

Results for the six months to 30 April 2014

The Scottish Investment Trust PLC invests internationally and is independently managed. It is categorised as a global growth trust by the Association of Investment Companies.

Commenting on the results, Chairman, Douglas McDougall said:-

In the six months to 30 April 2014, the net asset value per share (NAV) total return was -2.8% (with borrowings at market value). The share price total return over the period was -2.7%. The FTSE All-World Index total return was +0.4% and the UK FTSE All-Share Index total return was +2.7%. The share price discount to ex-income NAV ended the period at 9.1% (with borrowings at market value).

Global stockmarkets were volatile over the period with the modest gains made by the global index in local currency terms eroded by broadly-based strength in sterling.

Equity markets rose early in the company's financial year, particularly following the announcement from the US Federal Reserve that it would commence, in January, its long mooted 'tapering' process, whereby quantitative easing stimulus is gradually withdrawn. However, these gains then evaporated on concerns about the projected pace of 'tapering', deflation risks in Europe and a deteriorating economic outlook in China and emerging economies. Markets recovered in February as a weather-related slowdown in the US economy raised hopes that the 'tapering' process would be elongated while concerns over the Chinese financial system eased. Over the remainder of the period, global stockmarkets eked out further modest gains against a backdrop of uncertainty, exacerbated by political tension in the Ukraine, continued weak news flow from China and an expectation that US interest rates could rise in 2015. Increased risk aversion prompted a major rotation of stockmarket leadership as biotechnology, consumer and internet stocks sold-off sharply to the benefit of emerging markets and other segments which had lagged previously. Corporate activity increased sharply in a number of industries towards the end of the period, with the healthcare industry featuring prominently.

Dividend income was lower than at this stage a year ago reflecting the strength of income generation last year, a stronger pound, portfolio changes and a lower level of invested assets, with average gearing falling from 7.6% in the comparable period to 0.4% (with borrowings at market value). The board has declared an unchanged interim dividend of 4.80p per share (2013: 4.80p) which will be paid on 21 July 2014.

The equity portfolio return deducted 2.2% from NAV relative performance with all of the underperformance occurring during the aforementioned spell of turbulent change in stockmarket leadership in the six weeks at the very end of the period. The total return on the company's equity portfolio is ahead of the global comparator index over 3, 5 and 10 years.

Portfolio activity featured a net addition to equities of £18.3m with the Health Care and Oil & Gas industries being added to and reductions in Industrials. By region, North America and Europe (ex UK) saw additions at the expense of UK and Asia Pacific (ex Japan). Largest individual gains were achieved in Health Care industry stocks Coloplast (Denmark) and Hikma Pharmaceuticals (UK). Weakness was seen over the period in some internet exposed holdings.

The company operates a share buyback policy which is intended to keep the discount to ex-income NAV at or below 9% (with borrowings at market value). Over the first half of the financial year, the company repurchased for cancellation 0.4m shares (2013: 0.9m) accounting for 0.4% of the shares in issue at the start of the period, at an average discount of 9.6% and a cost of £2.5m inclusive of dealing expenses. The average discount over the first half of the year was 9.2% and the average discount since the introduction of the scheme has been 8.8%.

Investment trusts have become subject to the EU Alternative Investment Fund Managers Directive (AIFMD), which passed into UK regulation in 2013. The company has appointed its existing FCA regulated subsidiary SIT Savings Limited as its proposed Alternative Investment Fund Manager (AIFM) and the company's application for regulatory approval has been submitted. Compliance with this directive will increase the administration costs of the company but by a smaller amount than initially expected.

Shareholders will be aware that there is to be a referendum on Scottish independence to be held in September. The Scottish government has indicated that March 2016 would be the intended date for implementation of independence should the vote be “yes”. In the event of such a vote, which opinion polls have consistently suggested is unlikely, the board should therefore have at least eighteen months to see how the structure evolves and to react accordingly. The board is determined to take whatever action is necessary to protect the interests of all our shareholders and has been reviewing options.

Last year’s interim results statement commented that the long-standing imbalances in the world economy remained unresolved. One year on, the overall situation is not materially different other than global stockmarkets are markedly higher in local terms and standing on even less attractive valuations.

Corporate profit margins in some major areas remain elevated by historical standards and stockmarkets are supported in part at least by central bank stimulus and, particularly in the US, significant share buybacks. US corporate cash held offshore is starting to drive merger and acquisition activity and this may continue and add support to equity markets. However, long-term bond yields have again turned down reflecting renewed deflation concerns against a backdrop of subdued economic activity globally and with China still a particular concern.

In view of this outlook, the board feels that it is prudent to retain most of the company’s borrowings in cash pending more suitable long-term buying opportunities.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are investment and market price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. An additional risk facing the business is potential adverse consequences of the upcoming referendum on Scottish independence.

Responsibility statement

The board of directors confirms that to the best of its knowledge:

- a) the condensed set of financial statements, which has been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, gives a true and fair view of the assets, liabilities, financial position and return of the company;
- b) the interim results include a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties the company faces; and
- c) no material transactions with related parties took place during the first six months of the financial year other than fees payable to directors.

