United Kingdom

LISTED EQUITIES	£491.1m
PRINCIPAL HOLDINGS	£'000

GLAXO SMITHKLINE 40,330
Glaxo Wellcome merged with SmithKline Beecham to combine strengths in new drug generation and consumer healthcare.

BP 33,633
Has created a strong international oil and energy group through the consolidation of Amoco, Arco and Burmah.

VODAFONE 24,645
Leading UK mobile phone provider with developing European and Japanese operations.

SHELL TRANSPORT 23,870
The drive for internal efficiency within this global energy group continues.

ROYAL BANK OF SCOTLAND 22,976
The integration of Natwest and continuing US expansion provide opportunities to apply the group's banking and organisational skills.

BARCLAYS 17,740
Expansion in Europe with Barclaycard and Barclays Capital and in the UK retail market with Woolwich provides leading products in chosen markets.

HSBC HOLDINGS 15,635
Major bank whose international franchise and strong capital management will provide a solid platform when world economic growth resumes.

LLOYDS TSB 14,713
Following the blocked bid attempt for Abbey National, management has renewed the focus on revenue growth from existing franchises.

ABBEY NATIONAL 10,742
While maintaining a strong presence in the UK mortgage market, the purchase of Scottish Provident helps to further diversify earnings.

ASTRAZENECA 10,698
Astra's cardiovascular and Zeneca's cancer expertise combine to offer a strong portfolio of drugs.

TOTAL 214,982

JJB Sports is a major retailer in the growing leisurewear market. (Our holding valued at £3.9m).

The outlook for corporate profits may keep equities in check.

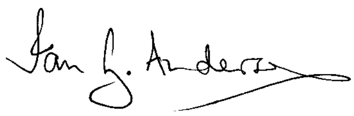
The UK stockmarket trended downwards throughout the year. Although the economy continued to grow modestly the realisation that the slowing rate would impact on many company results led to steady market attrition during the first six months. The technology sectors were hit particularly hard as it became clear that not only would profits fail to meet over-optimistic projections but that they would actually fall sharply. A brief rally in the summer provided a respite before the slide continued. The atrocities in the USA in early September caused a dramatic plunge in the market that was quickly reversed but the FTSE All Share Index still ended our year 21.6% lower. Strong performances from the "value" purchases made out of the proceeds of our bond issue in early 2000 and other shares with above average yields compensated for losses in technology and media holdings with the result that our portfolio fell by 20.9%. However, the smaller company investment trusts that had contributed to our positive performance last year were especially disappointing.

Even in such a weak market there were some safe havens and continued strength in personal spending resulted in positive returns from consumer-related sectors which we had emphasised, such as general retail, tobacco, beverages and domestic banks. New holdings were established in Dixons and JJB Sports whilst existing positions in Diageo and British American Tobacco were increased. Other new names introduced include Northern Foods, creator of prepared meals for the supermarket chains, and fast-growing drugs company Shire Pharmaceuticals. Traditionally defensive areas such as pharmaceuticals, utilities and oils, where our overweight positions have delivered good returns for some time, fell in absolute value terms despite performing well relative to the index. The oil price peaked during the period and we reduced Shell and BP whilst diversifying into BG, an international exploration production group with an emphasis on gas. We made reductions of £31.8m in the previously popular technology, media and telecom sectors and Cable & Wireless and Marconi were completely sold. However, the magnitude of the price falls on the balance of our holdings in these sectors such as Logica and Pearson was quite destructive.

Corporate activity has also contracted. Early in the year, bids for Blue Circle, Hewden-Stuart and Powergen provided exits at good prices but most large deals were accomplished by merger. The Glaxo Wellcome/ Smithkline Beecham and Bank of Scotland/Halifax combinations brought less change in market price. Granada and Compass were separated after a short marriage while BT disposed of substantial assets and laid plans to spin off the Cellnet mobile division.

