

# Directors' Report

---

## Business Review

### Investment policy

The company carries on its business as a global growth investment trust. Its objective is to provide investors, over the longer term, with above average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation.

In order to achieve this objective, the company invests in an integrated global portfolio constructed through an investment process whereby assets are primarily allocated on the basis of the investment merits of individual stocks rather than that of regions, sectors or themes.

The company's portfolio is actively managed and typically will contain 70 to 120 listed international equity investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is measured against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the company's investment portfolio and performance should deviate from the comparator indices.

Since the company's assets are invested globally and without regard to the composition of any index, there are no restrictions on maximum or minimum exposures to specific geographic regions, industry sectors or unlisted investments. However, such exposures are reported in detail to, and monitored by, the board at each board meeting in order to ensure that adequate diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to stockholders. In pursuing its investment objective, from time to time the company will hold certain financial instruments comprising: equity and non-equity shares; fixed income securities; interests in limited partnerships; structured products; and cash and liquid resources. The company may use derivatives for hedging or tactical investment purposes with the prior authorisation of the board. However, it is the policy of the company not to trade in such instruments. The company has the ability to enter into contracts to hedge against currency risks on both capital and income.

The company's investment activities are subject to the following limitations and restrictions:

- under the company's articles of association, up to 40% of the company's total assets (as at the last audited balance sheet) may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made
- the levels of effective and potential gearing are monitored closely by the board and manager. The company applies a ceiling on effective gearing of 120%. While effective gearing will be employed in a typical range of 100% to 120%, the company retains the ability to lower equity exposure below 100% if deemed appropriate
- the company has a policy not to invest more than 15% of gross assets in other UK listed investment companies
- the company may not make investments in respect of which there is unlimited liability.

### Investment policy – implementation

During the year under review, the assets of the company were invested in accordance with the company's investment policy. For details of how the company's absolute performance and relative performance compared to its comparator indices were achieved, please refer to the Management Review on pages 8 to 15.

A full list of holdings is disclosed on page 17 and detailed analyses of the spread of investments by industry sector and geographic region are shown on pages 8 and 16. Further analysis of changes in asset distribution by industry sector over the year and the sources of gain and loss is shown on page 8. An attribution of NAV relative performance against a global equity index is also shown on page 12.

At the year end the number of listed holdings was 118, including one holding which was held within the company's unlisted portfolio. The top ten holdings comprised 20.5% of total assets (2007: 18.0%).

Details of the extent to which the company's objective has been achieved and how the investment policy was implemented are provided in the Chairman's Statement on pages 4 to 5 and the Management Review on pages 8 to 15.

### Additional limitations on borrowings

Under the company's articles of association, the directors restrict the company's borrowings and control the borrowings of the company's subsidiaries to secure that the aggregate amount of all group borrowings (excluding intra-group borrowings) do not, unless approved by an ordinary resolution of holders of ordinary stock units, exceed the aggregate of the issued and fully paid share capital, share premium account and reserves of the company and its subsidiaries, as published in the latest accounts (excluding any part of any reserve arising out of unrealised capital profits). In addition, the directors are entitled to incur temporary borrowings in the ordinary course of business of up to 10% of the company's issued and fully paid share capital. Such temporary borrowings are to be for no longer than six months.

### Principal risks and uncertainties

The principal risks and uncertainties facing the business are as follows:

- investment and market price risk
- interest rate risk
- liquidity risk
- foreign currency risk

These and other risks facing the company are reviewed regularly by the audit committee and the board. Further information is given in note 18 to the accounts on pages 39 to 43.

### Performance

The management provides the board with detailed information on the company's performance at every board meeting. Performance is measured in comparison with the company's peer group and comparator indices.

Key Performance Indicators, including the following, are used:

- NAV total return
- NAV total return against comparators
- NAV and stock price total return against peers
- discount with debt at market value
- dividend growth against RPI
- total expense ratio

### Dividends

The holders of ordinary stock units are entitled to all surplus income or revenue. The company may declare dividends, including interim dividends, in general meetings but no dividend is payable except out of the company's profits or in excess of the amount recommended by the directors. Neither unrealised appreciation of capital assets nor realised profits arising from the sale of capital assets are available for dividend.

The directors recommend a final dividend of 5.05p per ordinary stock unit payable on 5 February 2009. With the interim dividend of 4.45p already paid in July 2008, this makes a total of 9.50p for the year. The total dividend absorbs £12,351,000.

