MARTIN CURRIE
A Legg Mason Company

SECURITIES TRUST OF SCOTLAND PLC

Annual report – year to 31 March 2018

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 paid in April, July, October and January.

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 58).

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

The company's investment performance (on a total return basis) is measured against the median of all relevant open and closed-ended peers on a rolling three-year basis.

Please see page 12 for more details.

Capital structure

110,446,792 ordinary shares of 1p, each entitled to one vote.

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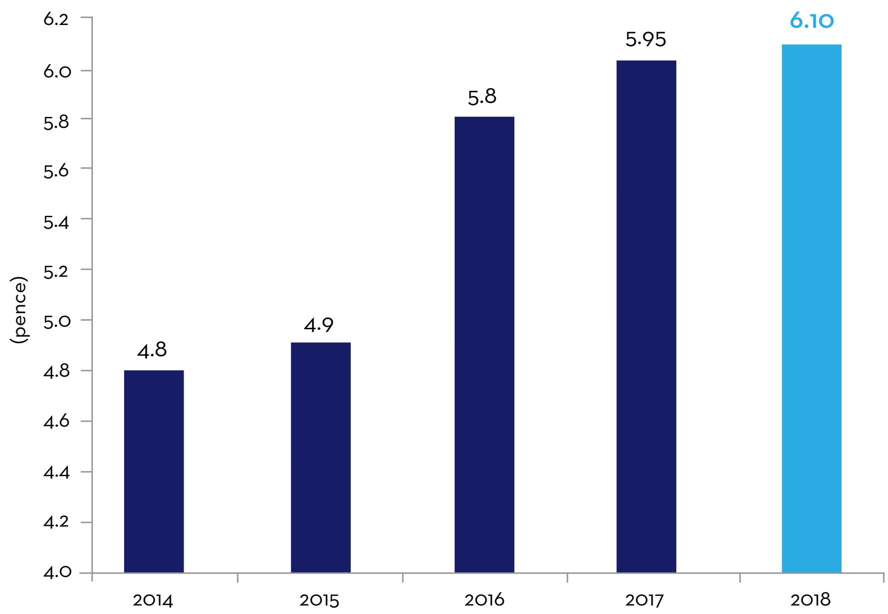
Our objective is to deliver rising income and long-term capital growth.

Rising dividend

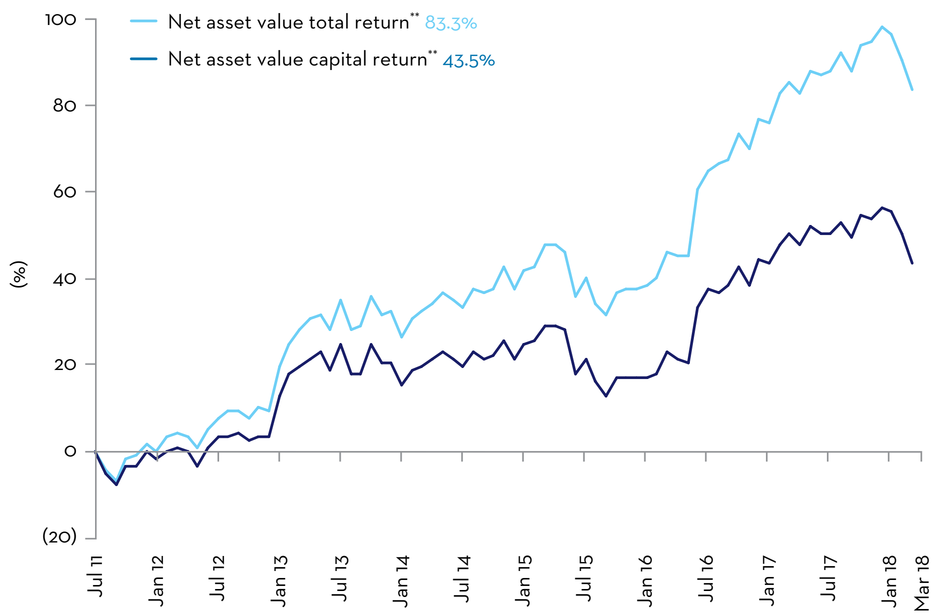
Dividend per share (pence)



Source: Martin Currie Investment Management.

A total annual dividend of 6.10p represents a yield of 3.8%.* An increase of 27% over 5 years.

Long-term capital growth



The net asset value ('NAV') total return is over 83% since the adoption of a global mandate on 1 August 2011.

Source: Martin Currie Investment Management.

*As at 31 March 2018. **See Alternative Performance Measures on page 57 for definitions.

Past performance is not a guide to future returns.

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 2018 %	Year ended 31 March 2017 %
Net asset value per share[*]	**(1.1)**	26.7
Share price	**0.2**	27.7
Peer group[†]	**(1.8)**	26.1

Key data

	As at 31 March 2018	As at 31 March 2017
Net asset value per share (cum income)[#]	**170.02p**	177.83p
Net asset value per share (ex income)[#]	**168.65p**	176.44p
Share price	**160.50p**	166.00p
Discount[#]	**5.60%**	6.65%
Average discount for the 12 week period to 31 March[**]	**4.95%**	3.48%
Net assets	**£187,784,000**	£199,463,000

Income

	Year ended 31 March 2018	Year ended 31 March 2017
Revenue return per share	**5.69p**	5.74p
Dividend per share	**6.10p**	5.95p

Ongoing charges[#]

	Year ended 31 March 2018	Year ended 31 March 2017
Ongoing charges	**0.9%**	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 peer group.

#See Alternative Performance Measures on page 57 for definitions.

*Calculated using cum-income NAV with dividends reinvested. See page 57 for definition.

†Please see page 12 for details on the company's peer group.

**Based on ex income net asset value.

Five-year record

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

	2018	2017	2016	2015	2014
Net asset value per share	**(1.1%)**	26.7%	0.0%	11.3%	3.3%
Share Price	**0.2%**	27.7%	(2.2%)	3.1%	2.2%

Source: Martin Currie Investment Management Limited.

Introduction and background

The year under review has been a positive one for the global economy which strengthened throughout the year, supported by accommodative monetary policy, improved consumer confidence and benign inflation.

From an equity market point of view, the financial year was one of two periods. The first, until the third week of January was very positive: equity markets responded well to the positive economic backdrop, and were encouraged further in December by a breakthrough in the first stage of the Brexit negotiations and the passing of President Trump's much heralded US tax reforms. The final ten weeks of the year however presented a much more nervous picture with concerns of more protectionist trade practises, a pick up in inflation, and less benign monetary conditions competing against a backdrop of historically high valuations in most major markets. A sharp pick up in volatility and declining markets ensued, wiping out almost all of the gains made in the earlier part of the year.

Performance and ongoing charges

The net asset value ('NAV') total return for your company over the period was -1.1%, comparing favourably with the peer group median which returned -1.8%. Since moving to an unconstrained mandate on 31 May 2016 the NAV total return has been 26.4%, against the peer group median of 23.3%.

The ongoing charges ratio fell to 0.9% (2017: 1.0%) driven by higher average net assets over the year.

Discount

The discount to NAV tightened over the 12 months to March, finishing at 5.6% (end March 2017: 6.7%). During the financial year the company bought back 1,715,576 ordinary shares into treasury, at an average price of 168.1p per share and an average discount of 6.3%. This represents 1.5% of the company's total share capital. At 31 March 2018, the company held 9.7% of its shares in treasury.

Revenue and options strategy

Revenue earnings for the year were broadly flat at 5.69p: rising markets resulted in higher management fees; in addition stock lending income and options income marginally declined. These trends were not fully offset by increases in income from the portfolio.

It's worth commenting on the income from options, as, notwithstanding the low levels of volatility experienced for most of the year and therefore lack of options writing opportunities, disciplined, tactical use of these instruments was particularly effective in the latter part of the year when volatility increased. Options income represented 11% of total income generated for the year overall (2017: 11%). This flexibility to write options gives a useful means of delivering revenue, whilst also providing the manager with the flexibility to invest in high quality companies with higher growth characteristics, but therefore often, lower yields. The manager's options writing strategy is specifically designed not to increase investment risk but to generate income in the portfolio and, at times, as a useful way of buying and selling portfolio holdings. Please see page 13 for more information.

Dividends

The board is pleased to declare a fourth interim dividend of 1.75p which will be paid on 27 July 2018 to shareholders on the register on 6 July 2018. The total dividend for the year of 6.1p is a rise of 2.5%. This dividend increase is representative of the board's intention to deliver a progressive dividend policy, using its retained capital profits if necessary. The board believes that this policy allows the manager to focus on maximising the long run total return in the portfolio, by allowing more flexibility to hold stocks in the portfolio with greater growth characteristics, albeit with sometimes slightly lower yields. 0.27p of the fourth interim dividend was paid from capital – the first time that this policy has been put to use. Since announcing this policy in May 2015, the annual dividend has grown by an annualised 8% and the shares' yield is 3.8% at 31 March 2018*.

The company's dividends are paid quarterly. As was reported in the annual report to 31 March 2017, and as of 1 March 2018, dividends are paid in April, July, October and January. This decision was taken by the board following a review of the board meeting cycle, which resulted in the number of regular scheduled board meetings being reduced from six to five. This number of meetings is in line with many peers, and resulted in simplified administration and some cost savings to shareholders.

*Based on a dividend of 6.1p and the share price as at 31 March 2018 of 160.5p.

Management Fee

The board has agreed with the investment manager to reduce the company's annual investment management fee (referred to as the company's AIFM and company secretary fee). With effect from 1 April 2018, the company's AIFM and company secretary fee, which is calculated quarterly, is calculated at an annual rate of 0.60% of the company's net asset value up to £200 million and an annual rate of 0.40% of the company's net asset value above £200 million. This replaces the previous AIFM and company secretary fee of 0.60% of the company's net asset value. The net asset value continues to be defined as the company's net asset value adjusted by adding borrowings of the company.

