



Donald Ness and Ian McLeish, 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 2001		
	Currency adjusted %	In local terms %
UK	-21.6	-21.6
Continental Europe	-25.9	-30.1
USA	-26.8	-26.7
Japan	-32.7	-24.4
Pacific (ex Japan)	-18.7	-16.1
Benchmark	-24.3	

PERFORMANCE ATTRIBUTION

After a good year in 1999/2000 relative to our benchmark it is disappointing that we have failed to better it in our latest year. Our stock selection was good in Europe and USA but we underperformed in Japan and the Pacific Region (ex Japan). The performance of our unlisted portfolio (referred to below) was the main reason for our overall stock selection being slightly negative. The performance of the investments purchased with the proceeds of the secured bonds issued in April 2000 has been attributed to gearing and was broadly neutral over the year.

PERFORMANCE ATTRIBUTION ANALYSIS	
Year to 31 October 2001	
	%
Decrease in NAV	-25.4
Decrease in benchmark index	-24.3
<b>Contribution</b>	<b>-1.1</b>
Stock selection	-0.5
Asset allocation	-0.1
Gearing	-0.6
Interest and expenses charged to capital less retained earnings	-0.6
Buybacks	+1.0
Residual	-0.3
<b>Contribution</b>	<b>-1.1</b>

The major UK, European and US markets all performed within a few per cent of each other and so asset allocation was not a significant factor last year. The reduction of our initial overweight in underperforming Japan and our overweight in the Pacific Region, an area which performed relatively well, largely cancelled each other out.

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.

Our gearing was positive for most of the year as the holdings purchased with the proceeds of our secured bond issue performed very well until the events of 11 September. They fell sharply thereafter and failed to recover fully. In a falling market our other gearing was negative so that overall our gearing cost us 0.6% in relative performance.

Over the year we repurchased 26.0m ordinary stock units at a discount to NAV and this added 1.0% to our NAV. This was largely offset by the effect of charging a portion of interest and expenses to capital reserve.

### CHANGES IN DISTRIBUTION

We made some significant changes in our asset distribution over the year. Buybacks were financed from sales of investments in all areas except for the US and with an emphasis on Europe and Japan. In the spring we de-gearred through sales from Europe and towards the end of the year we further de-gearred through more broadly based sales so that overall we reduced listed equities by £92.8m net of share buybacks. These moves have changed our overall balance quite considerably.

At the year end gearing was 112.8% of stockholders' funds. The potential gearing ratio if we were to invest all of our borrowings in equities is 124.5%.

### UNLISTED PORTFOLIO

After a very good year in 1999/2000 during which our unlisted portfolio appreciated by 41.5%, this growth was given back last year and the unlisted portfolio fell in value by 29.6%. Nevertheless, over the last four years this portfolio has been successful for us growing by 35.0% compared to our benchmark which rose by 13.6%.

Technology related funds such as Sprout Group and Boston Ventures suffered most and had to write down the value of a number of investments. We received only £3.1m of distributions being an aggregation of relatively small

### CHANGES IN ASSET DISTRIBUTION

Year to 31 October 2001

	Opening Valuation	Net Purchases (Sales)	Appreciation (Depreciation)	Closing Valuation
	£m	£m	£m	£m
<b>Listed equities</b>				
UK	727.2	(105.3)	(138.3)	483.6
Continental Europe	223.2	(56.3)	(45.1)	121.8
Americas	350.5	4.4	(70.4)	284.5
Japan	119.8	(45.4)	(33.9)	40.5
Pacific (ex Japan)	56.4	(8.9)	(11.1)	36.4
	1,477.1	(211.5)	(298.8)	966.8
Unlisted holdings	73.0	6.9	(22.3)	57.6*
Net current assets	28.9	74.7	2.4	106.0
	1,579.0	(129.9)	(318.7)	1,130.4
Borrowings and prior charges	(222.1)	-	(0.2)	(222.3)
	1,356.9	(129.9)†	(318.9)	908.1