### Status

The company is a self-managed investment trust and is an investment company within the meaning of the Companies Act 2006.

HM Revenue and Customs has approved the company as an investment trust for the purposes of S842, Income and Corporation Taxes Act 1988 up to the accounting period ended 31 October 2007. This approval is subject to any subsequent enquiry by HM Revenue and Customs under Schedule 18 Finance Act 1998. The company continues to satisfy the conditions for such approval.

### Ordinary Stock

#### General

The company had 129,626,218 ordinary stock units in issue at 31 October 2008. There are no other classes of ordinary stock in issue. The rights attaching to ordinary stock units in the company are set out in the company's articles of association and they are also supplemented by (and are subject to) relevant provisions of the Companies Act 1985, the Companies Act 2006 and other legislation applying to the company from time to time (the 'Statutes'). In accordance with the Statutes, the company's articles of association may be amended by the passing of a special resolution of holders of ordinary stock; that is, by the approval of a majority of not less than 75%.

#### Rights to the capital of the company on winding up

The holders of ordinary stock units would be entitled to the assets of the company in the event that the company were to be wound up (after the company's other liabilities have been satisfied).

#### Voting

On a show of hands, every holder of ordinary stock units present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for each complete £1 nominal of stock held.

#### Deadlines for exercising voting rights

If a holder of ordinary stock wishes to appoint a proxy to attend, speak and vote at a meeting on his behalf, a valid appointment is made if the form of proxy (together, where relevant, with a notarially certified copy of the power of attorney or other authority under which the form of proxy is signed) is received by the company not less than 48 hours before the start of the meeting or

the adjourned meeting at which the proxy is appointed to vote (or, in the case of a poll taken more than 48 hours after it is demanded, no later than 24 hours before the time appointed for taking the poll). In the calculation of these time periods, no account is taken of any part of a day that is not a working day.

### Stock Buybacks

Under the company's stock buyback policy, the company actively seeks to buy back stock with the aim, in normal market conditions, of maintaining a discount to NAV of 9% or less. In calculating NAV for the purposes of the buyback policy, the company's borrowings are taken at their market value so as to ensure that future repurchases of stock will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. The company has, during the year ended 31 October 2008, bought back for cancellation a total of 4,641,297 ordinary stock units representing 3.5% of ordinary stock units in issue at 31 October 2007, at a cost of £22,919,000, utilising 2.22 percentage points of the 14.99% authority renewed at the January 2008 AGM.

### Substantial Stockholdings

At 5 December 2008 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

		Ordinary stock units	% of issue at date of notification
AXA Group	– direct	14,887,914	11.0
	– indirect	225,000	0.2
Legal & General	– direct	5,478,401	4.0
D C Thomson	– direct	5,400,000	3.8

### Directors

The directors of the company at 31 October 2008 and their biographical details are shown on page 6.

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2008.

	Board	Audit	Remuneration	Nomination
<b>Number of meetings</b>	<b>8</b>	<b>3</b>	<b>3</b>	<b>1</b>
D C P McDougall	8	3	3	1
Sir George Mathewson	7	n/a	n/a	1
D F K Finlay	7	n/a	n/a	1
H N Buchan	7	3	3	1
J S MacLeod	7	2	3	1

The performance of each director was appraised by the nomination committee during the year. The chairman's performance was appraised in his absence by the other directors and the results were communicated to him. The board believes that each director is independent of the management in character and judgement and there are no relationships with the company or its employees which might compromise their independence.

Three directors are standing for re-election at the AGM. Douglas McDougall and Francis Finlay have served as directors for more than nine years and therefore retire on an annual basis. James MacLeod is standing for re-election because it is three years since he was elected as a director. After formal performance evaluation, the chairman confirms that the directors continue to perform effectively and with great commitment and he recommends their re-election. Sir George Mathewson will be retiring from the board at the AGM and will not be standing for re-election.

The appointments of Douglas McDougall and Francis Finlay as directors run for one year at a time. Hamish Buchan was appointed in November 2003 and James MacLeod was appointed in September 2005 both for initial terms of three years. Hamish Buchan's appointment was renewed in November 2006 and James MacLeod's appointment was renewed in September 2008. Directors' letters of appointment will be available for inspection at the AGM.

The company maintains insurance in respect of directors' and officers' liabilities in relation to their acts on behalf of the company. The company's articles of association provide that any director or other officer of the company may be indemnified out of the assets of the company against any liability incurred by him as a director or other officer of the company to the extent permitted by law.