Regulatory Update

Following the introduction of the Packaged Retail and Insurance-based Investment Products ("PRIIPs") regulation in January 2018, Martin Currie Fund Management, as the company's Alternative Investment Fund Manager ("AIFM") is required to produce a Key Information Document ("KID") in respect of the company, as a closed ended investment company. The regulation requires the KID to be made available to retail investors prior to them making an investment decision, and is available on the company's website. Unfortunately, the format of the KID and the methodology for calculating risks, costs, and potential returns is prescribed by the regulation. As a result, the board would like to point out to shareholders that the performance outcomes provided in the KID may not reflect anticipated returns that shareholders might experience and also that those returns are not guaranteed.

The General Data Protection Regulation ("GDPR") came into effect following the conclusion of the company's financial year. The company's agreements with third party service providers have been reviewed and updated to reflect the new obligations arising from GDPR. The company has also reviewed its processes and procedures with regards to personal information, produced a data map, and updated its privacy policy on its website to give investors full transparency as to how personal information is used by the company.

ESG (Environmental, Social, Governance) approach

Your board believes that ESG factors are an essential input into the investment management process and that positive behaviour exhibited by companies in these areas will add shareholder value over the longer term. Stewardship factors are an integral part of Martin Currie's investment philosophy and process and it has been a signatory of the Principles for Responsible Investment (PRI) since 2009. I am pleased to report that it has been awarded the highest possible rating (A+) from the PRI for each of its three top-level categories: strategy and governance, incorporation and active ownership.

Outlook

The last nine years have produced the second longest bull market in history. As the economic cycle matures, and central banks try to normalise monetary conditions following the unprecedented accommodative period of the last 10 years, it is inevitable that uncertainty over the pace of economic growth and future direction of markets is likely to increase. This provides opportunities for the unconstrained stock picker with a global opportunity set and a disciplined investment approach.

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 and thank you for your continued support.

Rachel Beagles
27 June 2018

Market review

The 2018 fiscal year for the company has been an altogether more difficult operating environment than the preceding 12 months. Much like the style of businesses we invest in, strong company fundamentals have, at times, been perceived as a disadvantage by investors. High-risk, cheap leverage and accelerating growth (no matter where or how it is generated) has attracted the bulk of investment flows for much of the year. That was until the unusually long period of benign volatility ended abruptly in late January 2018. Since then, the S&P 500 in the US has posted 13 daily moves greater than 1.5%, in stark contrast to the previous 12 months (which saw only nine days where there was such a move). In the 10 months up to 23 January, the MSCI ACWI had produced a double-digit return in sterling terms, but by the end of March this had been whittled away to a mere 3% gain.

Looking back, it is very difficult to attribute the overall market outcome to one particular factor. However, it is clear that geopolitical tensions have been ratcheted up. A pressure valve erupted over the summer of 2017, when a war of words escalated between the North Korean regime and President Donald Trump. This was triggered by North Korea's tests of ballistic missiles, which drew widespread condemnation from UN members and led to the enforcement of more stringent trade sanctions. This alarmed markets at first, with risk assets selling off, but they quickly rebounded once the threat of war receded. Kim Jong-Un has since enacted a volte-face by meeting with South Korean leaders and even just recently completing denuclearisation talks with Mr Trump.

More recently, Russia has been in the spotlight, whether because of its continued support of the Syrian regime, led by President Bashar al-Assad, or its suspected involvement in the nerve-agent attack on a former Russian spy and his daughter on British soil. Russia's continued implication in violations of international humanitarian law and human rights, is sure to attract further stringent sanctions on its prominent business interests – following the unprecedented expulsion of its diplomats from countries across the European Union and US. This may put pressure on newly re-elected President Vladimir Putin. Worryingly these tensions could have easily increased the probability of war (be it cold or otherwise), but more recently the furore has faded.

It was not just the Russians that voted over the reporting period (in March 2018). Last year's political calendar including French then German elections, held in April/May and September, respectively. The former confirmed the relatively unknown Emmanuel Macron had won enough votes to take office. Despite his relative inexperience, his political views were not seen to be particularly extreme and so the result passed without much controversy.

The German election, however, was altogether more interesting, as while Chancellor Angela Merkel won a fourth term in office, she did so with a much lower showing. The traditional political establishment, which has held sway since the second world war, sustained heavy losses, with an increase in support for the hard-right AfD party. Despite such populist discontent surrounding the elite, Ms Merkel has been able to build a fourth cabinet which was eventually sworn in on 14 March, another 'grand coalition' consisting of the Christian Democratic Union, the Christian Social Union of Bavaria and the Social Democrats (SPD). It is no doubt going to be far more difficult for this coalition to act with the same strength, in a deeply divided country, exhibiting an extremely worrying rise in right-wing nationalism.

Against this politically charged backdrop, economic growth has been strong across most major regions. A synchronised upswing in activity has been supportive to equity markets. Some call this the 'Goldilocks' macroeconomic environment, where inflation and wage growth seem to be kept in check, allowing corporate profitability to surge and global GDP forecasts to rise to 3.9% for 2018 (International Monetary Fund).

US corporate earnings have also been boosted by Mr Trump's Republican party's success in pushing through the most sweeping overhaul of the US tax system in more than three decades. As we entered the new year, earnings' forecasts by analysts for 2018 had reached fever pitch at around 15%, levels hardly seen, let alone achieved. As the likely success of this policy change became more widely accepted, US equities surged higher in late Q4, and for January 2018, produced one of the fastest rallies in recent history, and the best start to a year for the S&P 500 since 1987.

As the macroeconomic data has strengthened, the US Federal Reserve (Fed) has begun to tighten monetary policy. The cost of the protracted quantitative-easing (QE) programme to reflate the economy has been an unpalatable build up of debt, leading the Fed to initiate gradual balance-sheet normalisation, or tapering of QE. Consensus currently anticipates up to three more Fed interest rate hikes in 2018.

Whether it was this policy tightening, the bond market's anticipation of higher interest rates, or higher levels of inflation recorded for online sales over the Christmas period; individually or collectively these developments caused a sudden and aggressive spike in volatility at the end of January 2018.

The market fell almost 5%, the first meaningful correction for around 18 months. Counterintuitively, the defensive characteristics of dividend-paying equities was at first treated as a disadvantage by the market. In fact, high-quality and low-volatility stocks fell aggressively, strangely acting as though they were high beta. A post mortem quickly pointed blame at low-volatility focused exchange-traded funds (ETFs), which had to supply the market with huge volumes of this style of equity, as they received unforeseen redemption pressure.

Looking back, the market leadership changed little as the sell-off took hold. Whatever the underlying reasoning, high-dividend strategies (such as Securities Trust of Scotland), struggled against this market regime. Of late, more defensive companies have begun to reassert their credentials, when further bouts of volatility have ignited throughout February and March, which has been more helpful to the portfolio.

The dispersion of sector returns over the past year has been stark, with information technology the standout winner, producing a sterling return of 16%. There has been a strong correlation between dividend yield level and performance, with the top-yielding sectors all lagging the market by some distance. Telecoms, for example, produced a sterling return of negative 11%, versus the market's 3% rise. In other words, there has been a 26 percentage-point differential between the best and worst performing sectors. Energy, utilities, consumer staples and real estate all lagged the market too, which served as a headwind for dividend strategies.

Performance

The net asset value (NAV) of the company produced a negative total return of 1.1% in (sterling) terms for the fiscal year. This put the company in the middle of the second quartile of the composite peer group, which includes over 100 comparable global equity income products using an open or closed-ended structure.

The leading sectors for the company in terms of absolute performance were information technology, materials and real estate. Our holdings in Real Estate have not only produced a high and growing income stream over the period but also strong capital growth, particularly our holding in Buwog. We held this company as we liked its structural growth profile, alongside a strategy of divesting long held residential housing assets in Austria, whilst re-investing proceeds into German property where the yields available combined with rental growth are higher. At the end of 2017, this growth profile was also recognised by Vonovia, the German listed property developer as it bought Buwog at an eighteen percent premium to the undisturbed share price. The sectors that produced negative returns included consumer discretionary, consumer staples, healthcare and telecommunications. With these higher-yielding sectors lagging more cyclically sensitive ones.

Within materials, Dutch health, nutrition and materials multinational DSM and Ibstock, a UK brick manufacturer, led the winners list. The former is benefiting from an upswing in vitamin pricing allowing improved profitability. The company also operates a performance-materials segment that produces plastic components for the autos industry among other end markets, which is also seeing a strong uplift in profitability. Ibstock continues to be an exciting opportunity to benefit from the structural imbalances of the UK housing market. According to the UK Government, there is an undersupply of new homes, caused by homebuilders poor construction rates – which are far below that of the natural demand inherent in the UK economy. Ibstock has been investing heavily in new capacity, which should ramp up to full utilisation by the end of 2019.

Information technology represents an interesting opportunity for the income investor. Although the yield level is inferior to the wider market, the potential for dividend growth (and therefore high cumulative income) over our three to five-year investment horizon is highly attractive. Companies such as Microsoft, a top performer in the portfolio, give the investor exposure to some surprisingly nascent and exciting technologies too, such as the internet of things, cloud storage, machine learning, artificial intelligence, augmented reality and even quantum computing. Taiwan Semiconductor Manufacturing also directly benefits from these structural growth trends. As we see increasing demand for data, other positives for the firm include crypto-currency mining and autonomous driving.

Consumer discretionary has been a troubled sector for the company throughout the review period. Much of the lacklustre performance can be attributed to disruption. For example, it has taken a lot of hard work to evaluate how the threat of technology could affect change to profitability of the movie-theatre chain, Cinemark. This company has seen its share price suffer, due to ubiquitous content (Netflix recently raised US$1.4 billion – surpassing Apple's US$1 billion earmarked to produce original video content) and the risk of studios pushing to shrink the movie-release window, which could lead to cinemas having less time to show movies exclusively. Other stocks in this sector which have detracted too, include Interpublic Group, the holding company of advertising agencies, and Leggett & Platt, which manufactures bed springs and car seats – which have both struggled due to disruption and an increase in competition.