UK interest rates had remained on a plateau of 6% for a year until February 2001 when the first of four 25 basis point cuts was made by the Bank of England to offset the potential adverse effects on the UK of the slowdown taking place in the US and elsewhere. Since 11 September the rate of reduction has accelerated and we have seen two 50 basis point cuts as part of a concerted attempt by western governments to promote economic growth in 2002. Several industries have been shaken into addressing over-capacity and there is a need for further corporate reorganisations for profits growth to turn up again. Continual announcements of job losses will undermine consumer confidence which has been sustained thus far by low inflation and low interest rates.

Concerns over economic activity and corporate profits may keep equities in check. Investors will regain confidence when analysts begin to upgrade company profit estimates. We aim to emphasise companies with strong managements and good balance sheets that are well placed to benefit from recovery in due course.



Ian G. Anderson

Continental Europe

LISTED EQUITIES	£121.8m
PRINCIPAL HOLDINGS	£'000

TOTALFINAELF (France) 6,509
The group has successfully completed its recent merger and set strong incremental oil and gas production targets.

ENI (Italy) 5,657
Italy's leading oil company is reinvesting the proceeds of mature domestic businesses in offshore projects.

AVENTIS (France) 4,784
A good pipeline of new drugs should augment leading treatments for thrombosis, hay fever and cancer.

TELEFONICA DE ESPANA (Spain) 4,324
Spain's largest fixed and mobile telecoms provider whose major Latin American commitment provides longer term potential.

NESTLÉ (Switzerland) 4,118
The world's leading processed food group growing its key brands and focusing on water, pet care and opthalmic products.

ALTANA (Germany) 4,090
Medium-sized pharmaceuticals and speciality chemicals operator demonstrating superior growth in the anti-ulcer and respiratory fields.

TELECOM ITALIA MOBILE (Italy) 3,878
Most profitable mobile telecom operator in Europe; also has good potential in the Brazilian market.

SWISS RE (Switzerland) 3,856
The world's second largest reinsurer will benefit from a strong cyclical pricing upswing and is expanding its life reinsurance operations.

PEUGEOT (France) 3,514
Europe's second ranked auto manufacturer generating superior growth from a range of highly attractive models.

AGF (France) 3,431
French insurer controlled by Allianz of Germany which has established an innovative banking strategy.

TOTAL 44,161

The Vasco da Gama bridge, the longest in southern Europe, designed, built and operated by Vinci. (Our holding valued at £2.9m).

European markets offer reasonable upside during 2002.

With the background apparently favourable and the currency strengthening, our year began well and European equities outperformed the major markets over the first quarter. However, it was soon evident that the eurozone was not immune from a sharply slowing US economy while internal weaknesses developed, notably in Germany. Late summer saw a significant exodus from equity funds, exacerbated by the events of 11 September. While subsequently regaining part of this fourth quarter setback, our benchmark fell by 30.1% over the year in local currency terms. The stronger euro reduced this to 25.9% in sterling terms, more than eliminating last year's progress. Having taken a more defensive approach during the year the decline in our portfolio's value was limited to 24.0%.

The economic outlook appeared buoyant early in the year, with the European region targeted to achieve GDP growth of over 3%, on the back of expanding intra-regional trade, tax cuts and productivity improvements. Concerns focused on the failure of certain countries to rein in budget deficits while inflation rose above the guidelines set by the European Central Bank (ECB) due to rising oil and food prices. As the weakening US economy began to have an impact on Europe, the ECB's failure to cut interest rates exacerbated the situation, and corporate and consumer confidence declined. Although interest rates were cut by 75 basis points over August and September these moves were viewed as inadequate by investors.

The aftermath of last year's US-led technology excesses saw a surge of profit warnings early in our financial year. Inevitably these reductions, together with the economic downdraught, engendered a ripple effect with private investors turning net sellers of equity positions enthusiastically acquired since the mid 1990s. The events of September have increased investors' nervousness while bringing sharply higher risk provisioning amongst the banking and insurance sectors.

As 2001 progressed we took significant profits reflecting our reduced enthusiasm for European equities. Sizeable reductions were made in technology, investment banking and cyclical holdings. Large positions in high growth pharmaceuticals including Altana, Aventis and Schering were rewarded by strong outperformance and ENI and TotalFinaElf benefited from strong oil and gas prices during the year. An active weighting in banks and insurances contributed good relative returns. Peugeot in autos, Vinci in construction and Ahold in food retailing also performed relatively well.

