Business Markets

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Buy, sell or hold: today's best share tips

Mixed bag has good, bad and the ugly

SCOTTISH INVESTMENT TRUST Net assets per **Dividend yield** share 853p 1.8%

viva has been gradually selling stakes in various investment trusts it _acquired when it bought Friends Life in 2015. Two went out last £929m year, including Witan, a Total value of favourite of this column. assets Two more exits have just been announced. One is Scottish Investment Trust, in which Aviva has a near-12 per cent stake. The shares are being



Ten biggest holdings, end of January	
Stock	% of assets
Treasury Wine Estates, Australia	4.6%
Microsoft, US	3.7%
Sands China, China	3.5%
Rentokil Initial, UK	3.3%
Glaxosmithkline, UK	3.0%
Severn Trent, UK	3.0%
Tesco, UK	2.8%
Standard Chartered, UK	2.6%
ING, Holland	2.6%
Sumitomo Mitsui Financial, Japan	2.5%

bought at a 10.75 per cent discount to net asset value and cancelled by the trust. This is a largely positive

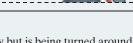
move for its shareholders, because the way the maths works out is to provide a 1.3 per cent uplift in that net asset value. Scottish is a bit of an oddity. The trust dates back to 1887 but until a new manager, Alasdair McKinnon,

took over a couple of years ago

was not terribly well known or appreciated. Attempts have been made since to raise its profile. Assets are more than £900 million, while charges, at 0.49 per cent, are relatively low.

The number of investments is a bit over 60 and at first sight they do not make a lot of sense, spread across a number of different territories and sectors. This is because the managers divide investments into three categories: "ugly ducklings" that are unappreciated by the market and where the price has fallen too far; "changes afoot" where action has been taken but is again not appreciated yet; and "more to come".

This form of contrarian investment can be very successful if you get your timing right, and for the past couple of years the trust's net assets have been rising sharply. The biggest holding is in an Australian wine producer that owns the Penfolds and Wolf Blass brands. This had been performing



poorly but is being turned around by new management.

Microsoft hardly seems to fit into any of those three categories, but the managers believe the market has yet to latch on to the shift from selling PCs to a subscription model for software that offers more reliable earnings and that the price earnings multiple fails to reflect this. Sands China is a Macau casinos operator also being turned around but offering an 8 per cent dividend yield.

Also there on income grounds are Severn Trent and Marks & Spencer. That spread of investments and shrewd stock picking are the main reasons for buying.

MY ADVICE Buv

WHY The range of investments may at first sight look random but the team has a good record for contrarian stock picking

> THE SUNDAY TIMES 08.01.17

THE SUNDAY TIMES

Edinburgh trust is booming by turning ugly ducklings into swans



e're going to be a lot noisier," Scottish Investment Trust manager Alasdair McKinnon gleefully told me last week after the venerable institution unveiled a bumper 29.4% increase in net asset value for 2016 and a 40% hike in dividends to shareholders.

The trust, which celebrates its 130th anniversary this year, used to be one of those quiet, respectable, steady ships for those content with small returns.

All that changed two years ago when the trust's board sacked more than half its staff, installed McKinnon as investment manager, and embarked on a more adventurous investment strategy focused on what he calls "ugly ducklings".

Of course the trust was also boosted by the post-Brexit slump in sterling, which has helped the overseas holdings of most global funds. But the Edinburgh group outperformed nearly all other UK global investment trusts last year.

Moreover, it has done so with a small in-house team of just four,

as opposed to outsourcing its portfolio to myriad advisers-the approach adopted by many of its peers, including most recently its equally venerable Dundee-based rival, Alliance Trust.

McKinnon was somewhat less noisy about the fate of the trust's biggest external shareholder, Aviva, which spent most of last year selling its stakes in global investment trusts.

Aviva owns 12% of the trust's shares, and last month analysts at Winterflood Securities said a disposal would likely require a "corporate solution". This could mean a tender offer to buy out Aviva or a merger with another trust. "We're delighted to have

anyone as a shareholder," McKinnon rather quietly intimated. He was equally cov about any potential merger. "We're one of the lowest-cost investment trusts out there, so the board are very happy with things as they stand.

Turning up the volume again, McKinnon added: "We want to create demand for our shares. Right now we've got four years of dividend reserves, so we can pay a regular dividend for that period even if we have no income from our portfolio."

And with its shares up almost 19% on the year, there's a lot for McKinnon and the trust to be noisy about.

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