

# The Scottish Investment Trust PLC

## Results for the six months to 30 April 2015

*The Scottish Investment Trust PLC invests internationally and is independently managed. Its objective is to provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation. Today it announces its results for the six months to 30 April 2015. It is categorised as a global trust by the Association of Investment Companies.*

### Chairman's Review

#### Performance and Commentary

In the six months to 30 April 2015, the net asset value per share (NAV) total return was +9.8%.<sup>1</sup> The share price total return over the same period was +9.4%.

The portfolio is not modelled on any index and, as a consequence, the company does not have a formal benchmark. Performance is instead reviewed in the context of returns from broad baskets of international and UK equities. Over the review period, the FTSE All-World Index™ total return was +9.6% and the UK FTSE All-Share Index™ total return was +9.2%.

Global stockmarkets made a strong start to the financial year, driven by further monetary stimulus from central banks. Tepid economic growth prospects and renewed concerns about deflation led to extended deployment of negative interest rates and in some cases, negative government bond yields.

The European Central Bank launched an inaugural one trillion euro quantitative easing (QE) programme, while Japan extended its programme. The US Federal Reserve continued to moot an increase in interest rates but expectations of when this would occur were pushed back.

The equity portfolio returned 10.5% with its overall structure little changed since the year-end. As we rationalised our holdings, we reduced Health Care and Technology and added to Utilities and the consumer sectors. On a regional basis, the largest move was from North America into Japan, as Japanese companies have made clear efforts to operate in a more shareholder-friendly manner.

Our Consumer Goods holdings produced the highest total return for the portfolio, with a gain of £16.2m. The largest contribution was from Pandora, whose branded jewellery remains very popular, while G-III Apparel enjoyed success with the Calvin Klein brand in the US. Continental and Toyota Motor both benefited from strength in the global automotive sector.

Industrials returned £15.3m, helped by a weak euro and economic recovery in the eurozone. The largest individual gains were from Dürr, which made a well-received acquisition, and Adecco, the Switzerland-based recruitment agency. The only loss was from Weir, which we sold, as demand slowed for commodity extraction.

Financials were the largest constituent of the portfolio throughout the period and produced a gain of £13.9m. The largest holding, Sampo, delivered a solid performance and an increased dividend. British Land benefited from a strong UK commercial property market, while Sumitomo Mitsui Financial Group gained on the improved outlook for Japan.

Technology holdings returned £9.2m. Our Chinese internet holdings delivered a mixed performance with a good gain from Tencent but a loss from Baidu. Apple enjoyed particularly strong new iPhone sales and NXP Semiconductors made a potentially transformational acquisition. We lost confidence in the prospects for SanDisk and sold our holding, while Qualcomm suffered from regulatory concerns.

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<sup>1</sup> NAV with borrowings at market value. Total return is the combination of capital and income.

Our Consumer Services holdings produced a return of £7.8m, with the largest individual gain from US retailer Ross Stores. Comcast gained from increased internet broadband usage but withdrew from a proposed deal for Time Warner Cable. Sands China suffered from a slowdown in gaming revenues in Macau, while a new purchase of Wal-Mart Stores proved ill-timed as operating costs increased.

Health Care holdings made a gain of £7.5m, with the largest contribution from UnitedHealth, which continues to benefit from developments in the US healthcare market. Biogen also gained owing to strong sales of their multiple sclerosis drug. We took profits in healthcare holdings which had appreciated strongly since purchase.

Within Telecommunications, our holdings produced a return of £6.4m. The largest gain was from BT as the proposed acquisition of mobile operator EE was well received.

Our Utilities holdings returned £2.8m, with the largest gain from China-based gas utility ENN Energy. Engie (formerly GDF Suez) made a small loss for the portfolio. We made a substantial investment in United Utilities, which has attractive infrastructure assets and offers a reliable, growing dividend yield.

Basic Materials made a modest gain of £1.5m, driven by our Chemicals holdings. Brazilian mining company Vale suffered due to the decline in the iron ore price.

Our Oil & Gas holdings were flat over the period. The oil price fell heavily, which hurt the value of Royal Dutch Shell and National Oilwell Varco, while we sold Continental Resources for a loss. More positively, one of the larger gains in the portfolio was from Baker Hughes which was the subject of a takeover bid.

### **Gearing, Income and Dividends**

Gearing was modestly increased from 4% to 5% over the period. Total income, which increased by 27% compared to a year ago, has benefited from a decision to increase gearing as well as from portfolio changes and special dividends. The board has declared an interim dividend of 5.00p per share (2014: 4.80p), an increase of 4.2%.