During the year and in anticipation of an improvement in the macro environment we tilted the portfolio in the direction of some potential early beneficiaries. These included media stocks which suffered during the autumn sell off but have since rallied strongly. Our switch into software and IT services from technology hardware was poorly timed and cost us performance. After a severe shakeout media and software appear to be close to a bottom but considerable uncertainties remain.

With fewer economic imbalances than the US, the eurozone should avoid outright recession during 2002. Corporate earnings forecasts are undergoing necessary revisions from over-optimistic expectations. With the ECB now cutting rates more aggressively in the face of declining inflation, confidence should return aided by some fiscal loosening in France and perhaps Germany. Meanwhile the downturn is forcing companies to reduce costs. Increased demand for pensions and savings products and ongoing corporate restructuring are longer term positives for European equities where we remain modestly overweight. Our portfolio reflects a careful mix of defensive growth positions and an increasing exposure to semi-cyclicals which should benefit from an economic recovery commencing in late 2002. Equity markets may anticipate this somewhat earlier, offering reasonable upside after an uncertain winter period which will see the introduction of the long-awaited euro currency.

J.G. Michael Dick

Michael Dick

Portfolio Review

Americas

LISTED EQUITIES	£287.4m
PRINCIPAL HOLDINGS	£'000

AMERICAN INTERNATIONAL GROUP 12,433
Financially strong international insurance and financial services group with operations in 130 countries.

CITIGROUP 10,861
Highly profitable financial services group with strong international positions in consumer and corporate banking.

IBM 9,750
The company's diverse technology portfolio is migrating increasingly towards IT services and software.

GENERAL ELECTRIC 9,338
The sheer breadth of activities which encompass electrical appliances, finance and broadcasting make GE a bellwether of the US economy.

MICROSOFT 8,717
The world's largest software and technology company dominates desktop software and is expanding into other growth markets.

FANNIE MAE 7,749
Government-sponsored mortgage agency which is benefiting from strong demand for mortgage capital.

EXXON MOBIL 7,433
Strong oil and gas prices and merger savings have driven up profits at the world's largest super-major.

SBC COMMUNICATIONS 7,191
Provider of telecommunications services in the US and 28 countries overseas emphasising growth in data, wireless and long-distance telephony.

PEPSICO 7,109
With an impressive portfolio of snack foods and carbonated drinks, Pepsico is expanding into non-carbonated soft drinks.

JOHNSON & JOHNSON 6,730
One of the world's largest and wide ranging manufacturers of healthcare and consumer products.

TOTAL 87,311

Pepsico's broad portfolio of beverages and snacks offers excellent prospects for balanced future growth.

(photograph: Ben Rosenthal)

The US continues to offer a wide range of investments with good potential.

This has been a very challenging year for investors in the US stock market who have had to endure a large fall in the major indices, a deteriorating economic outlook and the tragic events of 11 September. The benchmark FT/S&P US index fell by 26.8%. Our portfolio performed better than the index, registering a less severe fall of 20.3%.

A significant feature of the year was the dramatic collapse in the technology sector which fell by over 50%. Hardware stocks shouldered the brunt of the fall prompted by a sharp slowdown in demand which exposed their overvaluation. Consequently, sector performance was more broadly spread than in recent years when returns from technology stocks overshadowed the rest of the market. This year the best relative returns came from a mix of defensive and cyclical sectors including food, healthcare, paper, retailers and tobacco.

Our portfolio benefited from a relatively low exposure to technology hardware companies and good stock selection in the technology area where our holdings held up better than the sector. Our larger technology holdings are cash-generative sector leaders like IBM and Microsoft as well as more resilient IT service groups like Electronic Data Systems and Automatic Data Processing. Performance was also enhanced by a large weighting and good selection within the retail sector with strong performances from a number of stocks including new holding Family Dollar, Lowes and Supervalu.