\* includes £10.4m of investments which are now listed

† ordinary stock units repurchased plus expenses and interest apportioned to capital

### DISTRIBUTION OF ASSETS

	31/10/00 %	31/10/01 %
UK	48.2	45.5
Continental Europe	14.1	10.8
Americas	24.7	27.5
Japan	7.6	3.6
Pacific ex Japan	3.6	3.2
Net current assets	1.8	9.4
Total assets	100.0	100.0

### LARGEST UNLISTED HOLDINGS

At 31 October 2001

	£m	
Wood Group	Oil service, UK	8.8
Boston Ventures Funds	Venture capital, US	8.3
Sprout Group Funds	Venture capital, US	7.6
Mercury Grosvenor (listed)	Private equity, UK	4.7
1818 Fund III	Growth capital, US	4.4
		33.8

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amounts from a number of funds. We made two new commitments – £15.0m to Aberforth LP which invests in small listed UK equities and £7.4m to Apax Euro V which invests in venture capital in Europe. Our total commitments at year end were £28.9m. We envisage these being drawn at a relatively slow pace.

Our largest direct unlisted investment is Wood Group which has developed from an Aberdeen based oil service company to operate on an international basis. Last year it made a very significant acquisition in the US and if market conditions are right we believe that the company

may float in the US or UK. In this event we would expect a useful increase in valuation.

Our unlisted portfolio is valued at a total of £57.6m which is equivalent to 6.3% of stockholders' funds. Of the total £10.4m is invested in specialist listed investment trusts and companies which have obtained a listing.

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

### PORTFOLIO TURNOVER

Total purchases of investments amounted to £232.9m (2000 – £501.8m) and sales were £437.5m (£470.8m). Investment sales were 32.3% (32.0%) of average total assets. No use was made of investment derivatives or currency hedges during the year.

### HOLDINGS IN LISTED FUNDS

Our holdings include investments in listed investment funds of £30.5m (2000 – £53.6m). These are held mainly to provide exposure to smaller companies in the UK (£14.0m) and Japan (£5.9m). In addition, £7.5m of UK listed funds which specialise in unlisted investments are included in the unlisted portfolio valuation of £57.6m.

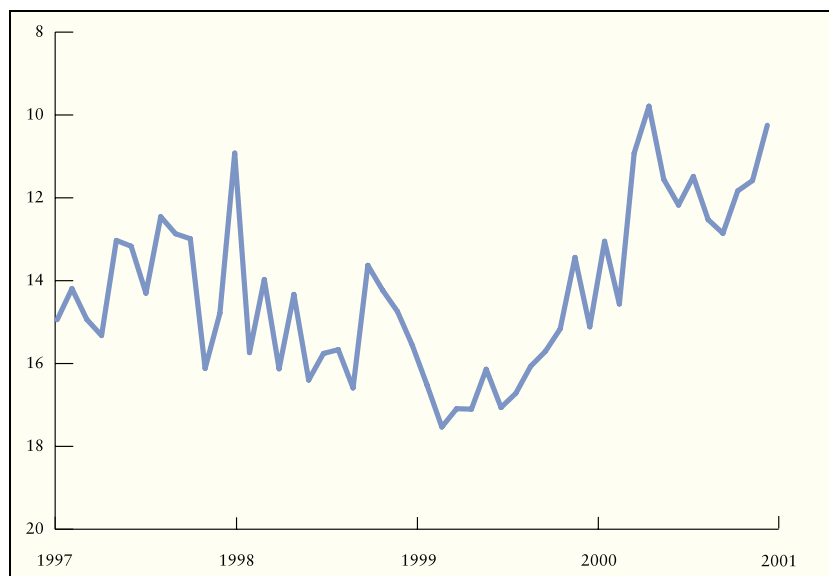
### SERVICES TO INVESTORS

Following a 40% increase in sales of our savings products in 1999/2000 we were pleased to achieve further growth of 11% last year against a very difficult market background. Our STOCKPLAN savings scheme and ISAs and PEPs have very low costs and we believe it is important to investors to be able to invest in SIT on economic terms. We introduced a new charging structure for our ISA so that no investor will pay more than £30 (plus vat) per annum in administration fees. We are now promoting STOCKPLAN: A Flying Start investment scheme to encourage investing for children. Over the last five years we have increased the number of investors in SIT by 28.1% to over 35,000. Individuals now hold 55.0% of our stock compared to 36.8% five years ago.

