

# Chairman's Statement

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## **CAPITAL**

Over the year to 31 October 2003, net asset value per ordinary unit rose by 8.7%. Though this was a welcome change of direction after two years of sharp declines in equity markets, it was a disappointing outcome in relation to our benchmark, which rose by 11.5%. Over the first half of the year our invested assets performed broadly in line with the benchmark. We aim to run well diversified portfolios biased towards stable businesses which demonstrate good returns on capital and whose shares are reasonably valued. In recent years our stock selection has been good but, towards the end of our year, we did not fully participate in the sharp price rises in many cyclical recovery shares. This phase in the market may now have run its course and we see good relative value in many high quality companies whose shares have lagged in the recovery. For a detailed account of developments over the year see the management and portfolio reviews on pages 8 to 19.

## **INCOME**

We had a satisfactory income result last year. However, the stated rise in our earnings from 8.24p to 9.28p was exaggerated by an accounting change in respect of tax relief attributable to interest and expenses charged to capital. This added 0.90p (10.9%) to earnings. Without this change earnings would have risen by 0.14p (1.7%).

The board is recommending an increase of 4.0% in the dividend for the year which compares with UK inflation of 2.6%. We have increased our regular dividend in each of the last twenty years and the objective of the board is that the dividend should rise by more than the rate of inflation in the UK.

After 5 April next year the ability of charities and PEP and ISA holders to reclaim tax on UK company dividends will come to an end. In order that these investors may make a final reclaim it is the intention of the board to declare and pay the

interim dividend for the year to 31 October 2004 before 5 April 2004.

## **BORROWINGS**

Over the year we had on average approximately £114m of our long term borrowings of £222.6m invested in equities. The effect of our gearing on performance was slightly positive, after taking account of interest costs, having been negative in our two prior years. The weighted average cost of our borrowings is 6.9% and the directors believe that, over the long term, equities can produce a combined return of dividends and capital growth which will exceed this cost.

## **SHARE BUYBACKS**

During the year we took the opportunity to buy back 3.0m shares at a discount to NAV. This has added an estimated 0.54p to the closing NAV per ordinary unit. The company will continue to buy in ordinary stock when the board considers that this serves the interest of continuing investors, and a resolution to renew the buyback authority will be put to stockholders at the annual general meeting.

## **MARKETING**

Through our subsidiary company, SIT Savings, we continue to promote our STOCKPLAN savings scheme and The SIT ISA. Given the market background, last year was a difficult one. However, our investing for children product, STOCKPLAN: A Flying Start, is continuing to attract new investors. We believe saving for children will be given a significant boost by the new child trust fund being promoted by the government.

## **DISCOUNT**

For many years the discount of SIT's share price to NAV remained within a relatively stable band. It is disappointing that the discount rose towards 18% in October 2002 and that it has remained around this level over the last year. The directors

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recognise the importance for the discount of NAV performance and are reviewing the approach to the management of the portfolio in order to improve this.

## **DIRECTORS AND MANAGEMENT**

Stockholders will be aware that Sir Angus Grossart retired as chairman of SIT on 6 October 2003 and the board extends its thanks to him for his commitment and leadership over many years. I am pleased that Mr Hamish Buchan was appointed to the board on 17 November 2003. Mr Buchan has had a long and distinguished career in the investment trust industry and I commend him to you for election at the forthcoming annual general meeting.

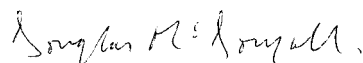
I am also pleased to announce the appointment of a new manager, John Kennedy, who is presently head of investment. Ian McLeish will retire as manager with effect from 31 December 2003. Ian joined SIT in 1973 and has been joint manager or manager for 17 years. I thank him for his contribution to the company over this long period.

## **OUTLOOK**

Led by the USA, the major world economies appear to have turned the corner and growth in 2004 is expected to accelerate to levels higher than were being forecast a few months ago. Companies have cut costs and restructured so that improving sales are flowing through strongly to profits.

However, risks are being taken with the US economy. The budget and the current account deficits are at record levels, which has led to a loss of confidence in the US dollar. It may be difficult for the US authorities to restore the appropriate balance in the economy without a further decline in the value of the currency. Furthermore, US personal borrowing is still very high and further growth in consumer spending is dependent on a continuation of low interest rates and further tax rebates.

2004 is an election year in the USA and the continued growth of the economy will remain a priority of the Bush administration. This, and China's continued growth, should help to promote expansion globally. Meanwhile, the shares of many strong companies are selling at reasonable valuations by past standards. We are therefore prepared to continue with our present level of gearing despite the imbalances in the world's leading economy.



**Douglas McDougall**

10 December 2003