

Compliance

The board of Securities Trust of Scotland ('the company') has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC code') by reference to the AIC Corporate Governance Guide for investment companies ('AIC guide'). The AIC code, as explained by the AIC guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company.

The board considers that reporting against the principles and recommendations of the AIC code, and by reference to the AIC guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The company has complied with all of the recommendations of the AIC code and, except as set out below, the relevant provisions of the UK Corporate Governance Code:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The principles of the AIC code

The AIC code is made up of 21 principles detailed below:

The Board

AIC code principle

Company compliance

1 The chairman should be independent.	Neil Donaldson and his successor Rachel Beagles, are independent of Martin Currie Investment Management Limited ('the investment manager'). The board considers that none of their other commitments interfere with the discharge of their responsibilities to the company, and is satisfied that they make sufficient time available to serve the company effectively. The senior independent director, Andrew Irvine, leads the evaluation of the performance of the chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the chairman.
2 A majority of the board should be independent of the manager.	The board consists of six non-executive directors, each of whom is considered independent.
3 Directors should be elected for a fixed term of no more than three years. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	Directors are initially appointed until the following annual general meeting when, under the company's articles of association, it is required that they be elected by shareholders. Although not a FTSE 350 company, the board has decided that all directors will stand for annual re-election in line with the UK Corporate Governance Code best practice.
4 The board should have a policy on tenure, which is disclosed in the annual report.	<p>The board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the board will take into account the ongoing requirements of the AIC Code, including the need to refresh the board and its committees.</p> <p>The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the company's registered office and at the annual general meeting.</p> <p>As a result of the board's evaluation process, it confirms that all directors continue to be effective directors and their re-election is recommended.</p>
5 There should be full disclosure of information about the board.	Biographies of each director can be found on the website and in the 2016 annual report and accounts.
6 The board should aim to have a balance of skills, experience, length of service and knowledge of the Company.	A review of board composition and balance is included as part of the annual performance evaluation of the board as disclosed in the 2016 annual report and accounts. The skills and experience of each director are detailed in their biographies.
7 The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	Board evaluation questionnaires are drawn up by the company secretary, and completed by each director. The responses are collated and discussed. The chairman leads the evaluation of the board and individual directors while the senior independent director leads the evaluation of the chairman's performance. The board has given consideration to appointing an external board evaluator, however, it does not believe it is necessary at this time.

The Board

AIC code principle	Company compliance
8 Director remuneration should reflect their duties, responsibilities and the value of their time spent.	The board's policy is that the remuneration of directors should reflect the experience of the board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have similar investment objectives. Further details can be found in the directors' remuneration report in the 2016 annual report and accounts.
9 The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.	The board plans for its own succession with the assistance of the nominations committee. This process ordinarily involves the identification of the need for a new appointment, and the preparation of a brief including a description of the role and specification of the capabilities required. The nominations committee seeks assistance in identifying suitable candidates from specialist recruitment consultants, the board's own contacts, and its professional advisers as is appropriate for the particular appointment.
10 Directors should be offered relevant training and induction.	The investment manager and company secretary provide all directors with induction training on appointment tailored to the needs of individual appointees. The induction programme includes one-on-one meetings with representatives of the investment manager. Upon appointment, each director is provided with a summary of the responsibilities and duties of directors, together with relevant background information on the company. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the company and directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts. Board meetings regularly include agenda items on recent developments in governance and industry issues. Training requirements are discussed between the chairman and each individual director during the annual performance appraisal.
11 The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.	Not applicable.

Board meetings and relations with the manager

AIC code principle	Company compliance
12 Boards and managers should operate in a supportive, co-operative and open environment.	The board meets formally at least six times per year. Representatives of the investment manager attend all of the board meetings and certain committee meetings.
13 The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.	<p>The board has a schedule of matters specifically reserved to it for decision. These include the approval of budgets, investment and performance objectives and policies, the approval of the company's financial statements and published reports, the appointment of directors, the investment manager and company secretary, the approval of borrowings by the company (gearing), any investments over a certain threshold and all investments into collective funds managed by the investment manager.</p> <p>Prior to each meeting, directors are provided with a comprehensive set of papers giving detailed information on the company's transactions, financial position and performance. The investment manager ensures that all directors have timely access to all relevant management, financial and regulatory information.</p>
14 Boards should give sufficient attention to overall strategy.	The board reviews detailed board papers at each meeting, concentrating on recent performance, outlook, discount and peer group performance. Based on this information it discusses in detail the position of the company giving consideration to the overall strategy. The board also holds a formal strategy session in January each year.
15 The Board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self managed company).	The investment management and secretarial agreement were entered into after full and proper consideration by the board of the quality and cost of services offered including the financial control systems in operation in so far as they relate to the affairs of the company, and each contract and the performance of the manager thereunder is monitored on an annual basis by the management engagement committee.

Board meetings and relations with the manager

AIC code principle	Company compliance
16 The Board should agree policies with the manager covering key operational issues.	The board has agreed detailed investment guidelines with the investment manager and takes the opportunity to review them at every board meeting. Furthermore, the board monitors policies in relation to share repurchasing, cash management, compliance with the UK stewardship code and voting policies.
17 Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	<p>The board considers the discount/premium of the company at every board meeting.</p> <p>The board has a share repurchase programme that seeks to address imbalances in the supply and demand for the company's shares within the market.</p> <p>The company has the authority to repurchase shares at any time. If the average discount exceeds 7.5% in the 12 weeks prior to the financial year-end, a redemption opportunity is triggered.</p>
18 The Board should monitor and evaluate other service providers.	The management engagement committee meets to review the continuing appointment of the investment manager and reviews the terms of the investment management and secretarial agreement, to ensure that it remains competitive and in the best interests of shareholders. The audit committee reviews the continuing appointment of other key service providers.

Shareholder communications

AIC code principle	Company compliance
19 The Board should regularly monitor the shareholder profile of the Company and put in place a system for canvassing shareholder views and for communicating the Board's view to shareholders.	<p>The board regularly monitors the shareholder profile of the company. All shareholders have the opportunity, and are encouraged, to attend the company's annual general meeting at which the directors and representatives of the investment manager are available in person to meet shareholders and answer their questions.</p> <p>In addition, the portfolio manager gives a presentation reviewing the company's performance and answers questions from shareholders as necessary.</p> <p>The investment manager provides a dedicated client services team which maintains regular contact with the company's shareholders and reports regularly to the board.</p> <p>The directors are made fully aware of shareholder views.</p> <p>The directors may be contacted through the company secretary whose details are shown on the back page of the annual report and accounts. The directors can also be contacted via enquiries@martincurrie.com.</p> <p>Shareholders and potential investors may obtain up-to-date information on the company through the company's website www.securitiestrust.com.</p>
20 The board should normally take responsibility for, and have direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.	<p>The board has a marketing and communications committee which meets at least twice a year to review the marketing strategy of the company and any communication with its shareholders.</p> <p>In addition, the board receives a marketing paper and update at every board meeting.</p>
21 The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares.	<p>The company places great importance on communication with shareholders. It aims to provide shareholders with a full understanding of the company's activities and performance and reports formally to shareholders twice a year by way of the annual report and the half-yearly report. The company's website is regularly updated.</p> <p>This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the company's shares, the periodic interim management statement and monthly updates.</p>