	(2,368)
Corporation tax at standard rate of 20% (2016: 20%)	8,645	(474)
Effects of:		
(Gains)/losses on investments not taxable	(7,467)	1,573
Non taxable UK dividend income	(163)	(292)
Overseas dividends not taxable	(1,176)	(1,151)
Overseas tax suffered	639	732
Currency losses/(gains) not taxable	29	(2)
Increase in excess management and loan expenses	144	346
Impact of expensed foreign tax	(12)	—
Total tax charge	639	732

As at 31 March 2017, the company had unutilised management expenses of £14,477,484 (2016: £13,756,000) carried forward. 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.

Note 8: Investments at fair value through profit or loss

	As at 31 March 2017 £000	As at 31 March 2016 £000
UK listed investments held at fair value through profit or loss	35,183	31,426
Overseas listed investments held at fair value through profit or loss	184,683	148,477
Total value of financial asset investments	219,866	179,903
Derivative financial instruments – written option contracts	(57)	—
Valuation of investments and derivatives	219,809	179,903
Opening valuation	179,903	198,709
Opening unrealised gains	(19,286)	(26,510)
Opening cost	160,617	172,199
Acquisitions at cost	102,716	68,918
Disposal proceeds	(100,145)	(79,534)
Gains/(losses) on disposal of investments and derivatives	9,562	(966)
Disposals at cost	(90,583)	(80,500)
Closing cost	172,750	160,617
Add: unrealised gains	47,059	19,286
Closing valuation	219,809	179,903

There were no fixed interest securities as at 31 March 2017 (2016: nil).

An analysis of the investment portfolio by sector is on page 9, and a list of all the investments and their market value is detailed on pages 10 and 11.

Gains /(losses) on investments and derivatives	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Net gains/(losses) on disposal of investments and derivatives	9,562	(966)
Movement in unrealised gains/(losses)	27,773	(7,224)
Capital distributions	—	324
	37,335	(7,866)

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/(losses) on investments in the statement of comprehensive income. The total costs were as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Acquisitions	208	134
Disposals	145	96
	353	230

Note 9: Trade and other receivables

	As at 31 March 2017 £000	As at 31 March 2016 £000
Dividends receivable	464	676
Cash collateral held at broker for derivatives	2,039	—
Tax recoverable	201	252
Prepayments and other debtors	19	13
Stock lending income receivable	67	6
	2,790	947

None of the company's trade receivables are past due or impaired.

Note 10: Trade payables – amounts falling due within one year

	As at 31 March 2017 £000	As at 31 March 2016 £000
Interest accrued	16	3
Sterling bank revolving loan	10,000	17,000
Amount due on ordinary shares bought back	—	256
Other trade payables	486	370
	10,502	17,629

Note 11: Trade payables – amounts falling due after more than one year

	As at 31 March 2017 £000	As at 31 March 2016 £000
Bank loan	15,545	—

The company had a £17,000,000 revolving loan facility with State Street Bank and Trust Company which expired on the 25 September 2016. Under this agreement £17,000,000 was drawn at 30 August 2016 at a rate of 0.97563% with a maturity date of 25 September 2016. The loan was repaid in full on 23 September 2016.

On 19 September 2016 the company entered into a new agreement with the Royal Bank of Scotland Plc for £1,500,000 (Facility A), €4,500,000 (Facility B) and US$12,750,000 (Facility C) term loans and £10,000,000 (Facility D) multi-currency revolving credit facility agreement.

The term loans carry an annual fixed rate interest of 2.1408%, 1.4175% and 3.1925% for Facility A, Facility B and Facility C respectively. The rate of interest for the revolving credit facility is set at each roll-over date and is made up of a fixed margin of 0.5% plus LIBOR rate. Under this agreement £10,000,000 was drawn at 22 March 2017 at a rate of 0.842880% with a maturity date of 22 June 2017.

The repayment date of the term loans is the same as their termination date which is the 19 September 2023. The repayment date of the revolving facility is the last day of its interest period and the termination date is the 19 September 2018.

Under the loan agreements the company is to ensure that, at each month end, the aggregate principal amount outstanding in respect of monies borrowed does not exceed an amount equal to 25% of its net tangible assets and, unless otherwise agreed with the lender, net tangible assets are not less than £100,000,000. Also the company shall not enter into any obligations except with the prior consent of the Lender and not enter into any option writing programme which the value of its transactions, at any time, exceed 15% of its net tangible assets.