For and on behalf of the board

Douglas McDougall
Chairman

6 June 2014

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THE SCOTTISH INVESTMENT TRUST PLC

SUMMARY OF RESULTS (UNAUDITED)

For the six months to 30 April 2014

	30 April 2014	31 October 2013	Change %	Total return %
NAV with borrowings at market value	641.3p	668.4p	(4.0)	(2.8)
NAV with borrowings at par	655.0p	682.7p	(4.1)	(2.8)
Ex-income NAV with borrowings at market value	636.1p	659.7p	(3.6)	
Ex-income NAV with borrowings at par	649.8p	674.0p	(3.6)	
Share price	578.5p	603.0p	(4.1)	(2.7)
Discount to ex-income NAV with borrowings at market value	9.1%	8.6%		
FTSE All-World Index			(0.8)	0.4
UK FTSE All-Share Index			1.0	2.7
	£'000	£'000		
Equity investments	727,599	731,373		
Net current assets	96,776	126,172		
Total assets	824,375	857,545		
Long-term borrowings at par	(104,225)	(104,167)		
Pension liability	(2,560)	(2,560)		
Shareholders' funds	717,590	750,818		
	Six months to 30 April 2014	Six months to 30 April 2013		
	£'000	£'000		
Total income	9,338	11,605		
Earnings per share	5.22p	7.15p		
Interim dividend per share	4.80p	4.80p		
UK Consumer Prices Index – annual inflation			1.8	
UK Retail Prices Index – annual inflation			2.5	

NAV RELATIVE PERFORMANCE ATTRIBUTION ANALYSIS
Six months to 30 April 2014

	%
NAV total return (with borrowings at market value)	-2.8
FTSE All-World Index total return	+0.4
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Relative performance	-3.2
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Total equities	-2.2
Gearing	+0.0
Other income, tax and currency	-0.3
Buybacks	+0.0
Interest and expenses	-0.8
Change in market value of borrowings	+0.1
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Relative performance	-3.2
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DISTRIBUTION OF SHAREHOLDERS' FUNDS

By Industry	30 April	31 October	By Region	30 April	31 October
	2014	2013		2014	2013
	%	%		%	%
Oil & Gas	12.1	9.7	UK	19.1	19.9
Basic Materials	4.0	3.9	Europe (ex UK)	32.6	27.3
Industrials	13.3	15.1	North America	32.2	24.8
Consumer Goods	11.7	10.7	Latin America	2.3	3.5
Health Care	12.2	9.2	Japan	4.3	5.8
Consumer Services	8.6	8.9	Asia Pacific (ex Japan)	11.6	16.3
Telecommunications	6.9	7.1	Middle East & Africa	1.1	1.5
Utilities	2.6	1.9	Unlisted	0.4	0.4
Financials	20.2	21.2	Total equities	103.6	99.5
Technology	12.0	11.8	Net current assets	13.8	17.1
Total equities	103.6	99.5	Borrowings at market value	(17.0)	(16.3)
Net current assets	13.8	17.1	(Gearing)/net cash	(3.2)	0.8
Borrowings at market value	(17.0)	(16.3)	Pension liability	(0.4)	(0.3)
(Gearing)/net cash	(3.2)	0.8	Shareholders' funds	100.0	100.0
Pension liability	(0.4)	(0.3)			
Shareholders' funds	100.0	100.0			

INCOME STATEMENT (UNAUDITED)

	Six months to 30 April 2014			Six months to 30 April 2013			Year to 31 October 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net (losses)/ gains on investments held at fair value through profit and loss	-	(22,092)	(22,092)	-	97,014	97,014	-	136,910	136,910
Net (losses)/gains on currencies	-	(2,315)	(2,315)	-	1,567	1,567	-	(838)	(838)
Income	9,338	-	9,338	11,605	-	11,605	22,290	-	22,290
Expenses	(1,506)	(1,046)	(2,552)	(1,491)	(1,036)	(2,527)	(3,016)	(2,094)	(5,110)
Net Return before Finance Costs and Taxation	7,832	(25,453)	(17,621)	10,114	97,545	107,659	19,274	133,978	153,252
Interest payable	(1,547)	(1,548)	(3,095)	(1,547)	(1,548)	(3,095)	(3,096)	(3,095)	(6,191)
Return on Ordinary Activities before Tax	6,285	(27,001)	(20,716)	8,567	95,997	104,564	16,178	130,883	147,061
Tax on ordinary activities	(551)	-	(551)	(623)	-	(623)	(1,314)	-	(1,314)
Return attributable to Shareholders	5,734	(27,001)	(21,267)	7,944	95,997	103,941	14,864	130,883	145,747
Return per Share	5.22p	(24.58)p	(19.36)p	7.15p	86.35p	93.50p	13.41p	118.07p	131.48p
Weighted average number of shares in issue		109,867,711			111,163,600			110,847,197	
	£'000			£'000			£'000		
Dividends proposed and paid	5,259			5,324			14,777		
The income figure is made up as follows:-									
Dividends	9,050			11,868			22,380		
Interest	120			55			142		
Gains/(losses) on FX forwards	168			(318)			(232)		
	<u>9,338</u>			<u>11,605</u>			<u>22,290</u>		