### Directors' Interests

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

Beneficial interests	Ordinary stock units of 25p	
	31 October 2008	1 November 2007
D C P McDougall	60,000	60,000
Sir George Mathewson	73,983	65,383
D F K Finlay	60,000	60,000
H N Buchan	22,325	22,325
J S MacLeod	21,216	21,216
Non-beneficial interests		
Sir George Mathewson	26,500	26,500

There have been no changes in the directors' interests between 31 October 2008 and 5 December 2008.

### Corporate Governance

#### Compliance

The board considered the principles set out in the Combined Code on Corporate Governance (the Combined Code) and believes that the way the company is governed is consistent with these principles. Throughout the year the company complied with the provisions of the Combined Code except that there is no senior independent director. The directors consider that, where all directors are independent and non-executive, there is no compelling case for having a senior independent director. The Combined Code is available from the Financial Reporting Council – [www.frc.org.uk](http://www.frc.org.uk).

#### Directors

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

There is a schedule of matters reserved for the board which include: investment strategy; accounting and financial controls; dividends and announcements; capital structure; gearing and major contracts.

All five members of the board are non-executive and are independent of the company's management.

Day to day management, including the selection of investments, is delegated to the company's executive management which reports directly to the board.

All directors have been appointed for fixed terms not exceeding three years. All directors are required to retire by rotation at their first AGM and at intervals of not more than three years thereafter. In addition, the company's articles of association provide that a director is to vacate office if he becomes bankrupt, ceases to have legal capacity, is absent from board meetings for a continuous period of six months without special leave of absence, resigns or is removed in accordance with applicable legislation. No compensation is payable to a director who leaves the board before the expiry of his term of office. No director has a service contract with the company. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

The company has a policy on tenure which is shown on its website. It states that: "All non-executive directors will be appointed for fixed terms of three years. Each director shall be subject to re-election by the company in general meeting at least once every three years up to and including the ninth anniversary of his appointment.

"The performance of each director will be appraised by the nomination committee annually and prior to the renewal of a three-year term. A more rigorous appraisal will take place prior to the second or subsequent renewal of a three-year term.

"The directors recognise that independence is not a function of service or age and that experience is an important attribute within the board. The directors may decide to recommend a director with more than nine years' service for re-election. In such a case, shareholder approval will be sought annually."

Prior to each board meeting, directors are provided with a comprehensive set of papers giving detailed information on the company's transactions, financial position and performance. There is a procedure for directors to seek independent professional advice at the expense of the company and training is available to directors as required.

#### Nomination committee

There is a nomination committee comprising the whole board. The committee meets at least annually to review the structure, size and composition of the board and is responsible for identifying and nominating candidates to fill board vacancies as and when they arise. It has written terms of reference which are shown on the company's website.

Unless nominated by the board, a person nominated as a director is not eligible for election at a general meeting unless a shareholder who is entitled to vote at the meeting gives the company secretary at least six clear days' written notice of his intention to propose the relevant nominee for election, along with a notice in writing signed by the nominee confirming his willingness to be elected.

#### Remuneration committee

The board has appointed a remuneration committee to recommend pay and conditions for the board and employees. It has written terms of reference which are shown on the company's website.

Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. No other benefits are provided to directors. Fees recommended by the remuneration committee are subject to approval by the board. The company's articles of association provide for a maximum level of total remuneration payable to directors in any financial year. This level is set at £250,000 in aggregate.

With regard to its employees, the company aims to provide levels of remuneration in line with similar organisations and to reward responsibility and achievement. Basic salaries are compared annually with those of equivalent employees in a group of comparable fund management organisations operating in Scotland. Remuneration consists of basic salary, a performance-related bonus and benefits including a contributory pension scheme.

### Relations with stockholders

The company recognises the value of good communication with its stockholders. The management meets regularly with private client stockbrokers and the company's major institutional stockholders. The board receives regular briefings from the company's brokers. Newsletters are sent to stockholders during the year and are posted on the company's website. Stockholders are encouraged to attend the AGM and ask questions of the board and management. Any stockholder wishing to raise questions at other times should write to the chairman. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands. Separate items of business are proposed as separate resolutions including the receipt of the report and accounts and the approval of the directors' remuneration report. The annual report is sent to stockholders at least 21 clear days before the AGM.