As at 31 March 2017 the company had drawn down the full amount of the loan and the balances as at that date were for Facility A £1,500,000, Facility B £3,849,000 (€4,500,000), Facility C £10,196,000 (US$12,750,000) and Facility D £10,000,000.

The fair value of the bank loan is £15,487,000 as at 31 March 2017.

Note 12: Called up share capital

	Number of shares	As at 31 March 2017 £000	Number of shares	As at 31 March 2016 £000
Ordinary shares of 1p				
Ordinary shares in issue at the beginning of the year	112,965,486	1,130	120,991,377	1,210
Ordinary shares bought back to Treasury during the year	(803,118)	(8)	(8,025,891)	(80)
Ordinary shares in issue at the end of the year	112,162,368	1,122	112,965,486	1,130
Treasury shares (ordinary shares 1p)				
Treasury shares in issue at the beginning of the year	9,333,662	93	1,307,771	13
Ordinary shares bought back to Treasury during the year	803,118	8	8,025,891	80
Treasury shares in issue at the end of the year	10,136,780	101	9,333,662	93
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 803,118 shares bought back during the year to 31 March 2017 at a cost of £1,103,000 (2016: 8,025,891 at a cost of £10,653,000). During the year, the company issued no shares (2016: 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 2016	15,088	19,286	34,374
Gains on realisation of investments at fair value	9,562	—	9,562
Realised currency losses during the year	(143)	—	(143)
Movement in unrealised gains	—	27,773	27,773
Capital expenses	(1,046)	—	(1,046)
As at 31 March 2017	**23,461**	**47,059**	**70,520**

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 13: Analysis of debt

	As at 31 March 2016 £000	Cash flows £000	As at 31 March 2017 £000
Cash at bank	1,267	1,644	2,911
Bank borrowings	(17,000)	(8,545)	(25,545)
Net debt	(15,733)	(6,901)	(22,634)

Note 14: Related party transactions

With the exception of the management fees and secretarial fees (as disclosed on page 20), directors' fees (disclosed on page 27) and directors' shareholdings (disclosed on page 26), there have been no related party transactions during the year, or in the prior year.

Note 15: 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 (a) market price risk (comprising of (i) interest rate risk, (ii) currency risk and (iii) other price risk), (b) liquidity risk and (c) credit risk.

The board regularly reviews and agrees policies for managing each of these risks. The 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, other than for currency disclosures.

(a) 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, foreign currency risk and other price risk.

(i) Market risk arising from 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 the Royal Bank of Scotland Plc which provides flexibility to finance opportunities in the short term. Current guidelines state that the total borrowings will not exceed 20 per cent of the net assets of the company. Details of borrowings at 31 March 2017 are shown in notes 10 and 11 on page 46.

Interest risk profile

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

As at 31 March 2017	Interest rate %	Local currency 000	Foreign exchange rate	GBP sterling equivalent £000
Assets:				
Sterling	0.01	2,712	1.000	2,712
Euro	(0.60)	190	1.169	162
US dollar	0.09	47	1.250	37
Total				2,911
Liabilities:				
Bank loan – GBP sterling	2.14	1,500	1.000	1,500
Bank loan – GBP sterling	0.84	10,000	1.000	10,000
Bank loan – Euro	1.42	4,500	1.169	3,849
Bank loan – US dollar	3.19	12,750	1.250	10,196
Total				25,545

As at 31 March 2016	Interest rate %	Local currency £000	Foreign exchange rate £000	GBP sterling equivalent £000
Assets:				
Sterling	0.25	1,163	1.000	1,163
Euro	(0.40)	91	1.261	72
US dollar	0.01	46	1.437	32
Total				1,267
Liabilities:				
Bank loan - GBP sterling	1.21	17,000	1.000	17,000
Total				17,000

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 25 (2016: 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 2017		Year to 31 March 2016	
	Increase in rate £000	Decrease in rate £000	Increase in rate £000	Decrease in rate £000
Effect on revenue return	(22)	22	(60)	60
Effect on capital return	(42)	42	(111)	111
Effect on total return and on net assets	(64)	64	(171)	171