ANALYSIS OF STOCK REGISTER At 31 October 2001		
Category of holder	Number	Ordinary Capital %
Individuals	34,752	55.0
Insurance Companies	46	24.6
Pension Funds	40	9.5
Other	177	10.9
<b>Total</b>	<b>35,015</b>	<b>100.0</b>

### DISCOUNT TO NAV

4 years to 31 October 2001



**FUTURE STRATEGY**

Throughout 2001 the US Federal Reserve has pursued a policy of aggressive monetary easing and the first signs of stabilisation in some economic readings are now appearing. Looking into 2002 when the US government's planned fiscal boost and the recent fall in oil prices should start to take effect, we envisage an improving economic scenario which should begin to spread to other countries. The corporate profit outlook will remain difficult for much of next year owing to the low level of capacity utilisation and a continuation of the weak pricing environment.

Financial markets are now looking forward to the prospects of a better US economy in a few months time. Bond yields have risen from earlier low levels and equity prices have rallied strongly since the terrorist attacks in September. We anticipate a better year for equity

markets in 2002 but our enthusiasm is muted by the high level of current valuations.

We are expecting some return of interest to economically sensitive businesses. More importantly we think key determinants of good stock selection will be to emphasise companies which are financially strong, which can demonstrate good returns on capital, and where the valuations are reasonable.

*Ian McLeish*

*Donald Ness*

Ian McLeish  
Donald Ness  
26 November 2001

**DEFINITIONS**

**Total assets** means total assets less current liabilities.

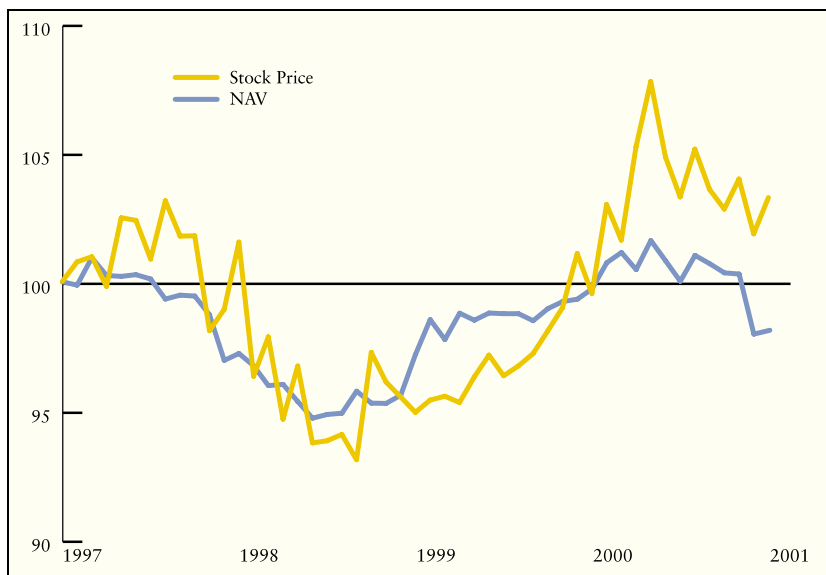
**Net Asset Value (NAV)** is stated after deducting borrowings at book value.

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

**Gearing** is the percentage of stockholders' funds invested in equities.

**STOCK PRICE AND NAV RELATIVE TO BENCHMARK**

4 years to 31 October 2001



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.