SUMMARY BALANCE SHEET (UNAUDITED)

	30 April 2014 £'000	31 October 2013 £'000	30 April 2013 £'000
Equity investments	727,599	731,373	737,955
Net current assets	96,776	126,172	88,749
Total assets	824,375	857,545	826,704
Long-term borrowings at par	(104,225)	(104,167)	(104,109)
Pension liability	(2,560)	(2,560)	(2,506)
Shareholders' funds	717,590	750,818	720,089
NAV with borrowings at par	655.0p	682.7p	649.2p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (UNAUDITED)

	Six months to 30 April 2014 £'000	Six months to 30 April 2013 £'000	Year to 31 October 2013 £'000
Total recognised (losses)/gains	(21,267)	103,941	145,432*
Total recognised (losses)/gains per share	(19.36)p	93.50p	131.20p

* Includes actuarial deficit of £315,000

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (UNAUDITED)

	Six months to 30 April 2014 £'000	Six months to 30 April 2013 £'000	Year to 31 October 2013 £'000
Opening shareholders' funds	750,818	628,244	628,244
Total recognised (losses)/gains	(21,267)	103,941	145,432
Dividend payments	(9,453)	(7,395)	(12,719)
Share buybacks	(2,508)	(4,701)	(10,139)
Closing shareholders' funds	717,590	720,089	750,818

CASH FLOW STATEMENT (UNAUDITED)

	Six months to 30 April 2014 £'000	Six months to 30 April 2013 £'000	Year to 31 October 2013 £'000
Net cash inflow from operating activities	4,976	6,344	15,509
Servicing of finance	(3,038)	(3,038)	(6,075)
Taxation recovered	32	253	340
Purchases of investments	(195,328)	(132,468)	(257,852)
Disposals of investments	176,655	127,697	295,980
Dividends paid	(9,453)	(7,395)	(12,719)
Decrease/(increase) in current asset investments and short-term deposits	27,852	8,171	(41,410)
Share buybacks	(2,878)	(4,879)	(9,697)
Decrease in cash	(1,182)	(5,315)	(15,924)

NOTES:-

The interim accounts have been prepared under accounting policies consistent with those used in the preparation of the annual report and accounts for the year to 31 October 2013. The interim accounts of the company have been prepared on a going concern basis. It is the opinion of the directors that, as most of the company's assets are readily realisable and exceed its liabilities, it is expected that the company will continue in operational existence for the foreseeable future.

The figures for 31 October 2013 have been extracted from the annual report and accounts for the year ended on that date which have been filed with the Registrar of Companies and which contain an unqualified report from the auditors.

Based on the number of shares in issue at 30 April 2014, the interim dividend will cost £5,259,000 (2013 - £5,324,000) and is payable on 21 July 2014 to shareholders registered at 20 June 2014. The shares will be traded 'ex' the interim dividend from 18 June 2014 and investors purchasing on or after that date will not be entitled to the interim dividend for 2013/14.

Equity investments include the unlisted portfolio of £2.3m (31 October 2013 - £3.3m).

The weighted average number of shares in issue during the half-year was 109,867,711 (2013 - 111,163,600) and this figure has been used in calculating the return per share shown in the income statement. The net asset value per share at 30 April 2014 has been calculated using the number of shares in issue on that date which was 109,555,926 (31 October 2013 - 109,979,926).

Analysis of changes in net debt

	31 October 2013 £'000	Cash flows £'000	Non-cash Movements £'000	30 April 2014 £'000
Cash	8,785	(1,182)	-	7,603
Short-term deposits	114,774	(27,852)	-	86,922
Long-term borrowings at par	(104,167)	-	(58)	(104,225)
	19,392	(29,034)	(58)	(9,700)

Glossary:-

Total assets means total assets less current liabilities.

NAV is net asset value per share after deducting borrowings at par or market value, as stated.

Ex-income NAV is the NAV excluding current year revenue.

Borrowings at par is the nominal value of the borrowings less any unamortised issue expenses.

Borrowings at market value is the company's estimate of the "fair value" of its borrowings. The current estimated fair value of the company's borrowings is based on the redemption yield of the relevant reference gilt plus a margin derived from the spread of BBB UK corporate bond yields (15 years +) over UK gilt yields (15 years +). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest dated UK Treasury Stock listed in the Financial Times.

Discount is the difference between the market price of a share and the NAV expressed as a percentage of the NAV.

Gearing is the term used to describe the process of borrowing money for investment purposes in the expectation that the returns on the investments purchased will exceed the cost of those borrowings.

Gross gearing is the geared position if all the borrowings were invested in equities: Borrowings expressed as a percentage of shareholders' funds.

Gearing is the true geared position of the company: Borrowings less cash and equivalents expressed as a percentage of shareholders' funds.

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