After a strong performance in 2016 through to mid-2017, the holding in Philip Morris also retreated in absolute terms. Tobacco suffered as a bond proxy, due to its high dividend yield during a period of rising bond yields in the US. In addition, the relative attractiveness of its growth profile has obviously waned versus other areas of the market that are more cyclically disposed. However, we still believe this company will change the combustible-smoking market for the better. And despite the US Food and Drug Administration failing to find material clinical benefit to users of its 'heat-not-burn' technology, it has managed to sell a lot of the new devices and tobacco sticks. Just as vaping has done, this new technology seems to be gaining market share from combustibles, particularly in Japan. After all, if Philip Morris was a healthcare company, it would be snarled up in years of phased clinical trialling, something it has so far largely been able to avoid, to the benefit of profitability.

Activity

It has been another active year. We reduced exposure to the US equity market largely on valuation grounds, re-investing the proceeds into Asia, Canada and Europe. In the case of the former we felt the European economic recovery to be less mature than that of the US, leaving a longer runway for improvement. In terms of sector positioning, we increased financials, materials and information technology at the expense of industrials, telecommunications and healthcare and most of these moves proved positive ones.

New stocks of note include VF Corp, a branded lifestyle apparel company. We see the company as a key play on current consumer trends such as 'experience' and 'innovation' with its North Face, VANS and Timberland brands, and expect mid-single digit organic revenue growth. We believe the sustainability of this growth is supported by a robust balance sheet, strong environmental, social and governance (ESG) credentials and high returns. The dividend is safe and we expect it to grow at a high single-digit rate. We believe the stock is discounting close to no organic sales growth, hence the opportunity.

We also purchased Shanghai Fosun Pharmaceutical in the first quarter of 2018, a one-stop shop for Chinese healthcare exposure which has an underappreciated, yet leading, biosimilars* franchise. We believe the expansion and deepening of the Chinese populations, access to healthcare will prove to be the most attractive growth theme in global healthcare on a three to five-year view.

In June 2017, we sold a long-standing holding in Inmarsat, the global mobile satellite communications provider. For this company we had a working thesis that growth would improve, led by its maritime communications segment, but also the exciting nascent opportunity of installing WiFi on civilian commercial aircraft. We modelled an inflection in the free cash flow generated by the company and a less indebted balance sheet. All of this came into question during our stress testing and credit analysis, as we became more doubtful the growth would materialise during our investment horizon, and concerned the cost of growth (that is, capital expenditure) was rising and was likely to remain elevated. Although the holding had been troublesome, we were vindicated by the sale, as the shares have performed very poorly since, notwithstanding a recent takeover bid and the company confirmed it would cut the dividend aggressively – by over 50% – in its most recent Q1 results announcement.

Over the year we have managed to produce a significant level of options premium which can be distributed as income. This is a useful component of our toolkit and has allowed us to take a degree of pressure off the underlying portfolio to produce the high level of portfolio yield. The low and protracted period of volatility has not been helpful to options writing, but since early February the opportunities have certainly risen to target companies we have on our buy list, at prices we deem to be attractive.

*A generic equivalent of a branded biological drug.

Outlook

As we enter the third quarter of 2018, the prolonged period of suppressed volatility is long forgotten. Perhaps the most worrying recent development, amongst populist and geopolitical tensions bubbling up once again, is the threat of an escalating trade war between the US and its main trading partners, China and Europe. This has the potential to become damaging to corporate earnings for those that depend on a high level of foreign sales, which could quickly infect investment and lower future growth.

Absent of this, the market also has to come to terms with a slowdown in relative earnings growth, after an explosive start to the year. 2018 estimated consensus earnings growth for the S&P 500 looks to be around 15%, a remarkably strong figure. However, one must take into consideration that as much as half of this heady growth number has been driven by analysts' interpretation of the boost to profitability attributed to the reduction in the US corporate tax rate. It is far from certain how corporations have been using this windfall. Some could have lowered prices of goods and products to increase sales growth at the expense of profitability. Others may have increased wages and capital investments. We have also seen companies paying down indebted balance sheets. It is likely that the reality may well be a mixture of these practices, which may not be all that good for future profitability, and markets may have already begun to discount this.

We have been surprised by the sharp slump in European leading economic indicators of late, but do not feel we are quite at the end of the economic cycle just yet. Many of the banks and industrial companies we have been speaking to recently have been highlighting confidence in the activity they are seeing in their own businesses. But we cannot ignore the fact that leading indicators such as the purchasing managers index (PMI), an indicator of the economic health of the manufacturing sector, may have peaked on a global basis. This, combined with the fact that the US Treasury yield curve is beginning to flatten, points to a worrying slowdown in activity that could be in anticipation of the onset of recession during the next year or so. Central bankers will therefore have to balance tightened monetary and fiscal policy over the coming quarters with allowing sufficient growth to continue; if they tighten too hard and fast it could choke off activity quickly.

To us, this is an excellent time to favour global equity income as an investment style. Investing in companies with robust balance sheets, exhibiting structural long-term growth, allied to sensible capital allocation and the provision of a superior dividend growth rate, presents exceptional value compared with other asset classes today.

Mark Whitehead

27 June 2018

Portfolio distribution as at 31 March 2018

By region (excluding cash)

	2018 %	2017 %
North America	48.7	49.6
Developed Europe	40.8	38.0
Developed Asia Pacific ex Japan	10.5	10.9
Japan	–	1.5
	100.0	100.0

By sector (excluding cash)

	2018 %	2017 %
Financials	27.5	26.3
Consumer goods	17.2	10.5
Industrials	16.6	15.2
Healthcare	7.3	10.3
Technology	7.2	8.0
Oil & gas	6.9	7.7
Basic materials	8.0	6.1
Consumer services	4.0	8.3
Utilities	3.1	2.8
Telecommunications	2.2	4.8
	100.0	100.0

By asset class (including cash and borrowings)

	2018 %	2017 %
Equities	110.3	111.5
Options*	(0.3)	–
Cash	3.0	1.5
Less borrowings	(13.0)	(13.0)
	100.0	100.0

*Options held as at 31 March 2017: (0.03%). Further details of options held are shown in the portfolio holdings on page 11.

Largest 10 holdings

	31 March 2018 Market value £000	31 March 2018 % of total portfolio	31 March 2017 Market value £000	31 March 2017 % of total portfolio
Chevron	6,446	3.1	7,262	3.3
Microsoft	6,438	3.1	5,040	2.3
Koninklijke DSM	5,394	2.6	4,139	1.9
Huntington Bancshares	5,265	2.5	5,237	2.4
Schneider Electric SE	5,159	2.5	–	–
Taiwan Semiconductor	5,036	2.4	5,069	2.3
ING Groep	5,011	2.4	5,041	2.3
Manulife Financial	4,894	2.4	–	–
Merck & Co	4,820	2.3	5,187	2.4
Airbus	4,762	2.3	4,009	1.8

As at 31 March 2018

	Sector	Country	Market value £000	% of total portfolio
North America			100,846	48.7
Chevron	Oil & gas	United States	6,446	3.1
Microsoft	Technology	United States	6,438	3.1
Huntington Bancshares	Financials	United States	5,265	2.5
Manulife Financial	Financials	Canada	4,894	2.4
Merck & Co	Healthcare	United States	4,820	2.3
Crown Castle International	Financials	United States	4,671	2.3
Eaton	Industrials	United States	4,472	2.2
Bank of Montreal	Financials	Canada	4,468	2.2
Credicorp	Financials	United States	4,405	2.1
BB&T Corp	Financials	United States	4,344	2.1
Phillip Morris International	Consumer goods	United States	4,301	2.1
Time Warner	Consumer services	United States	4,297	2.1
Suncor Energy	Oil & gas	Canada	4,190	2.0
3M	Industrials	United States	4,018	1.9
International Paper Company	Basic materials	United States	3,973	1.9
Occidental Petroleum	Oil & gas	United States	3,802	1.8
WEC Energy Group	Utilities	United States	3,790	1.8
Procter & Gamble	Consumer goods	United States	3,583	1.7
Blackstone Group	Financials	United States	3,581	1.7
Apple	Technology	United States	3,518	1.7
BCE	Basic materials	Canada	3,501	1.7
Leggett & Platt	Consumer goods	United States	3,266	1.6
VF Corp	Consumer goods	United States	2,951	1.4
Paychex	Industrials	United States	1,852	1.0

	Sector	Country	Market value £000	% of total portfolio
Developed Europe			84,654	41.1
Koninklijke DSM	Basic materials	Netherlands	5,394	2.6
Schneider Electric SE	Industrials	France	5,159	2.5
ING Groep	Financials	Netherlands	5,011	2.4
Airbus	Industrials	France	4,762	2.3
Deutsche Telekom	Telecommunications	Germany	4,647	2.2
Unilever	Consumer goods	Netherlands	4,380	2.1
Continental AG	Consumer goods	Germany	4,215	2.0
Banca Generali	Financials	Italy	4,145	2.0
HSBC Holdings	Financials	United Kingdom	4,088	2.0
Compagnie Financiére Richemont	Consumer goods	Switzerland	3,977	1.9
Britvic	Consumer goods	United Kingdom	3,970	1.9
Securitas AB	Industrials	Sweden	3,872	1.9
Kingfisher	Consumer services	United Kingdom	3,857	1.9
Sanofi	Healthcare	France	3,758	1.8
Akzo Nobel	Basic materials	Netherlands	3,720	1.8
DS Smith	Industrials	United Kingdom	3,512	1.7
Civitas Social Housing	Financials	United Kingdom	3,450	1.7
SSE	Utilities	United Kingdom	2,723	1.4
British American Tobacco	Consumer goods	United Kingdom	2,664	1.3
Ibstock	Industrials	United Kingdom	2,662	1.3
Hastings Group	Financials	United Kingdom	2,563	1.3
Greencoat UK Wind	Financials	United Kingdom	2,125	1.1
Developed Asia Pacific ex Japan			21,648	10.5
Taiwan Semiconductor	Technology	Taiwan	5,036	2.4
Sonic Healthcare	Healthcare	Australia	4,325	2.1
Transurban Group	Industrials	Australia	4,104	2.0
United Overseas Bank	Financials	Singapore	3,694	1.8
Shanghai Fosun Pharmaceutical	Healthcare	Hong Kong	2,329	1.1
Samsung Electronics	Consumer goods	Korea	2,160	1.1
Derivatives – written option contracts			(475)	(0.3)
Caixabank SA	Financials	Spain	(128)	(0.1)
Meggit	Industrials	United Kingdom	(347)	(0.2)
Total portfolio			206,673	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 up until 31 March 2018 was measured against the median of all relevant open and closed-ended peers (sourced from the Lipper Global – Global Equity Income sector and Association of Investment Companies ("AIC") Global Equity Income Sector) on a rolling three-year basis. With effect from the 1 April 2018 the performance of the company is measured against the median of all relevant open and closed-ended peers (sourced from the Morningstar Global Equity Income Sector and AIC Global Equity Income Sector). The peer group total return performance for the year end 31 March 2018 was (1.8%) measured both using the original methodology (Lipper and AIC combined peer group) and also using the new methodology (Morningstar and AIC combined peer group).