Reductions were made in utilities, oils and in a number of defensive stocks which had generally performed well including food service group Sysco and healthcare companies Cardinal Health and Medtronic. Profits were taken from life assurer John Hancock which was a strong performer. New holdings made towards the end of the year included pharmaceutical major Pfizer, clothing retailer Liz Claiborne, credit card group Capital One and regional bank Amsouth.

For much of the year it appeared that the fiscal and monetary action taken by the US authorities would be enough to keep the US economy from stalling. However, figures for the third quarter of this calendar year revealed that GDP contracted for the first time in eight years, thereby ending the United States' longest period of continuous growth. Consumer spending has slowed to a standstill mirroring a collapse in consumer confidence. Unemployment is deteriorating sharply as companies respond by cutting costs and recent industrial survey evidence confirms the weak outlook. Further cuts have taken official domestic interest rates down to only 2%, the lowest in 40 years. Additional fiscal action is pending in the form of a substantial economic stimulus package. After growing by over 4% in 2000, the US economy is likely to remain weak over the coming two or three quarters with a recovery possible by the second half of 2002. Corporate earnings expectations for this year have collapsed with the lack of earnings clarity compounded by record write-offs. Consequently, even after a significant fall, the US market appears fully valued by historic standards.

US equities had been weak before the events of 11 September and plummeted in the immediate aftermath. However, the market has shown creditable resilience by recovering strongly since the terrorist attacks while weathering a raft of depressing economic and corporate announcements. This resilience is attributable to a belief that the fiscal and monetary actions taken will yield a recovery in earnings next year. We are conscious of the risks and challenges which lie immediately ahead, both politically and economically, but believe that the US continues to offer a wide range of investments with good potential. We believe that profits should begin to recover towards the end of 2002 and this outlook should allow the US market to progress.

John Kennedy

The Gotemba plant in Shizuoka is Ricoh's largest copier manufacturing facility.

Japan

LISTED EQUITIES	£40.5m
PRINCIPAL HOLDINGS	£'000
INVESCO GT JAPAN ENTERPRISE FUND	3,125
FLEMING JAPANESE SMALLER COMPANIES INVESTMENT TRUST	2,770
These two funds specialise in smaller companies in the technology and service sectors with future growth potential.	
HONDA MOTOR	2,392
Mini vehicle sales in Japan are strong while the weak yen is benefiting sales in US.	
RICOH	2,384
Digitisation in office automation equipment is benefiting domestic and overseas operations, while a recent US acquisition is making good progress.	
TAKEDA CHEMICAL INDUSTRIES	2,332
Top Japanese pharmaceutical company expanding into USA and Europe with a range of innovative drugs.	
TOTAL	13,003

The best companies in Japan are in the export and technology sectors.

Hopes of economic recovery in Japan disappeared over the last year. GDP is expected to decline by around 1% in the year to March 2002 and the Bank of Japan (BoJ) is now forecasting another poor year thereafter. Exports and capital expenditure, previously the drivers of growth, are both falling, reflecting weakness in the US economy and in the domestic technology sector. This has now spread to other industries.

With this negative background the equity market dropped by 24.4% over the year. The yen also declined, resulting in our benchmark index falling by 32.7% in sterling terms. Defensive sectors such as utilities, and cyclical industries such as transportation, construction and paper did relatively well while the technology sectors, both hardware and software, underperformed badly. Our portfolio was down by 35.8% in sterling terms due to our underweighting of the defensive and cyclical sectors.

During the year our overweight position in information technology hardware was cut back, including complete sales of Matsushita Communication Industries (mobile handset manufacturer) and Fujitsu (computers), although later in the year we added Kyocera (electronic components) when the valuation became attractive. Among other new purchases were Nissan Motors, where new management is cutting costs sharply and Skylark, a growing restaurant chain. We sold all our commercial banking holdings as the banks have continually failed to address their bad debt problems.