### Accountability and audit

The respective responsibilities of the directors and auditors in respect of the financial statements are given below and on page 44.

The audit committee has written terms of reference which are shown on the company's website. Its duties include risk assessment, reviewing internal controls, the company's accounting policies, financial statements prior to their release and the company's procedures on whistleblowing. The committee is also responsible for all aspects of the company's relationship with its external auditors including: reviewing the scope and effectiveness of the annual audit; the auditors' remuneration; the terms of engagement and the level of non-audit work, if any, carried out by the auditors. The committee will also ensure that the level of non-audit work does not compromise the auditors' independence.

The directors continue to believe that the financial statements should be prepared on a going concern basis as the assets of the company consist mainly of readily realisable securities.

The company does not have an internal audit function as the audit committee believes that the company's straightforward structure and small number of employees do not warrant such a function. This is reviewed by the committee annually.

The board is responsible for ensuring that the company has in place an effective system of internal controls designed to maintain the integrity of accounting records and to safeguard the company's assets.

The board has applied Principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces. This process, which has been in place throughout the year and up to and including the date of approval of this report, is in accordance with Internal Control; Revised Guidance for Directors on the Combined Code published in October 2005 (The Turnbull Guidance).

In compliance with Provision C.2 of the Combined Code, the board reviews the effectiveness of the company's system of internal control at six-monthly intervals. The board's monitoring covers all controls, including financial, operational, and compliance controls and risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate. The audit committee assists the board in discharging its review responsibilities.

Detailed procedures are in place to ensure that:

- all transactions are accounted for accurately and reported fully to the board
- the management observes the authorisation limits set by the board
- there is clear segregation of duties so that no investment transaction can be completed by one person
- control activities are regularly checked
- compliance procedures are in place for legal and regulatory obligations.

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

### Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for the year to 31 October 2008 which give a true and fair view of the state of affairs of the company and of the revenue and cash flows for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the company will continue in business.

The directors are responsible for keeping proper accounting records which 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 Acts 1985 and 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The audit committee has reviewed the matters within its terms of reference and reports as follows:

- it has approved the financial statements for the year to 31 October 2008
- it has reviewed the effectiveness of the company's internal controls and risk management
- it has reviewed the need for a separate internal audit function
- it has recommended to the board that a resolution be proposed at the AGM for the reappointment of the external auditors and it has considered the proposed terms of their engagement
- it has satisfied itself as to the independence of the external auditors
- it has satisfied itself that the terms of the business review are consistent with the accounts.

### Annual General Meeting

The directors consider that the resolutions, each of which constitutes ordinary business, are all in the best interests of the company and of stockholders as a whole, and recommend that stockholders vote in favour of them.

Resolution 8 set out in the notice of the annual general meeting on page 48 seeks to renew the authority to repurchase ordinary stock units until 30 April 2010. The principal reasons for such repurchases are to enhance

the net asset value of the ordinary stock by repurchasing ordinary stock units for cancellation at prices which, after allowing for costs, represent a discount to the prevailing net asset value and to allow implementation of the company's stock buyback policy.

Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of the authority must not exceed the highest of (i) 105% of the average of the middle market quotations for the ordinary stock units over the five business days immediately preceding the date of purchase, (ii) the price of the last independent trade and (iii) the highest current independent bid. The minimum price which may be paid is 25p per ordinary stock unit.

### Voting Policy

The management reviews the business to be conducted at general meetings of the companies in which it invests and, wherever practicable, will cast its vote, usually by proxy.

### Socially Responsible Investing

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on the performance are considered and these will include socially responsible investment issues. If it is considered that a company's social, environmental or ethical record will adversely affect financial performance and result in poor returns, then an investment will not be made in the company.

### Auditors

#### Re-appointment of auditors

On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. Accordingly, a resolution to re-appoint Deloitte LLP as the company's auditors, and to authorise the directors to fix their remuneration, will be proposed at the forthcoming annual general meeting.

#### Disclosure of information to auditors

It is the company's policy to allow the auditors unlimited access to its records. The directors confirm that, so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware and they have taken all the steps which they should have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

### Payment of Creditors

It is the company's policy to agree in advance the terms of business with suppliers and then to abide by those terms.

As the company has no trade creditors, no disclosure can be made of creditor days at the year end.

### Donations

No charitable or political donations were made during the year.

By order of the board



**Steven Hay**  
Company Secretary  
8 December 2008