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 primarily in 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 paid quarterly in January, April, July and October. Historically, the company paid dividends in March, June, September and December. However, as disclosed in the Annual Report to 31 March 2017, the dividend dates were changed during 2018. This decision was taken by board members following a review of the board meeting cycle, which resulted in the number of scheduled board meetings being reduced from 6 to 5. This yielded administration benefits as well as some cost savings to shareholders and is in line with many peers in the sector.

At the AGM in 2012 the board received shareholder approval to permit dividends to be paid out of capital reserves.

There are no other changes to the company's dividend policy, which is to provide shareholders with regular income currently paid quarterly.

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.

The company currently has a two year revolving credit facility for £10 million and a multi-currency seven year fixed facility for £14.5 million drawn in three tranches (£1,500,000, €4,500,000 and US$12,750,000). The facilities are fully drawn down in sterling, US dollars and euros 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. The company predominantly sells single stock put options for income enhancement but may occasionally sell call options on existing portfolio positions (covered calls) too. Single stock put options will be sold typically "out of the money" on stocks we wish to own that have come through our research system and rated buy. Call options will only ever be sold on existing cash equity positions held in the portfolio (covered call writing). See Glossary on page 59 for definitions.

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.
Operational Risk	The company has outsourced its entire operational infrastructure to third party providers. Contracts and service level agreements have been arranged to ensure that the service provided by each third party provider is of a sufficiently professional and technically high standard. The board receives and reviews control reports from all service providers. Periodically, the board requests representatives from third party service providers to attend board meetings to give the board the opportunity to discuss the controls that are in place directly with the third party providers. The board receives and reviews control reports from all service providers. The board carries out an annual evaluation of its service providers and gives regular feedback to the investment manager through the management engagement committee.

Key Performance Indicators

The board provides certain key performance indicators ('KPIs') to monitor and assess the performance of the company. For more details on Alternative Performance Measures refer to page 57. 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 period from 1 June 2016 to 31 March 2018 (22 months) has been provided.

The total return of NAV during the 22 month period was 26.4% against the peer group total return NAV of 23.3%, resulting in an outperformance of 3.1%.

The chairman's statement, on pages 4 to 5, and the manager's review, on pages 6 to 8, provide more information on performance. See page 12 for details of the peer group.

2. Growth in net assets

The growth in net assets is measured by the growth in the cum income NAV per share during the financial year. The company's cum income NAV per share fell to 170.02p at 31 March 2018, from 177.83p as at 31 March 2017, a decrease of 4.4%.

The chairman's statement, on pages 4 and 5, and the manager's review, on pages 6 to 8, provide more information on performance.

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 2018 were 0.9% (2017: 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 2018 based on the ex income NAV was 4.95%.

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 2018 was 6.10p, an increase of 2.5% on the annual dividend for the year end 31 March 2017 of 5.95p.

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	3.1%*	✓
2. Growth in net assets	Growth in cum income NAV	(4.4%)	x
3. Ongoing charges	1.0%	0.9%	✓
4. Average discount	Below 7.5%	4.95%	✓
5. Rising income	Dividend per share growth	2.5%	✓

*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 period from 1 June 2016 to 31 March 2018 has been provided.

Approved by the board

Rachel Beagles

27 June 2018

Rachel Beagles, chairman

Rachel is chairman of the Association of Investment Companies, and a non-executive director of BlackRock Emerging Europe plc, New India Investment Trust plc and Gresham House 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. 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.

Angus Gordon Lennox, senior independent director and chairman of the marketing and communications committee

Angus has an extensive knowledge of the investment industry with 24 years' experience in the City, working in a variety of positions including Head the Investment Companies Department, both as a Partner of Cazenove, and then as a Managing Director of JPMorgan Cazenove from whom he retired in 2010. Angus is also the Executive Chairman of two family businesses together with being Chairman of The Mercantile Investment Trust plc and a non-executive director of Aberforth Split Level Income 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 2018.

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. The company is a public company limited by shares.

Share capital

The company bought back 1,715,576 shares during the year to be held in treasury at a cost of £2,920,000. This represented 1.53% of the called up share capital and had a nominal value of £17,156. As at 31 March 2018 the issued share capital of the company was 110,446,792. A special resolution to renew the authority to repurchase shares will be put to shareholders for approval at the Annual general meeting ('AGM'). The full text of the resolution is set out in the notice of meeting.

Shareholders analysis as at 31 March 2018	% of shareholders	% of equity capital
Individuals and trustees	77.8	11.7
Banks and nominee companies	20.2	71.9
Insurance & Investment companies	0.1	0.0
Other holders	1.9	16.4
	100.0	100.0

As at 31 March 2018 the company had received notification in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the company's issued share capital:

As at 31 March 2018	% issued share capital
Speirs & Jeffrey	15.81
Charles Stanley	5.70
WM Thomson	4.82
Smith & Williamson Wealth Management	4.84
Brooks Macdonald	3.83
Hargreaves Lansdown	3.19
JM Finn	3.13

As at 25 June 2018 the company has not been notified of any changes to the above table. Approximately 12.80% of the company's share capital is held on behalf of clients through Alliance Trust Savings Nominees Limited.

As at 25 June 2018, the last practicable date prior to printing of this report, the company has 108,550,253 ordinary shares in issue (excluding treasury shares).

Corporate governance statement

The company's corporate governance statement is set out on pages 24 and 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 £6,367,000 (2017: £6,440,000), equivalent to a return of 5.69p per share (2017: 5.74p). Interim dividends totalling 4.35p have been paid during the year. The directors recommend a fourth interim dividend of 1.75p per share to be paid on 27 July 2018 to holders on the register at the close of business on 6 July 2018, making a total for the year of 6.10p (2017: 5.95p). The revenue reserves as at 31 March 2018 are £1,630,000 and £1,630,000 of this will be used to fund the fourth interim dividend. The capital reserves as at 31 March 2018 are £62,041,000 and £303,000 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.

Martin Currie's 2018 Stewardship Annual Report is available at www.martincurrie.com.

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 27 June 2018 and is signed on its behalf by:

Rachel Beagles
27 June 2018

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 2018 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. 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 97% 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, John Evans and Mark Little are directors of the company. At the 2018 AGM, all directors will stand for re-election.

Business Review

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 22 March 2018, 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 £1,328,321 (2017: £1,258,346) of which £106,354 (2017: £103,116) has been treated as a secretarial fee.

As set out in the chairman's statement on pages 4 and 5, a change to the AIFM and company secretary fee has been agreed between the board and the investment manager. With effect from 1 April 2018, the AIFM and company secretary fee which is calculated quarterly, will be paid at an annual rate of 0.60% of the company's net asset value up to £200 million and an annual rate of 0.40% of the company's net asset value above £200 million.

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 2018 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 the 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 four non-executive directors of whom one is a woman, thereby constituting 25% female representation.

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 19 September 2018, at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ES.

Allotment of shares – ordinary resolution

Section 551 of the Companies Act 2006 provides that the directors may not allot new shares without shareholder approval. Resolution 9 seeks to renew the directors' authority to allot shares up to a maximum aggregate nominal amount of £358,215 (being an amount equal to one third of the issued share capital of the company (excluding treasury shares) as at 25 June 2018, being the last practicable date before the date of this document). The board intends to exercise this power only once the number of shares held by the company in treasury is not sufficient to support share issuance by the company. As at 25 June 2018, being the last practicable date prior to the publication of this document, the company held 13,748,895 ordinary shares in treasury, representing approximately 11.3% of the company's issued share capital (excluding treasury shares). The authority will expire on 30 September 2019 or, if earlier, at the AGM of the company to be held in 2019, unless previously cancelled or varied by the company in general meeting.

Disapplication of statutory pre-emption rights – special resolution

Resolution 10 proposes as a special resolution to continue the directors' authority under s570 and s573 of the Companies Act 2006 to allot shares for cash in certain circumstances otherwise than pro rata to all the shareholders up to an aggregate nominal amount of £54,275 (representing 5% of the company's issued share capital as at 25 June 2018, 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. As at 25 June 2018, being the last practicable date prior to the publication of this document, the company held 13,748,895 ordinary shares in treasury, representing approximately 11.3% of the company's issued share capital (excluding treasury shares).

Purchase of own shares – special resolution

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

Any shares purchased pursuant to this authority may be automatically cancelled or held in treasury pursuant to the Companies (Acquisition of own shares) (Treasury shares) Regulations 2003. Resolution 11 specifies the maximum number of shares that may be acquired being 14.99% of the issued share capital as at 25 June 2018, being the last practicable date prior to the publication of this document, and the maximum and minimum prices at which they may be bought and, if passed, would lapse at the company's AGM in 2019.

The main effect 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 can 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.

Purchase by the company of its own shares will be funded either by using available cash resources, by selling investments in the portfolio or through borrowings. During the year ended 31 March 2018, the Company bought back 1,715,576 ordinary shares to be held in treasury. As at 31 March 2018, the company holds 11,852,356 shares in treasury representing 9.69% of the issued share capital of the company. As at 25 June 2018 being the last practictable date before publication of the accounts, the company holds 13,748,895 shares in the treasury representing 11.3% 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

27 June 2018

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 four 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. 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 chairman confirms that all directors continue to be effective and their re-election is recommended.