Bankruptcies have been rising; one of the most prominent was Mycal, the fourth largest general supermarket operator which failed this autumn. Banks are under pressure to write off more non-performing loans but may not have enough capital to absorb the losses. Corporate restructuring is progressing slowly, leading to higher unemployment rates and tighter household spending. A new political leader, Mr Koizumi, was elected this spring with an overwhelming majority in the hope that he would tackle these prolonged problems. However, his promises for structural reform have been watered down to such an extent that little of substance is left. The BoJ has reverted to a zero interest rate policy, announcing a willingness to supply enough liquidity in case of need. There is now little effective scope in monetary policy left to the central bank. Public finances are very stretched and it is not clear that the government can stimulate the economy through fiscal measures.

Japan still faces difficult conditions but the stock market has discounted some of the gloomy period ahead. Companies are extremely reluctant to make forecasts and there is little visibility. The best companies in Japan are in the export and technology sectors. The market may rotate through a series of short-term themes for some time but we will continue to invest in well financed companies which will benefit from international economic recovery.

Mari Yamamoto

Mayne Nickless is the second largest provider of private pathology services in Australia. (Our holding valued at £1.3m).

Pacific (ex Japan)

LISTED EQUITIES	£36.4m
PRINCIPAL HOLDINGS	£'000

BHP BILLITON (Australia)	2,201
Global resources company, formed from the merger of BHP and Billiton with potential for growth and cost savings.	
CHEUNG KONG HOLDINGS (Hong Kong)	2,124
Holding company of Hutchison Whampoa with large property interests, mainly in Hong Kong.	
NATIONAL AUSTRALIA BANK (Australia)	1,592
Largest bank in Australia with assets in the UK and US targeting growth from increasing wealth management operations.	
HUTCHISON WHAMPOA (Hong Kong)	1,561
Diversified holding company with growing operations in mobile telecommunications, and in container ports in Asia and Europe.	
CHINA PETROLEUM (Hong Kong)	1,536
China's largest oil refiner benefiting from rising oil usage in its domestic market.	
TOTAL	9,014

Most Asian markets are now at reasonable valuations.

At the beginning of our year economic growth for the Pacific region was forecast to be between 4% and 6%. Economies were still recovering from the Asian crisis of 1998 and there were hopes that, although there may be a global slowdown, there would not be a recession. Throughout the year these estimates were revised down dramatically as conditions deteriorated in the US.

We began the year overweight in Hong Kong and Singapore as these markets appeared reasonably valued. However these were not the markets to be in when global growth deteriorated. Overall the regional index fell by 18.7% in sterling terms. This was the best performing global area largely as a result of the strength of the Australian market which rose by 0.5%. We underperformed the regional index, falling by 21.9%. Although we outperformed in Hong Kong and Singapore our underweighting of banks and consumer companies in Australia was detrimental to our overall performance, as was our underweight in Korea.

Australia has one of the better growth prospects in the region and we increased our exposure there during the year through purchases such as Australia and New Zealand Banking and Mayne Nickless, a leading health care provider.

We are also positive on China. We have invested in Chinese companies listed in Hong Kong and these account for 36% of our Hong Kong portfolio. Beijing Capital International Airport and PetroChina performed particularly well for us this year. There is risk in this market as the ultimate owner of all listed Chinese companies in Hong Kong is the Chinese government, but China is seeking to attract more outside capital. China's GDP is expected to grow at 7% this year; unlike many countries in Asia it has a strong domestic economy and is less dependent on exports.

We have benefited from corporate activity among the Singapore banks. Development Bank of Singapore acquired Dao Heng Banking, one of our top holdings in Hong Kong, at a high valuation. In Singapore itself Overseas Union Bank, which we held, was taken over by United Overseas Bank.

Among the other major countries in the region Korea's GDP growth is expected to be around 1.5% this year, considerably better than Hong Kong and Singapore where economic activity is forecast to decline. Taiwan has some world class companies in the technology field but at present we are not invested in this area. The economy and banking system there are very weak and the outlook for Pacific region technology companies remains very cloudy.

The overall outlook remains uncertain. The Asian markets have not suffered from a credit bubble and are reasonably valued but they are very correlated with the United States. Until we see some stability in the developed markets, with some growth in earnings to act as a trigger, equities in the region are unlikely to rise strongly. However, with the positives outlined above and the liquidity in the system, these markets have the potential to outperform when global growth recovers.

Hilary Vandore