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

(ii) Market risk arising from 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 2017			As at 31 March 2016		
	Investment exposure £000	Net monetary exposure £000	Total currency exposure £000	Investment exposure £000	Net monetary exposure £000	Total currency exposure £000
US dollar	104,314	(9,937)	94,377	84,622	146	84,768
Euro	33,115	(2,204)	30,911	23,204	99	23,303
Swiss franc	12,121	157	12,278	13,267	153	13,420
Canadian dollar	9,755	—	9,755	4,904	—	4,904
Australian dollar	8,738	—	8,738	7,700	—	7,700
Japanese yen	3,354	50	3,404	3,610	42	3,652
Swedish krona	2,991	—	2,991	3,031	—	3,031
Singapore dollar	6,788	—	6,788	5,556	—	5,556
Korean won	3,450	58	3,508	—	—	—
Mexican peso	—	—	—	2,583	—	2,583
Total overseas investments	184,626	(11,876)	172,750	148,477	440	148,917
Pound sterling	35,183	(8,470)	26,713	31,426	(15,855)	15,571
Total	219,809	(20,346)	199,463	179,903	(15,415)	164,488

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 2017, if sterling had strengthened by 10% 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 10% 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 was performed on a 5% and investment exposure only basis for 2016.

	As at 31 March 2017 £000	As at 31 March 2016 £000
US dollar	9,438	4,231
Euro	3,091	1,160
Swiss franc	1,228	663
Canadian dollar	976	245
Australian dollar	874	385
Japanese yen	340	181
Swedish krona	299	152
Singapore dollar	679	278
Korean won	351	—
Mexican peso	—	129

(iii) Market risk arising from 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 9 to 11, 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 date, and are not representative of the year as a whole.

	Year to 31 March 2017		Year to 31 March 2016	
	Increase in fair value £000	Decrease in fair value £000	Increase in fair value £000	Decrease in fair value £000
Effect on revenue return	(69)	69	(57)	57
Effect on capital return	32,843	(32,843)	26,880	(26,880)
Effect on total return and on net assets	32,774	(32,774)	26,823	(26,823)

(b) 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 (see notes 10 and 11 for more details).

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 2017			As at 31 March 2016		
	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:						
Interest accrued	16	—	16	3	—	3
Bank loans	10,000	15,545	25,545	17,000	—	17,000
Amount due for ordinary shares bought back	—	—	—	256	—	256
Other trade payables	486	—	486	370	—	370
	10,502	15,545	26,047	17,629	—	17,629

(c) 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 2017 was £5,701,000 (2016: £2,214,000). This was due to trade receivables and cash as per notes 9 and 13.

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 16: 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 17: Fair value hierarchy

The company has early adopted the amendments to FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', where 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 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc); or
- Level 3: significant unobservable input (including the company's own assumptions in determining the fair value of investments).

The financial assets measured at fair value through profit and loss are grouped into the fair value hierarchy as follows:

At 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit or loss				
Quoted equities and derivatives	219,809	—	—	219,809
Net fair value	219,809	—	—	219,809

At 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit or loss				
Quoted equities	179,903	—	—	179,903
Net fair value	179,903	—	—	179,903

Note 18: Stock lending

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

As at 31 March 2017 £23,416,000 of investments were subject to stock lending agreements and £25,236,000 was held in collateral. The collateral was held in the form of cash, government securities issued by any of the OECD countries or equity securities listed and/or traded on an exchange in the various countries (2016: £42,766,000 of investments subject to stock lending, £46,164,000 held as collateral). Further details are provided on page 54.

The gross earnings and the fees paid for the year are £153,000 (2016: £115,000) and £38,000 (2016: £28,000).

Note 19: Post year end events

On 6 June 2017 the board declared a fourth interim dividend of 1.6p per share. As at 2 June 2017, the company had bought back a further 18,450 ordinary shares at an average price of 166.0p per share resulting in a further reduction of £31,000 to the special distributable reserve.

Note 20: 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 AIFM's year ended 31 March 2017 are available from the company secretary on request.

The company's maximum and actual leverage levels at 31 March 2017 are shown below:

Leverage Exposure	Gross method	Commitment method
Maximum permitted limit	300%	200%
Actual	110%	111%

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.

Stock lending disclosure

The company has a Securities Lending Authorisation Agreement with State Street Bank & Trust Company. As at 31 March 2017 £23,416,000 of investments were subject to stock lending agreements, representing 11.2% of total lendable assets. The company has not entered into any other securities financing transactions during the year.