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

The nominations committee then seeks assistance in identifying suitable candidates by appointing an external recruitment firm. 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 and committee 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, committee 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 is available daily through the London Stock Exchange and the company's monthly updates are available on the website. In addition the chairman meets major shareholders annually or as necessary without the manager present.

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 Rachel Beagles.

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 (5 meetings)	Management engagement committee (1 meeting)	Audit committee (2 meetings)	Nominations committee (1 meeting)	Marketing and communications committee (2 meeting)
Rachel Beagles	5	1	2	1	2
John Evans	5	1	2	1	2
Angus Gordon Lennox	5	1	2	1	2
Andrew Irvine*	2	0	1	0	0
Mark Little	5	1	2	1	2

*Retired on 21 July 2017.

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 FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

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 2018, and to the date of approval of this annual report.

Rachel Beagles
Chairman
27 June 2018

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 2019 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. The company pays any UK tax and National Insurance due on the reimbursed expenses. 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 2017.

Annual report on remuneration

The nominations committee considered the directors' fees in the context of the benchmark data from its peer group. To reflect the increasing regulatory and compliance requirements on the board, with effect from 1 April 2018, it was agreed the directors' fee would increase to £24,000 per annum (2017: £23,500) and the chairman of the audit committee's fee would increase to £29,000 per annum (2017: £28,500). There was no change to the chairmans fee of £37,500 (2017: £37,500).

Directors' shareholdings (audited)

As at 31 March	**2018**	2017
Rachel Beagles	**30,000**	30,000
John Evans	**50,000**	50,000
Angus Gordon Lennox	**100,000**	100,000
Andrew Irvine*	**n/a**	80,000
Mark Little	**10,562**	10,562

*Retired on 21 July 2017.

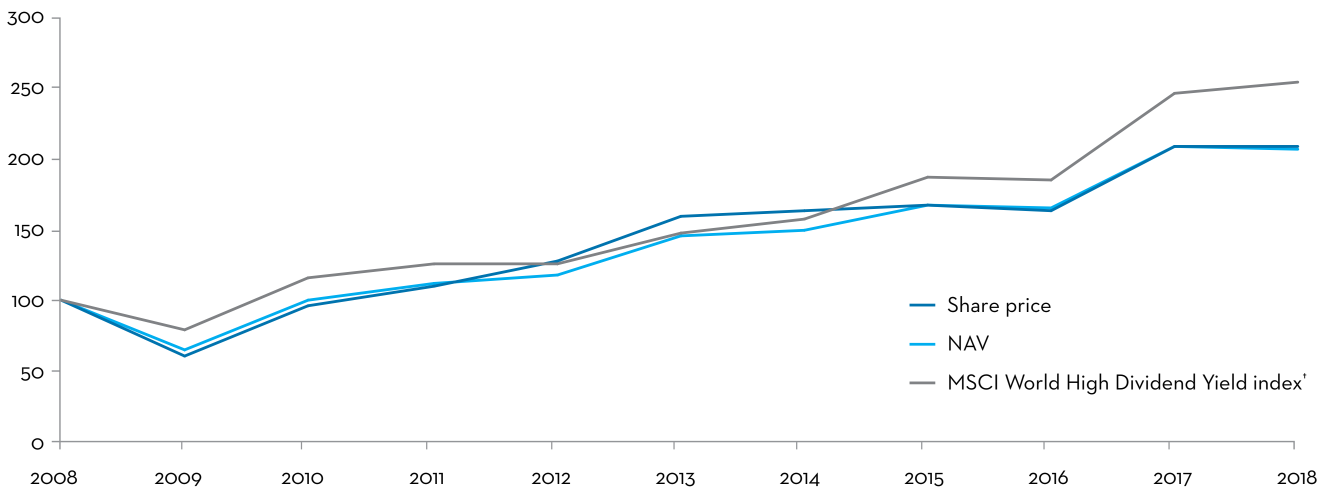
As at 25 June 2018 there have been no changes to the above table.

Approval

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

At the annual general meeting on 21 July 2017, the shareholders voted in favour of the directors' remuneration report for the year ended 31 March 2017. Of the proxy votes received, 99.80% of votes were cast in favour of the directors' remuneration report (25,625 proxy votes were cast again the report and 40,612 proxy votes were withheld). At the AGM on 21 July 2017, 99.71% of proxy votes were cast in favour of the directors' remuneration policy (37,625 proxy votes were cast against the policy and 40,612 proxy votes were withheld).

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)

	2017/2018 £	2016/2017 £
Rachel Beagles (chairman of the board)*	**37,500**	31,000
Neil Donaldson (former chairman of the board)**	**–**	11,000
Mark Little (chairman of the audit committee)	**28,500**	27,000
John Evans	**23,500**	22,000
Angus Gordon Lennox	**23,500**	22,000
Andrew Irvine***	**7,231**	22,000
	120,231	135,000

*Appointed as chairman on 27 July 2016. **Retired on 27 July 2016. ***Retired on 21 July 2017.

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.

	2017/2018 £000's	2016/2017 £000's	Change £000's
Directors' total remuneration	**120**	135	(15)
Dividends paid and payable	**6,786**	6,673	113

On behalf of the board

Rachel Beagles
Chairman
27 June 2018

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 requires specific approval of the audit committee in each case.

The audit fees amount to £18,000 for the year ended 31 March 2018 (2017: £17,350). Non-audit fees amounted to £2,000 for the year ended 31 March 2018 (2017: £4,000). The non-audit fees payable during the year ended 31 March 2018 related to Deloitte LLP providing tax advise on the treatment of directors expenses. It was agreed that the auditor's skills and experiences made it the most suitable supplier of the services.

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

Auditors rotation

A competitive tender for the audit of the company was held in January 2018, following which it is the board's intention for Ernst & Young LLP to be appointed as the company's auditor with effect from the conclusion of the 2018 AGM.

A resolution to appoint Ernst & Young LLP as company auditors will be proposed at the AGM.

Under EU rotation guidance, the company's audit engagement partner will rotate every five years.

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.

Effectiveness of the external audit process

The audit and risk committee evaluated the effectiveness of the external auditor and the external audit they undertook. 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 and risk committee is satisfied with the external audit process undertaken in relation to this annual report and its financial statements.

Mark Little
Chairman of the audit committee

27 June 2018

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 2018 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'.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key risks that we identified in the current year were: • valuation and ownership of fixed asset investments; and • 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 £1.9m, which was determined on the basis of 1% of net assets at 31 March 2018.
Scoping	All audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Testing was performed over 100% of dividend and option income. This was tested on a sample basis in the prior year. There have been no other significant changes to our audit approach since the prior year.

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed 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.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 13 and 14 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 13 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; or
- 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 are also required to report whether the directors' statement relating to the prospects of the company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and ownership of fixed asset investments

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The fixed asset investments of the company at 31 March 2018 were £206.7m (2017: £219.8m). 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. See Accounting policy at note 1(h) and detailed disclosures at note 8. This key audit matter was included as a significant issue in the Audit Committee Report on page 28.	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 agreed 100% of the company's investment portfolio at the year end to the confirmation received directly from the independent custodian.	No misstatements were identified which required reporting to those charged with governance.

Recognition of investment income

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Investment income for the year was £8.3m (2017: £8.2m). Dividends are accounted for as investment income on an ex-dividend basis, except where, in the opinion of the investment manager and the board, the dividend is capital in nature, in which case it is treated as a return of capital. Revenue may be understated where it is not recognised, or is recognised in the incorrect period. There also is a risk that not all accrued revenue has been recorded by the company. Manipulation of allocation of income between revenue and capital could result in a change in the level of distribution required under the investment trust tax regulations. Due to the manual intervention required to determine revenue or capital allocation, this key audit matter has been identified as a potential fraud risk. See Accounting policy at note 1(b) and detailed disclosures at note 3. This key audit matter was included as a significant issue in the Audit Committee Report on page 28.	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 100% 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. To test the completeness of investment income we agreed the ex-dividend dates and rates for 100% of dividends declared, obtained from an independent pricing source, and traced these to the dividend entitlement report to assess whether investment income has been recorded appropriately. We have tested 100% 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.	No misstatements were identified which required reporting to those charged with governance in regards to the completeness and allocation of investment income. Accounting policies in relation to investment recognition were found to be in line with FRS 102 and the AIC SORP.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£1.9m (2017: £2.0m)
Basis for determining materiality	1% of net assets as at the year end. This basis was also used in the prior year.
Rationale for the benchmark applied	The key driver of shareholder value for the company is net asset value; as such we have considered this the most appropriate benchmark for determining a materiality threshold.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £37,500 (2017: £39,800), 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

100% of listed dividend income has been tested as part of the current year audit, as well as 100% of premium income from written options; this is in contrast to the prior year audit, during which these areas were tested on a sample basis. This change was agreed with the Audit Committee as a means to provide increased comfort over areas of particular interest to users of the financial statements.

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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

As explained more fully in the Directors' Responsibility Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- 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 or 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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company's financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board on 26 January 2009 to audit the financial statements for the year ending 31 March 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 March 2009 to 31 March 2018.