### **Discount and Share Buybacks**

The discount at which the share price trades to the NAV was again broadly stable and finished the period at 9% based on the ex-income NAV with borrowings at market value. The company has a formal policy that aims to maintain the discount at or below 9%. During the period 0.6m shares were purchased for cancellation (2014: 0.4m) at an average discount of 9.6% and a cost of £3.6m (2014: £2.5m).

### **Appointment of Manager**

Alasdair McKinnon was appointed Manager of the company in February 2015 after serving as Acting Manager since July 2014.

### **Board Composition**

Ian Hunter was appointed a non-executive Director in December 2014 and elected at the annual general meeting held in January 2015. Ian is a chartered accountant and member of the Chartered Institute of Taxation. Throughout his career he has been heavily involved in advising investment trust companies.

### **Outlook**

Politicians and central bankers remain scarred by the financial crisis of 2008/9 and do not wish to destabilise investment markets; low or even negative interest rates have driven up the valuation of equities and bonds. While we worry about how this cycle will end, we take comfort from the belief that our portfolio consists of sound companies, and the uninvested portion of our long-term debt provides around £55m of fire power against the possibility of a setback in equity markets.

## ***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. These are listed on Page 6 of the 2014 Annual Report and Accounts and they are unchanged from that year. An explanation of these risks and how they are managed is set out in note 17 on pages 39 to 44 of the Annual Report and accounts.*

## ***Responsibility Statement***

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

- a) the condensed set of financial statements, 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;*
- c) the interim results, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy; and*
- d) 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

1 June 2015

For further information, please contact:-

Alasdair McKinnon, Manager

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## SUMMARY OF RESULTS (UNAUDITED)

Six months to 30 April 2015

	<b>30 April 2015</b>	31 October 2014	Change %	Total return %
NAV with borrowings at market value	<b>718.9p</b>	661.6p	8.7	9.8
NAV with borrowings at par	<b>742.3p</b>	679.5p	9.2	10.4
Ex-income NAV with borrowings at market value	<b>711.1p</b>	654.8p	8.6	
Ex-income NAV with borrowings at par	<b>734.4p</b>	672.7p	9.2	
Share price	<b>646.5p</b>	598.0p	8.1	9.4
Discount to ex-income NAV with borrowings at market value	<b>9.1%</b>	8.7%		
FTSE All-World Index			8.4	9.6
UK FTSE All-Share Index			7.3	9.2
	<b>£'000</b>	<b>£'000</b>		
Equity investments	<b>841,752</b>	767,179		
Net current assets	<b>63,108</b>	74,010		
Total assets	<b>904,860</b>	841,189		
Long-term borrowings at par	<b>(104,340)</b>	(104,283)		
Pension liability	<b>(2,613)</b>	(2,613)		
Shareholders' funds	<b>797,907</b>	734,293		
	<b>Six months to 30 April 2015</b>	Six months to 30 April 2014		
	<b>£'000</b>	<b>£'000</b>	%	
Total income	<b>11,858</b>	9,338		
Earnings per share	<b>7.82p</b>	5.22p		
Interim dividend per share	<b>5.00p</b>	4.80p	4.2	
UK Consumer Prices Index – annual inflation			(0.1)	
UK Retail Prices Index – annual inflation			0.9	

**NAV RELATIVE PERFORMANCE ATTRIBUTION**  
Six months to 30 April 2015

Relative to FTSE:	All-World	All-Share (UK)
	%	%
NAV total return (with borrowings at market value)	+9.8	+9.8
Index total return	+9.6	+9.2
Relative performance	+0.2	+0.6
Total equities	+0.9	+1.3
Gearing	+0.8	+0.8
Other income, tax and currency	-0.1	-0.1
Buybacks	+0.1	+0.1
Interest and expenses	-0.7	-0.7
Change in market value of borrowings	-0.8	-0.8
Relative performance	+0.2	+0.6

**DISTRIBUTION OF SHAREHOLDERS' FUNDS**

By Industry	30 April	31 October	By Region	30 April	31 October
	2015	2014		2015	2014
	%	%		%	%
Oil & Gas	10.6	12.1	UK	21.0	20.1
Basic Materials	4.1	3.3	Europe (ex UK)	32.4	31.3
Industrials	10.6	11.5	North America	33.9	35.5
Consumer Goods	13.7	11.0	Latin America	1.6	2.2
Health Care	9.9	12.1	Japan	6.8	4.1
Consumer Services	9.9	8.0	Asia Pacific (ex Japan)	8.8	9.5
Telecommunications	7.0	7.4	Middle East & Africa	0.7	1.5
Utilities	6.2	4.1	Unlisted	0.3	0.3
Financials	20.7	20.0	Total equities	105.5	104.5
Technology	12.8	15.0	Net current assets	7.9	10.1
Total equities	105.5	104.5	Borrowings at par	(13.1)	(14.2)
Net current assets	7.9	10.1	Gearing	(5.2)	(4.1)
Borrowings at par	(13.1)	(14.2)	Pension liability	(0.3)	(0.4)
Gearing	(5.2)	(4.1)	Shareholders' funds	100.0	100.0
Pension liability	(0.3)	(0.4)			
Shareholders' funds	100.0	100.0			