The tables below provide details by counterparty and collateral:

Loan counterparties:	£000
Deutsche Bank AG	12,707
Morgan Stanley & Co. LLC.	4,018
Morgan Stanley & Co. International Plc.	2,616
BNP Paribas (New York Branch)	1,314
Citigroup Global Markets Limited	1,289
Citigroup Global Markets Inc.	883
Jp Morgan Securities Plc	484
UBS AG	105
Total on loan	23,416

Collateral:	£000
Deutsche Bank AG	13,950
Morgan Stanley & Co. LLC.	4,216
Morgan Stanley & Co. International PLC.	2,749
Citigroup Global Markets Inc.	2,283
Bnp Paribas (New York Branch)	1,417
JP Morgan Securities Plc	509
UBS AG	112
Total collateral	25,236

Maturity analysis of collateral	£000
Less than one day	5,143
One day to one week	12
One week to one month	3
One to three months	4
Three months to one year	290
Above one year	7,701
Open transactions	12,083
	25,236

Type of collateral	£000
Equity	12,083
Fixed Income	8,010
Cash	5,143
	25,236

Custodian	Collateral £000
JP Morgan	13,997
State Street	9,822
Bank of New York	1,417
Crest	—
Total	25,236

Currency summary	£000
US dollar	13,467
Sterling	5,460
Euro	5,024
Hong Kong dollar	1,053
Norwegian krone	107
Swiss franc	86
Swedish krona	18
Japanese yen	15
Danish krone	3
Australian dollar	2
Canadian dollar	1
	25,236

Directors and Advisers

Directors
Rachel Beagles (chairman)
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
20 Castle Terrace
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 SC283272

Independent auditor
Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

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

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

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

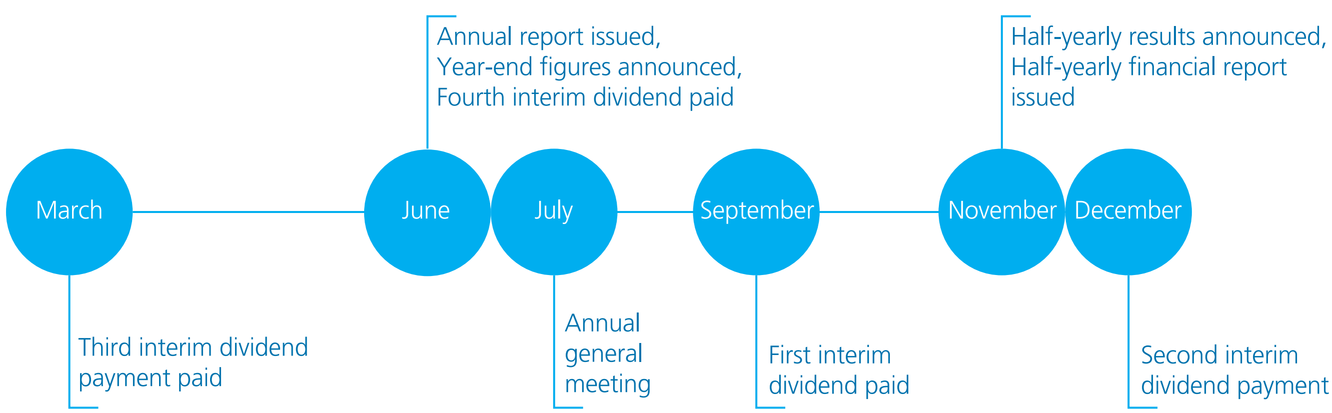
Depositary
State Street Trustees Limited
525 Ferry Road
Edinburgh
EH15 2AW

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 2017*



*From 1 April 2018 dividends will be paid in April, July, October and January.

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 and cum 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.

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 capital return performance

A measure showing how the net asset value (NAV) per share has performed over a period of time just in relation to the capital, without reflecting the value of dividends paid to shareholders.

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.

Peer group

The company's peer group consists of all relevant open and closed-ended peers (sourced from the Lipper Global Equity Income sector and AIC Global Equity Income sector). Performance is measured against the median of this peer group.

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.

Ways to invest in the company

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 12p per minute plus network extras.

Checking the share price

The share price is available through many sources including www.londonstockexchange.com and www.securitiestrust.com

Our website

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: The Chairman
c/o Company secretary
Securities Trust of Scotland plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2ES

Securities Trust of Scotland

How to contact us

Tel: 0131 229 5252
Fax: 0131 228 5959
Email: enquiries@martincurrie.com

www.securitiestrust.com

Calls to the above may be recorded.

The Chairman
c/o Company secretary
Securities Trust of Scotland plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2ES

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