As discussed in the annual report for the year to 31 March 2018 the company was required to undertake a public tender of its audit firm to comply with EU Audit Regulations concerning auditor tenure. The board resolved not to reappoint Deloitte as the auditor for Securities Trust of Scotland. This is therefore the final period for which Deloitte will act as statutory auditor for Securities Trust of Scotland.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Andrew Partridge CA

(Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditors
Edinburgh, United Kingdom

27 June 2018

		Year to 31 March 2018			Year to 31 March 2017		
	Note	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Net (losses) / gains on investments	8	–	(8,277)	(8,277)	–	37,335	37,335
Net currency gains / (losses)		(46)	906	860	86	(143)	(57)
Income	3	8,339	–	8,339	8,174	–	8,174
Investment management fee		(428)	(794)	(1,222)	(404)	(751)	(1,155)
Other expenses	4	(618)	–	(618)	(603)	–	(603)
Net return before finance costs and taxation		7,247	(8,165)	(918)	7,253	36,441	43,694
Finance costs	5	(187)	(314)	(501)	(174)	(295)	(469)
Net return on ordinary activities before taxation		7,060	(8,479)	(1,419)	7,079	36,146	43,225
Taxation on ordinary activities	7	(693)	–	(693)	(639)	–	(639)
Net return attributable to ordinary redeemable shareholders		6,367	(8,479)	(2,112)	6,440	36,146	42,586
Net return per ordinary redeemable share (basic and diluted)	2	5.69p	(7.58p)	(1.89p)	5.74p	32.21p	37.95p

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 2018 £000	As at 31 March 2018 £000	As at 31 March 2017 £000	As at 31 March 2017 £000
Fixed assets					
Investments at fair value through profit or loss	8		**206,673**		219,809
Current assets					
Trade and other receivables**	9	**674**		751	
Cash and cash equivalents**		**7,092**		4,950	
		7,766		5,701	
Current liabilities					
Trade payables - amounts falling due within one year	10	**(10,519)**		(10,502)	
Dividend payable	6	**(1,602)**		–	
Total current liabilities		**(12,121)**		(10,502)	
Net current liabilities			**(4,355)**		(4,801)
Total assets less current liabilities			**202,318**		215,008
Trade payables – amounts falling due after more than one year	11		**(14,534)**		(15,545)
Net assets			**187,784**		199,463
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*			**92,772**		95,692
Capital reserve*	12		**62,041**		70,520
Revenue reserve*			**1,630**		1,910
Total shareholders' funds			**187,784**		199,463
Net asset value per ordinary redeemable share	2		**170.02p**		177.83p

*These reserves are distributable.
**Prior year balances have been restated to include UBS collateral in the cash balances for both years.
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 2018 is £1,222,991 (2017: £1,222,991).

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

Rachel Beagles
Chairman
27 June 2018

For the year ended 31 March 2018	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 2017		1,223	78	30,040	95,692	70,520	1,910	199,463
Net return attributable to shareholders**	2	–	–	–	–	(8,479)	6,367	(2,112)
Ordinary shares bought back during the year	12	–	–	–	(2,920)	–	–	(2,920)
Dividends paid	6	–	–	–	–	–	(6,647)	(6,647)
Balance at 31 March 2018		**1,223**	**78**	**30,040**	**92,772**	**62,041**	**1,630**	**187,784**

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**	2	–	–	–	–	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

*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.

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000	Year ended 31 March 2017 £000
Cash flows from operating activities					
(Loss)/profit before tax			(1,419)		43,225
Adjustments for:					
Losses/(gains) on investments	8	8,277		(37,335)	
Capital distribution received*		27		–	
Finance costs	5	501		469	
Purchases of investments**	8	(93,620)		(102,716)	
Sales of investments**	8	98,452		100,145	
Dividend income	3	(7,418)		(7,136)	
Interest income	3	–		(3)	
Stock lending income	3	(35)		(115)	
Premium income – written options	3	(886)		(920)	
Dividends received		7,335		7,348	
Interest income received		–		3	
Stock lending income received		100		54	
Premium income received – written options	3	886		920	
Decrease/(increase) in receivables****		95		45	
(Decrease)/increase in payables		(30)		116	
Overseas withholding tax suffered	7	(693)		(639)	
			12,991		39,764
Net cash flows from operating activities****			11,572		3,461
Cash flows from financing activities					
Repurchase of ordinary share capital		(2,871)		(1,359)	
Movement in bank borrowings – revolving loan		–		8,545	
Exchange movement on bank borrowings	13	(1,011)		–	
Equity dividends paid***	6	(5,045)		(6,508)	
Interest paid on borrowings		(503)		(456)	
Net cash flows from financing activities			(9,430)		222
Net increase in cash and cash equivalents****			2,142		3,683
Cash and cash equivalents at the start of the year			4,950		1,267
Cash and cash equivalents at the end of the year****			7,092		4,950

*This relates to the proceeds for the capital dividend from Singapore Communications.

**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.

***Excludes 3rd Interim dividend paid 23 April 2018.

****Prior year balances have been restated to include UBS collateral in the cash balances for both years.

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

Note 1: Accounting policies

(a) For the year ended 31 March 2018, 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 September 2015 and the revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') issued by the AIC in November 2014 and updated in January 2017. They are also prepared under the historical cost convention modified to include the revaluation of investment at fair value.

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. This is also the currency in which all expenses and dividends are paid in.

(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) Acquisitions 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 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, continuing through to the year ending 31 March 2018. 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.

(o) Nature of distributable reserve accounts

Capital reserve

Gains and losses on realisations of fixed asset investments, and transactions costs, together with appropriate exchange differences, are dealt with in this reserve.

Increases and decreases in the valuation of fixed asset investments are also dealt with in this reserve along with payment of capital dividend. Also taken to this reserve are management fees.

Revenue reserve

Net revenue profits and losses of the company and the fair value costs of share based payments which are revenue in nature are recorded within this reserve, together with the dividend payment made by the company.

Special distributable reserve

Records the transactions of shares which are capital in nature – shares bought back into treasury and the related stamp duty incurred.

Note 2: Returns and net asset value	**Year to 31 March 2018**	Year to 31 March 2017
Revenue return		
Revenue return attributable to ordinary redeemable shareholders	**£6,367,000**	£6,440,000
Weighted average number of shares in issue during the year	**111,910,413**	112,230,759
Revenue return per ordinary redeemable share (basic and diluted)	**5.69p**	5.74p
Capital return		
Capital return attributable to ordinary redeemable shareholders	**(£8,479,000)**	£36,146,000
Weighted average number of shares in issue during the year	**111,910,413**	112,230,759
Capital return per ordinary redeemable share (basic and diluted)	**(7.58p)**	32.21p
Total return		
Total return per ordinary redeemable share (basic and diluted)	**(1.89p)**	37.95p
Net asset value per share		
Net assets attributable to shareholders	**£187,784,000**	£199,463,000
Number of shares in issue at year end	**110,446,792**	112,162,368
Net asset value per share	**170.02p**	177.83p

Total return

The total return per share for the company is the combined effect of the rise and fall in the share price or NAV together with the reinvestment of the quarterly dividends paid.

The tables below provide the NAVs and share prices of the company on the dividend reinvestment dates for the year ended 31 March 2018 and 31 March 2017.

2018	Dividend rate	NAV	Share price
31 March 2017	n/a	177.83	166.00
15 June 2017	1.60	181.72	170.13
24 August 2017	1.45	181.51	169.50
23 November 2017	1.45	183.58	171.25
29 March 2018	1.45	170.22	160.50
31 March 2018	n/a	170.02	160.50
Total return		**(1.10%)**	**0.20%**

2017			
31 March 2016	n/a	145.61	135.00
26 May 2016	1.45	142.00	132.75
25 August 2016	1.45	162.97	151.25
24 November 2016	1.45	164.41	157.50
23 February 2017	1.45	174.18	168.25
31 March 2017	n/a	177.83	166.00
Total return		26.70%	27.70%

Note 3: Revenue

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
From listed investments		
UK – equities	**1,347**	815
Overseas – equities	**6,071**	6,321
	7,418	7,136
Other revenue		
Interest on deposits	**–**	3
Premium – written options	**886**	920
Stock lending	**35**	115
	8,339	8,174

Capital dividend received

During the year ended 31 March 2018, the company received a capital dividend of £27,200 from Singapore Communications, as shown in note 8. (2017: £nil).

Note 4: Other expenses

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Bank charges and custody fees	**24**	22
Depositary fees	**45**	40
Directors' fees	**120**	135
Employers' national insurance contributions	**12**	13
Irrecoverable VAT	**31**	23
Legal fees	**8**	17
Printing and postage	**13**	17
Registrar's fees	**55**	54
Secretarial fee	**106**	103
Other	**184**	158
Total	**598**	582
Auditors' remuneration:		
– audit services	**18**	17
– non-audit services	**2**	4
	618	603

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.

	Year ended 31 March 2018			Year ended 31 March 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Ongoing charges are calculated with reference to the following figures:						
Investment management fee	(428)	(794)	(1,222)	(404)	(751)	(1,155)
Other expenses	(618)	–	(618)	(603)	–	(603)
Total expenses	(1,046)	(794)	(1,840)	(1,007)	(751)	(1,758)
Average net assets over the year			202,270			165,917
Ongoing charges			0.90%			1.00%

Note 5: Finance costs

	Year to 31 March 2018			Year to 31 March 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Interest on bank loans and overdrafts	187	314	501	174	295	469

Note 6: Dividends

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
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
Year ended 31 March 2017 – fourth interim dividend of 1.60p	1,794	–
Year ended 31 March 2018 – first interim dividend of 1.45p	1,626	–
Year ended 31 March 2018 – second interim dividend of 1.45p	1,625	–
Year ended 31 March 2018 – third interim dividend of 1.45p	1,602	–
	6,647	6,508

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 2018 £000	Year to 31 March 2017 £000
First interim dividend of 1.45p for the year ended 31 March 2018 (2017: 1.45p)	1,626	1,627
Second interim dividend of 1.45p for the year ended 31 March 2018 (2017: 1.45p)	1,625	1,626
Third interim dividend of 1.45p for the year ended 31 March 2018 (2017: 1.45p)	1,602	1,626
Proposed fourth interim dividend of 1.75p for the year ended 31 March 2018 (2017: 1.60p)	1,933	1,794
	6,786	6,673

During the year the directors received dividends of 5.95p (2017: 5.8p) per share. Directors' shareholdings are disclosed on page 26. The revenue reserves as at 31 March 2018 are £1,630,000, of this £1,630,000 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 2018 £000	Year to 31 March 2017 £000
Foreign tax	**693**	639

The corporation tax rate was 19.0% (2017: 20.0%). The corporation tax main rate decreased from 20% to 19% from 1 April 2017 in line with tax legislation changes contained within the Finance Act 2016. 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 2018 £000	Year to 31 March 2017 £000
Net return on ordinary activities before taxation	**(1,419)**	43,225
Corporation tax at standard rate of 19% (2017: 20%)	**(270)**	8,645
Effects of:		
Losses/(gains) on investments not taxable	**1,573**	(7,467)
Non taxable UK dividend income	**(256)**	(163)
Overseas dividends not taxable	**(1,040)**	(1,176)
Overseas tax suffered	**693**	639
Currency (gains)/losses not taxable	**(172)**	29
Increase in excess management and loan expenses	**174**	144
Impact of expensed foreign tax	**(9)**	(12)
Total tax charge	**693**	639

As at 31 March 2018, the company had unutilised management expenses of £15,394,000 (2017: £14,477,484) 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 2018 £000	As at 31 March 2017 £000
UK listed investments held at fair value through profit or loss	31,614	35,183
Overseas listed investments held at fair value through profit or loss	175,534	184,683
Total value of financial asset investments	207,148	219,866
Derivative financial instruments – written option contracts	(475)	(57)
Valuation of investments and derivatives	206,673	219,809
Opening valuation	219,809	179,903
Opening unrealised gains	(47,059)	(19,286)
Opening cost	172,750	160,617
Acquisitions at cost	93,620	102,716
Disposal proceeds	(98,452)	(100,145)
Gains on disposal of investments and derivatives	20,524	9,562
Disposals at cost	(77,928)	(90,583)
Closing cost	188,442	172,750
Add: unrealised gains	18,231	47,059
Closing valuation	206,673	219,809

There were no fixed interest securities as at 31 March 2018 (2017: 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 page 10 and 11.