## CHANGES IN ASSET DISTRIBUTION BY INDUSTRY

	31 October 2014 £m	Net purchases (sales) £m	30 April 2015 £m	Appreciation (depreciation) £m	Dividend income £m	Total return £m
Oil & Gas	89.1	(3.6)	<b>84.3</b>	(1.2)	1.3	0.1
Basic Materials	24.3	7.0	<b>32.4</b>	1.1	0.4	1.5
Industrials	84.9	(14.1)	<b>85.0</b>	14.2	1.1	15.3
Consumer Goods	80.6	13.7	<b>109.1</b>	14.8	1.4	16.2
Health Care	88.5	(16.3)	<b>78.7</b>	6.5	1.0	7.5
Consumer Services	58.8	13.3	<b>79.3</b>	7.2	0.6	7.8
Telecommunications	54.0	(4.0)	<b>55.7</b>	5.7	0.7	6.4
Utilities	30.0	17.7	<b>49.9</b>	2.2	0.6	2.8
Financials	147.1	8.2	<b>165.5</b>	10.2	3.7	13.9
Technology	109.9	(16.3)	<b>101.8</b>	8.2	1.0	9.2
Total equities	767.2	5.6	<b>841.7</b>	68.9	11.8	80.7
Net current assets	74.0	(11.0)	<b>63.1</b>			
Total assets	841.2	(5.4)	<b>904.8</b>			
Long-term borrowings at par	(104.3)	(0.1)	<b>(104.3)</b>			
Pension liability	(2.6)	-	<b>(2.6)</b>			
Shareholders' funds	734.3	(5.5)	<b>797.9</b>			

**LIST OF INVESTMENTS as at 30 April 2015**

<b>Listed equities</b>			Market value				Market value
Holding	Country	£'000		Holding	Country	£'000	
Sampo	Finland	27,651		NCC	Sweden	7,152	
UnitedHealth	US	24,129		Inditex	Spain	7,130	
Microsoft	US	21,224		GKN	UK	7,125	
Pandora	Denmark	19,537		Aeropuerto del Sureste	Mexico	6,908	
United Utilities	UK	18,488		Vinci	France	6,670	
Comcast	US	18,125		NXP Semiconductors	US	6,505	
Severn Trent	UK	17,738		Associated British Foods	UK	6,414	
Sumitomo Mitsui Financial	Japan	17,652		Airbus	Netherlands	6,291	
Royal Dutch Shell	UK	16,622		Wirecard	Germany	6,268	
Roche	Switzerland	15,837		Glacier Bancorp	US	5,868	
British Land	UK	13,907		HSBC	UK	5,854	
Continental	Germany	13,904		Cedar Fair Entertainment	US	5,803	
Apple	US	13,799		Engie	France	5,693	
BNP Paribas	France	13,221		WPP	UK	5,626	
BT	UK	13,132		Avery Dennison	US	5,456	
Total	France	11,945		Goldman Sachs	US	5,395	
Persimmon	UK	11,736		Aspen Pharmacare	South Africa	5,261	
Johnson & Johnson	US	11,484		Rio Tinto	UK	5,106	
Baker Hughes	US	11,315		Spectris	UK	5,011	
Ross Stores	US	10,899		Tourmaline Oil	Canada	4,995	
ASML	Netherlands	10,830		Exxon Mobil	US	4,776	
Fuchs Petrolub	Germany	10,472		TGS-NOPEC Geophysical	Norway	4,698	
Coloplast	Denmark	10,302		BorgWarner	US	4,507	
US Bancorp	US	10,283		Fast Retailing	Japan	4,475	
BHP Billiton	UK	10,218		MedicX Fund	UK	4,384	
PepsiCo	US	10,212		Vivendi	France	4,314	
Dürr	Germany	10,038		National Oilwell Varco	US	4,102	
G-III Apparel	US	9,983		ING	Netherlands	4,022	
KDDI	Japan	9,891		Panasonic	Japan	4,021	
Tencent	China	9,868		Calumet Speciality Products	US	3,945	
BASF	Germany	9,703		Ambev	Brazil	3,907	
Toyota Motor	Japan	9,493		ANZ Banking	Australia	3,824	
Svenska Handelsbanken	Sweden	9,467		Pfizer	US	3,752	
Signature Bank	US	9,380		Amazon.com	US	3,430	
Verizon Communications	US	9,373		Advanced Info Service	Thailand	3,269	
DBS	Singapore	9,238		Freehold Royalties	Canada	3,110	
Telstra	Australia	9,065		Safran	France	3,045	
Deutsche Post	Germany	8,828		Vodafone	UK	2,689	
Sydney Airport	Australia	8,650		Sands China	Hong Kong	2,551	
Wal-Mart Stores	US	8,581		Vale	Brazil	1,952	
Qualcomm	US	8,467		<b>Total listed equities</b>		<b>839,676</b>	
Adecco	Switzerland	8,382					
Howden Joinery	UK	8,357		<b>Unlisted</b>			Market value
Sony	Japan	8,299		Holding	Country	£'000	
Telenor	Norway	8,280		Heritable Property & Subsidiaries	UK	1,227	
Chevron	US	8,275		Apax Europe V-B	UK	314	
Standard Life	UK	8,240		Boston Ventures	US	535	
Baidu	China	8,223		<b>Total unlisted</b>		<b>2,076</b>	
ENN Energy	China	7,977		<b>Total equities</b>		<b>841,752</b>	
Biogen	US	7,908					
SAP	Germany	7,905					
Capital One Financial	US	7,797					
Jardine Mathieson	Singapore	7,778					
Google	US	7,747					
Micro Focus International	UK	7,278					
Zurich Insurance	Switzerland	7,239					

