



Ian McLeish and Donald Ness, Managers

INVESTMENT PHILOSOPHY

To pursue a flexible investment policy avoiding any permanent specialisation.

To focus on fundamental value and move funds into those areas offering the most attractive returns.

To invest in well managed companies in established stockmarkets around the world.

To enhance performance in rising markets by prudent use of borrowed money.

To provide simple, low cost dealing arrangements for investors.

MARKET PERFORMANCES

Year to 31 October 2000

	Currency adjusted %	In local terms %
UK	+6.0	+6.0
EUROPE (ex UK)	+14.6	+24.9
USA	+19.4	+5.7
JAPAN	-0.7	-8.0
PACIFIC (ex Japan)	+1.9	-0.7

PERFORMANCE ATTRIBUTION ANALYSIS

Year to 31 October 2000

Increase in NAV	15.5
Increase in benchmark index	10.8
Contribution	+4.7
Stock selection	+2.8
Asset allocation	-1.0
Gearing	+1.6
Interest and expenses charged to capital less retained earnings	-0.4
Equity bought back	+1.7
Contribution	+4.7

The attribution analysis shows how the overall performance of the company's NAV relative to the benchmark has been achieved.

These figures refer to capital performance only and make no allowance for income.

We achieved a good performance last year with very positive results from our overall stock selection particularly in the UK and Europe supplemented by strong returns from our unlisted portfolio. This was offset to some extent by a disappointing result from our asset allocation where our underweight in the US, which was the strongest of the major markets, held us back.

During the year we employed our gearing capacity to good effect which increased our NAV by 1.6% while buying back our own ordinary units at a discount to NAV of around 15% made a similar contribution.

We made no major changes to our broad geographical allocation over the year. During the first half we realised £60.4m from the UK portfolio towards financing buybacks of our ordinary units. In April we raised a £150m secured bond and invested £73.7m of the proceeds in a number of UK companies whose share prices were at attractive values as investors sold them to buy into 'new economy' situations.

Towards the end of our year we took advantage of a subsequent setback to invest a further £40.6m of the bond proceeds into 'value' shares in the US as well as the UK.

As a result our gearing rose from 104.0% of stockholders' funds at the beginning of the year to 114.2% at year end. Our potential gearing ratio if we were to invest all of our borrowings in equities is 116.4% (106.0%).

This has been an excellent year for our unlisted portfolio which appreciated by 41.5% to £73.0m. Several of our venture capital partnerships were particularly successful as they took advantage of strength in the technology area to float a number of their investments early in the year. We were able to revalue our holding in the successful Wood Group based on a new financing in connection with the acquisition of a US oil services group.

We value this portfolio on a conservative basis and, in particular, we take account of diminution in value of any listed holdings which our partnerships hold. Such holdings are always carried at a discount to market price.

At year end we had commitments to investment partnerships of £16.0m and we expect to make further commitments in the current year. In recent years our commitments have been met from distributions from existing investments and we expect this to continue.

CHANGES IN ASSET DISTRIBUTION

Year to 31 October 2000

	Opening Valuation	Net Purchases (Sales)	Appreciation (Depreciation)	Closing Valuation
	£m	£m	£m	£m
Listed equities				
UK	643.3	12.8	71.1	727.2
CONTINENTAL EUROPE	185.3	1.1	36.8	223.2
AMERICAS	285.0	14.3	51.2	350.5
JAPAN	130.3	(3.7)	(6.8)	119.8
PACIFIC (ex Japan)	46.6	2.2	7.6	56.4
	1,290.5	26.7	159.9	1,477.1
Unlisted Holdings	48.2	4.3	20.5	73.0*
Net current assets	25.5	0.8	2.6	28.9
	1,364.2	31.8	183.0	1,579.0
Borrowings and Prior Charges	(77.1)	(145.0)	0.0	(222.1)
	1,287.1	(113.2)†	183.0	1,356.9

* includes £16.0m of investments which are now listed

† ordinary stock units repurchased and expenses apportioned to capital

UNLISTED PORTFOLIO

LARGEST UNLISTED HOLDINGS

At 31 October 2000

		£m
Sprout Group Funds	Venture capital, US	14.7
Boston Ventures Funds	Venture capital, US	10.4
Wood Group	Oil service, UK	8.7
Thompson Clive		
Investments (listed)	Venture capital, UK	5.6
1818 Fund	Growth capital, US	5.5
		44.9

10 Management Review

PORTFOLIO TURNOVER

Total purchases of investments amounted to £501.8m (1999 – £318.5m) and sales were £470.8m (£304.6m). Investment sales were 32.0% (24.0%) of average total assets. No use was made of investment derivatives during the year. A currency hedge was put in place in January to protect against a potential decline in value of the Japanese yen equivalent to £30.0m. This was closed before year end at a loss of £1.4m.

HOLDINGS IN OTHER LISTED FUNDS

Our holdings include investments in other listed investment funds of £53.6m. These are held mainly to provide exposure to smaller companies in the UK (£32.9m) and Japan (£12.3m). In addition, £11.1m of UK listed funds which specialise in unlisted investments are included in the unlisted portfolio valuation of £73.0m.