(Losses)/gains on investments and derivatives	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Net gains on disposal of investments and derivatives	20,524	9,562
Movement in unrealised (losses)/gains	(28,828)	27,773
Capital distributions	27	–
	(8,277)	37,335

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 2018 £000	Year ended 31 March 2017 £000
Acquisitions	168	208
Disposals	146	145
	314	353

Note 9: Trade and other receivables

	As at 31 March 2018 £000	As at 31 March 2017 £000
Dividends receivable	**547**	464
Tax recoverable	**125**	201
Prepayments and other debtors	**–**	19
Stock lending income receivable	**2**	67
	674	751

*Cash held at broker disclosed as cash and cash equivalents for the year ended 31 March 2017.
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 2018 £000	As at 31 March 2017 £000
Interest accrued	**14**	16
Sterling bank revolving loan	**10,000**	10,000
Amount due for ordinary shares bought back	**49**	–
Other trade payables	**456**	486
	10,519	10,502

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

	As at 31 March 2018 £000	As at 31 March 2017 £000
Bank loan	**14,534**	15,545

On 19 September 2016 the company entered into an 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 2018 at a rate of 1.1515% with a maturity date of 22 June 2018.

The repayment date of the term loans is the same as their termination date which is 19 September 2023. The repayment date of the revolving facility is the last day of its interest period and the termination date is 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 2018 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 £3,945,000 (€4,500,000), Facility C £9,089,000 (US$12,750,000) and Facility D £10,000,000.

Note 12: Called up share capital

	Number of shares	As at 31 March 2018 £000	Number of shares	As at 31 March 2017 £000
Ordinary shares of 1p				
Ordinary shares in issue at the beginning of the year	**112,162,368**	**1,122**	112,965,486	1,130
Ordinary shares bought back to Treasury during the year	**(1,715,576)**	**(17)**	(803,118)	(8)
Ordinary shares in issue at the end of the year	**110,446,792**	**1,105**	112,162,368	1,122
Treasury shares (ordinary shares 1p)				
Treasury shares in issue at the beginning of the year	**10,136,780**	**101**	9,333,662	93
Ordinary shares bought back to Treasury during the year	**1,715,576**	**17**	803,118	8
Treasury shares in issue at the end of the year	**11,852,356**	**118**	10,136,780	101
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 1,715,576 shares bought back during the year to 31 March 2018 at a cost of £2,920,000 (2017: 803,118 at a cost of £1,103,000). During the year, the company issued no shares (2017: 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 2017	23,461	47,059	70,520
Gains on realisation of investments at fair value	20,524	–	20,524
Realised currency losses during the year	906	–	906
Movement in unrealised gains	–	(28,828)	(28,828)
Capital expenses	(1,108)	–	(1,108)
Capital distributions	27	–	27
As at 31 March 2018	**43,810**	**18,231**	**62,041**

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 2017 £000	Cash flows £000	Exchange movements £000	As at 31 March 2018 £000
Cash at bank*	4,950	2,142	–	7,092
Bank borrowings	(25,545)	–	1,011	(24,534)
Net debt	(20,595)	2,142	1,011	(17,442)

*Prior year balances have been restated to include UBS collateral in the cash balances for both years.

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 tangible assets of the company. Details of borrowings at 31 March 2018 are shown in note 10 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 2018	**Interest rate %**	**Local currency 000**	**Foreign exchange rate**	**GBP sterling equivalent £000**
Assets:				
Sterling	**0.01**	**6,175**	**1.000**	**6,175**
Euro	**(0.60)**	**1,018**	**1.141**	**892**
US dollar	**0.28**	**(2)**	**1.403**	**(1)**
Swedish Krona	**(1.50)**	**307**	**11.748**	**26**
Total				**7,092**
Liabilities:				
Bank loan – GBP sterling	**2.14**	**1,500**	**1.000**	**1,500**
Bank loan – GBP sterling	**1.15**	**10,000**	**1.000**	**10,000**
Bank loan – Euro	**1.42**	**4,500**	**1.141**	**3,945**
Bank loan – US dollar	**3.19**	**12,750**	**1.403**	**9,089**
Total				**24,534**

As at 31 March 2017	Interest rate %	Local currency 000	Foreign exchange rate	GBP sterling equivalent £000
Assets:				
Sterling*	0.01	4,395	1.000	4,395
Euro*	(0.60)	605	1.169	518
US dollar	0.09	47	1.250	37
Total				4,950
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

*Prior year balances have been restated to include UBS collateral in the cash balances for both years.

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 50 (2017: 25) basis points in interest rates. This change in basis points represents the Bank of England Rate change from 0.25% to 0.5% on 2 November 2017. This is mainly attributable to the company's exposure to the interest rate on its bank loan.

	Year to 31 March 2018		Year to 31 March 2017	
	Increase in rate £000	Decrease in rate £000	Increase in rate £000	Decrease in rate £000
Effect on revenue return	(43)	43	(22)	22
Effect on capital return	(80)	80	(42)	42
Effect on total return and on net assets	(123)	123	(64)	64

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 2018			As at 31 March 2017		
	Investment exposure £000	Net monetary exposure £000	Total currency exposure £000	Investment exposure £000	Net monetary exposure £000	Total currency exposure £000
US dollar	88,829	(9,961)	78,868	104,314	(9,937)	94,377
Euro	45,064	(7,774)	37,290	33,115	(2,204)	30,911
Swiss franc	3,977	80	4,057	12,121	157	12,278
Canadian dollar	17,054	40	17,094	9,755	–	9,755
Australian dollar	8,428	53	8,481	8,738	–	8,738
Japanese yen	–	–	–	3,354	50	3,404
Swedish krona	3,872	–	3,872	2,991	–	2,991
Hong Kong dollar	2,329	–	2,329	–	–	–
Singapore dollar	3,694	–	3,694	6,788	–	6,788
Korean won	2,160	29	2,189	3,450	58	3,508
Total overseas investments	175,407	(17,533)	157,874	184,626	(11,876)	172,750
Pound sterling	31,266	(1,451)	29,815	35,183	(8,470)	26,713
Total	206,673	(18,984)	187,689	219,809	(20,346)	199,463

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 2018, 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.

	As at 31 March 2018 £000	As at 31 March 2017 £000
US dollar	**7,887**	9,438
Euro	**3,729**	3,091
Swiss franc	**406**	1,228
Canadian dollar	**1,709**	976
Australian dollar	**848**	874
Japanese yen	**–**	340
Swedish krona	**387**	299
Hong Kong dollar	**233**	–
Singapore dollar	**369**	679
Korean won	**219**	351

(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 6 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 2018		Year to 31 March 2017	
	Increase in fair value £000	Decrease in fair value £000	Increase in fair value £000	Decrease in fair value £000
Effect on revenue return	**(65)**	**65**	(69)	69
Effect on capital return	**30,880**	**(30,880)**	32,843	(32,843)
Effect on total return and on net assets	**30,815**	**(30,815)**	32,774	(32,774)

(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 2018			As at 31 March 2017		
	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	14	–	14	16	–	16
Bank loans	10,000	14,534	24,534	10,000	15,545	25,545
Amount due for ordinary shares bought back	49	–	49	–	–	–
Other trade payables	456	–	456	486	–	486
	10,519	14,534	25,053	10,502	15,545	26,047

(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 2018 was £7,766,000 (2017: £5,701,000). 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.

(d) Counterparty risk

The table below shows the counterpart risk as at the Balance Sheet date:

As at 31 March 2018	Derivative exposure £000	Collateral posted £000	Collateral received £000	Collateral asset class £000
Counterparty				
UBS	(475)	1,256	–	Cash
Total	(475)	589	–	

As at 31 March 2017	Derivative exposure £000	Collateral posted £000	Collateral received £000	Collateral asset class £000
Counterparty				
UBS	(57)	2,039	–	Cash
Total	(57)	90	–	

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

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

- Level 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 2018	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit or loss				
Quoted equities and derivatives	**206,673**	**–**	**–**	**206,673**
Net fair value	**206,673**	**–**	**–**	**206,673**

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

Note 18: Stock lending

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

As at 31st March 2018 £13,226,000 of investments were subject to stock lending agreements and £13,836,000 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 following countries (further details provided on page 55) (2017: £23,416,000 of investments subject to stock lending, £25,236,000 held as collateral).

Cash collateral is reinvested into State Street Global Advisors Liquidity PLC, which is an open-ended investment company with variable capital organised under the laws of Ireland as a public limited company and is authorised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") pursuant to the UCITS Regulations. The Trust is exposed to all risks (including but not limited to any interest rate, credit and liquidity risk) with respect to this investment.

The maximum aggregate value or securities on loan at any time during the accounting period was £29,022,000.

The gross earnings and the fees paid for the year are £46,751 (2017: £153,000) and £11,689 (2017: £38,000).

Note 19: Post year end events

On 27 June 2018 the board declared a fourth interim dividend of 1.75p per share. As at 25 June 2018, the company bought back a further 1,896,539 ordinary shares at a total cost of £3,100,000 resulting in a further reduction of £3,100,000 to the special distributable reserve. As at 25 June 2018 the company has 13,748,895 shares held in treasury. As detailed in the chairman's statement on page 5 the management fee has been reduced with effect from 1 April 2018.

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 2018 are available from the company secretary on request.

The company's maximum and actual leverage levels at 31 March 2018 are shown below:

Leverage Exposure	Gross method	Commitment method
Maximum permitted limit	300%	200%
Actual	109%	113%

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 2018, £13,226,000 of investments were subject to stock lending agreements, representing 7.0% 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
Merrill Lynch International	7,505
UBS	2,850
Citigroup Global Markets Inc.	1,755
JP Morgan Securities Plc	1,114
Deutsche Bank AG	2
Total on loan	13,226

Collateral:	£000
Merrill Lynch International	7,891
UBS AG	3,032
Citigroup Global Markets Inc.	1,780
JP Morgan Securities Plc	1,130
Deutsche Bank AG	3
Total collateral	13,836

Maturity analysis of collateral	£000
Less than one day	9,375
Three months to one year	352
Above one year	4,107
Open transactions	2
	13,836

Type of collateral	£000
Cash	9,375
Fixed Income	4,458
Equity	3
	13,836

Custodian	Collateral £000
State Street	9,375
Bank of New York	4,458
JP Morgan	3
Crest	–
Total	13,836

Currency summary	£000
US Dollar	3,074
Sterling	723
Euro	9,483
Canadian dollar	556
Total	13,836

Directors and Advisers

Directors
Rachel Beagles (Chairman)
John Evans
Angus Gordon Lennox
Mark Little

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

www.martincurrie.com

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

Investment Manager and Company Secretary
Martin Currie Investment Management Limited
Saltire Court,
20 Castle Terrace
Edinburgh EH1 2ES
Telephone 0131 229 5252
www.martincurrie.com

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

Registered office
Securities Trust of Scotland plc
Saltire Court,
20 Castle Terrace
Edinburgh EH1 2ES
Registered in Scotland, registered number SC283272

www.securitiestrust.com

Independent auditor

Deloitte LLP
Saltire Court,
20 Castle Terrace
Edinburgh EH1 2DB

Registrars
Link Asset Services
The Registry, 34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone 0871 664 0300
www.linkassetservices.com

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

Bankers
The Royal Bank of Scotland plc
24-25 St Andrew Square
Edinburgh
EH2 1AF

Depositary
State Street Trustees Limited
Quartermile 3
10 Nightingale Way
Edinburgh EH3 9EG

Brokers
JPMorgan Cazenove Limited
25 Bank Street
London E14 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 2018/19

- November: Half-yearly results announced, half-yearly financial report issued
- January: Second interim dividend payment
- April: Third interim dividend paid
- June: Annual report issued, Year-end figures announced
- July: Fourth interim dividend paid
- September: Annual General Meeting
- October: First interim dividend paid

The European Securities and Markets Authority ('ESMA') published it's guidelines on Alternative Performance Measures ('APMs'). APMs are defined as being a 'financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable accounting framework.' The guidelines aim to improve comparability, reliability and/or comprehensibility of APMs. The company uses the following APMs throughout the annual report, financial statements and notes to the financial statements:

Discount/Premium

Discount

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

Premium

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

As at 31 March the share price was 160.50p and the net asset value per share (cum income) was 170.02p, the discount was therefore 5.60%.

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 (cum income) per share – the net asset value per share cum income is shown on the statement of financial position on page 37, and includes undistributed current year income. The NAV (cum income) per share as at 31 March 2018 was 170.02p.

NAV (ex income) per share – the net asset value (ex income) per share is excluding any current year income.

The NAV (ex income) is calculated by deducting undistributed current year income from the NAV (cum income). To determine the NAV (ex income) the following calculation is applied:

Net assets £187,784,000 [per Statement of Financial Position] less undistributed current year income (£6,367,000 [per Statement of comprehensive income] less dividends paid for the current year [per note 6] 1,626,000 -1,625,000 –1,602,000) = £186,270,000.

This figure is then divided by the shares in issue as at 31 March 2018 /110,446,792 to give the NAV (ex income) per share of 168.65p as at 31 March 2018.

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 net asset value ('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 is not affected by movements in discounts and premiums. It also takes into account the fact that different investment companies pay out different levels of dividends.

The NAV total return performance, calculated using the cum-income NAV for the year end 31 March 2018 was (1.1%), details of the calculation are given in note 2.

Ongoing charges

Ongoing charges are the total of the company's expenses including both the investment management fee (excluding performance fees) and other costs expressed as a percentage of NAV. The ongoing charges figure has been calculated in line with the AIC's recommended methodology.

The calculation of the ongoing charges is provided in note 4.

Share price total return

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

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.

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 hope 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.

The gearing currently employed is discussed in the strategic report on page 13.

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.

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.

Out of the money

A call option is considered "out of the money" when the call option's strike price is higher than the prevailing market price of the underlying stock. A put option is said to be out of the money if the current price of the underlying stock is above the strike price of the option.

Peer group

The company's investment performance (on a total return basis) is measured against the median of the peer group on a rolling three-year basis. Until 31 March 2018 the peer group was made up of all relevant open and closed-ended peers (sourced from the Lipper Global – Global Equity Income sector and Association of Investment Companies ('AIC') Global Equity Income Sector). With effect from the 1 April 2018 the peer group is made up of all relevant open and closed-ended peers (sourced from the Morningstar Global Equity Income Sector and Association of Investment Companies ('AIC') Global Equity Income Sector).

Peer group total return

A measure showing how the peer group has performed over a period of time, taking into account both capital returns and dividends paid.

Redemption opportunity

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

Share buy backs

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

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

Share price

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

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

Treasury shares

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

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

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

Independent financial advisers

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

Private client stockbrokers

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

Alliance Trust Savings ('ATS')

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

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

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

For more information:
www.alliancetrustsavings.co.uk

Other online platforms and stockbroking services

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

Sites include:

- Youinvest (part of AJ Bell) www.youinvest.co.uk
- Barclays Stockbrokers www.smartinvestor.barclays.co.uk/investing
- Charles Stanley Direct www.charles-stanley-direct.co.uk
- Hargreaves Lansdown www.hl.co.uk
- HSDL www.halifax.co.uk/sharedealing
- Interactive Investor www.iii.co.uk
- 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 Link Asset Services. You can buy and sell shares directly by calling the Link dealing team on **0371 664 0445**.

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

Contact details	www.linkassetservices.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

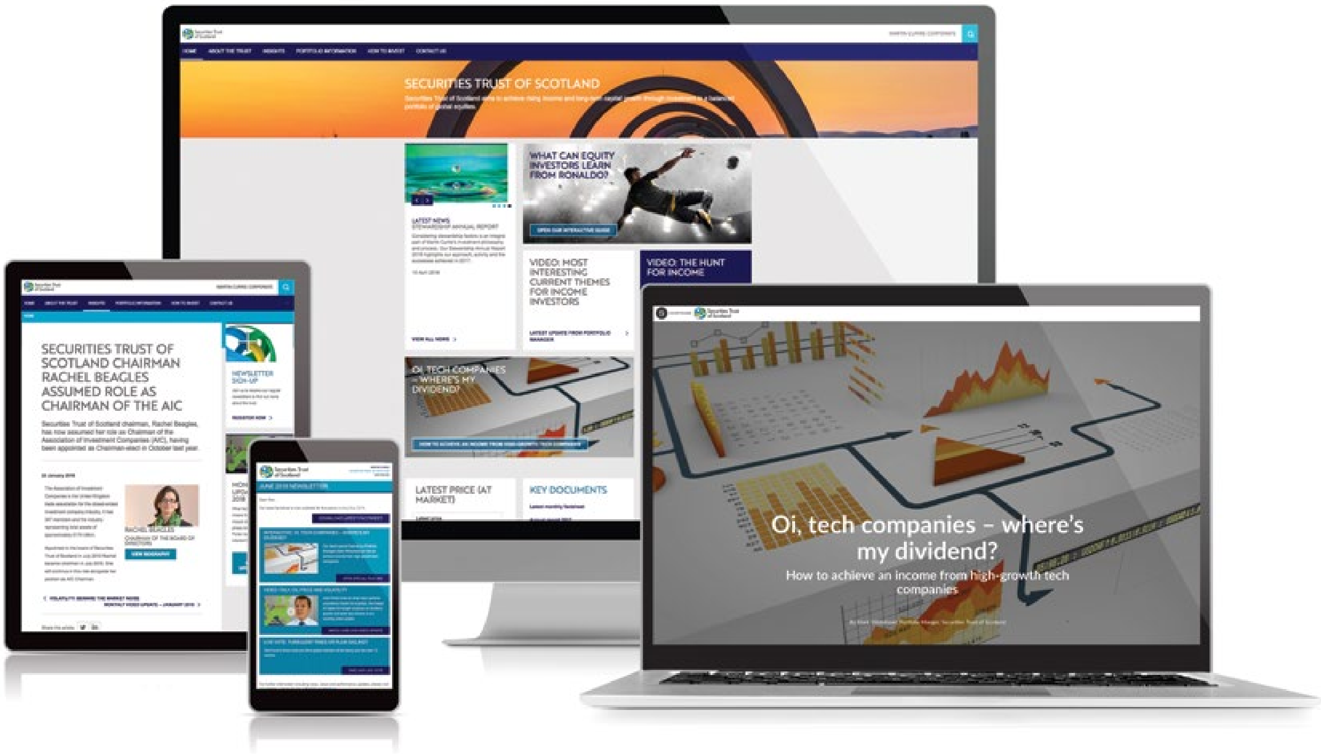
The share price is available through many sources including www.londonstockexchange.com and www.securitiestrust.com

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



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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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