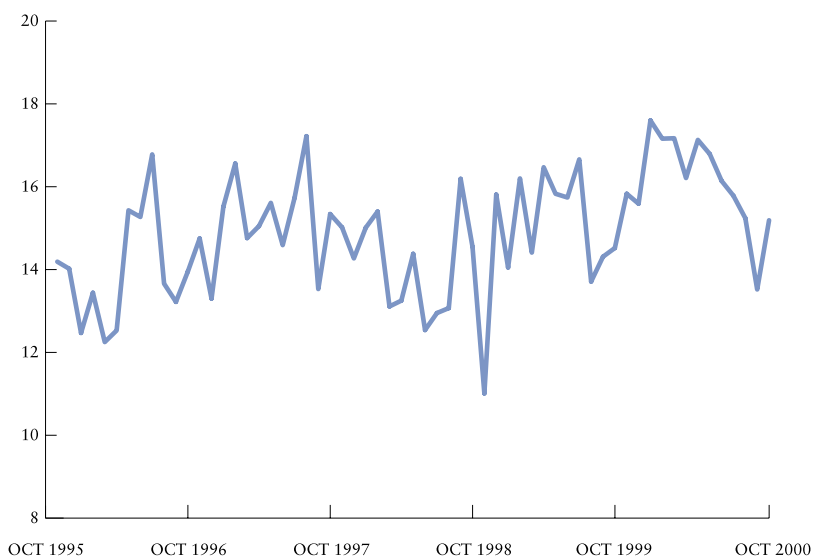
ANALYSIS OF STOCK REGISTER At 31 October 2000

Category of holder	Number	Ordinary Capital %
Individuals	32,449	45.9
Insurance Companies	51	28.4
Pension Funds	50	10.7
Other	243	15.0
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Total	32,793	100.0

SERVICES TO INVESTORS

We increased sales of our STOCKPLAN savings scheme, PEPs and ISAs by over 40% last year. We are promoting a new “saving for children” product and introducing a very attractive capped charging structure for our ISA. Over the last five years we have increased the number of individual investors in SIT by 31.6% to over 32,000. Individuals now hold 45.9% of our stock compared to 36.2% five years ago.

5 YEAR DISCOUNT TO NAV



FUTURE STRATEGY

Over recent months the two key determinants of stockmarket behaviour have reversed roles. The monetary background, previously a cause for concern, has become more relaxed, and looking into next year should become a positive force. In contrast, corporate profits have been growing strongly but are now losing momentum; further downgrades are likely in the months ahead as global growth slows. Our belief is that in setting the general direction of equity markets, monetary influence is the more important and this supports our positive view of markets in the year ahead. Equity valuations have improved as bond yields have fallen while corporate profits have continued to grow, albeit at a moderating rate.

The shift in sentiment away from the technology, media and telecoms (TMT) sectors has been very pronounced, and the move we made into value stocks during 2000 has proved to be well timed.

We will be watching carefully for any further reversals in sentiment but we do not expect an early return to favour for TMT stocks. Many of these companies are sensitive to a cyclical slowdown as businesses curb their capital spending after several years of heavy investment. Historical precedents from previous times of market excess suggest that a significant period can pass before confidence is restored in formerly exuberant areas of the market. We believe our portfolios, which have a bias towards companies with stable growth characteristics, are positioned to perform well in the year ahead.

Ian McLeish
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 18 December 2000

DEFINITIONS

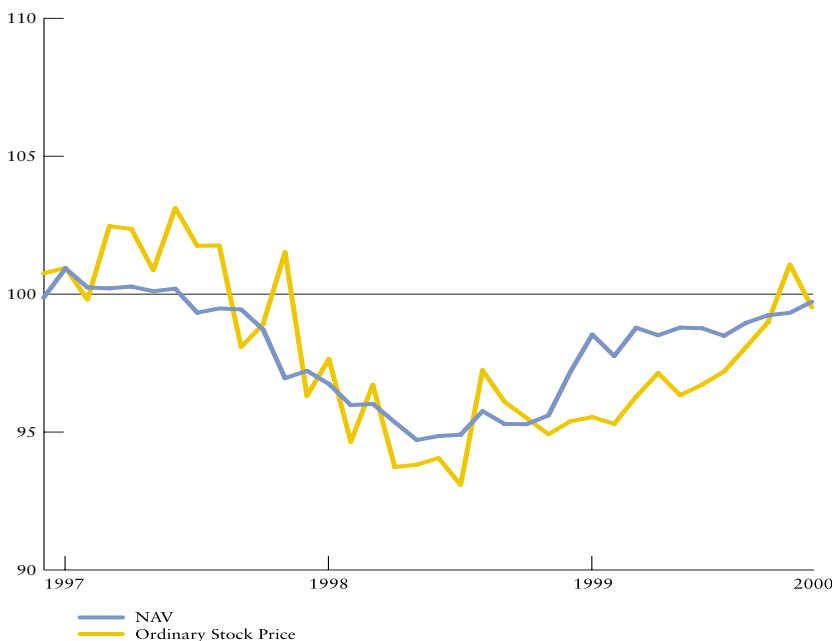
Total assets means total assets less current liabilities.

Net Asset Value (NAV) is stated after deducting borrowings at book value.

Discount is the difference between the ordinary stockmarket price and the NAV expressed as a percentage of the NAV.

NAV AND STOCK PRICE RELATIVE TO BENCHMARK

3 years to 31 October 2000



The index quoted for UK performance comparisons is the FTSE Actuaries UK All-Share Index. For all other markets the constituents of the FTSE World Index Series have been used. Unless otherwise stated, SIT and index performance figures have been adjusted for currency movements.

Unless otherwise stated, SIT ordinary stock performance figures are based on mid price to mid price before expenses.