### INCOME STATEMENT (UNAUDITED)

	Six months to 30 April 2015			Six months to 30 April 2014			Year to 31 October 2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains/(losses) on investments held at fair value through profit and loss	-	68,978	68,978	-	(22,092)	(22,092)	-	4,478	4,478
Net gains/(losses) on currencies	-	132	132	-	(2,315)	(2,315)	-	(1,993)	(1,993)
Income	11,858	-	11,858	9,338	-	9,338	19,854	-	19,854
Expenses	(1,390)	(966)	(2,356)	(1,506)	(1,046)	(2,552)	(2,884)	(2,003)	(4,887)
Net Return before Finance Costs and Taxation	10,468	68,144	78,612	7,832	(25,453)	(17,621)	16,970	482	17,452
Interest payable	(1,548)	(1,547)	(3,095)	(1,547)	(1,548)	(3,095)	(3,096)	(3,095)	(6,191)
Return on Ordinary Activities before Tax	8,920	66,597	75,517	6,285	(27,001)	(20,716)	13,874	(2,613)	11,261
Tax on ordinary activities	(479)	-	(479)	(551)	-	(551)	(1,298)	-	(1,298)
Return attributable to Shareholders	8,441	66,597	75,038	5,734	(27,001)	(21,267)	12,576	(2,613)	9,963
Return per Share	7.82p	61.72p	69.54p	5.22p	(24.58)p	(19.36)p	11.51p	(2.39)p	9.12p
Weighted average number of shares in issue		107,906,871			109,867,711			109,263,104	
	£'000			£'000			£'000		
Dividends proposed and paid	5,375			5,232			13,013		
The income figure is made up as follows:-									
Dividends	11,787			9,050			19,496		
Interest	71			120			250		
Gains on forward currency sales	-			168			108		
	<u>11,858</u>			<u>9,338</u>			<u>19,854</u>		

## SUMMARY BALANCE SHEET (UNAUDITED)

	<b>30 April 2015 £'000</b>	31 October 2014 £'000	30 April 2014 £'000
Equity investments	841,752	767,179	727,599
Net current assets	<b>63,108</b>	74,010	96,776
Total assets	<b>904,860</b>	841,189	824,375
Long-term borrowings at par	<b>(104,340)</b>	(104,283)	(104,225)
Pension liability	<b>(2,613)</b>	(2,613)	(2,560)
Shareholders' funds	<b>797,907</b>	734,293	717,590
NAV with borrowings at par	<b>742.3p</b>	679.5p	655.0p

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (UNAUDITED)

	<b>Six months to 30 April 2015 £'000</b>	Six months to 30 April 2014 £'000	Year to 31 October 2014 £'000
Total recognised gains/(losses)	<b>75,038</b>	(21,267)	9,468*
Total recognised gains/(losses) per share	<b>69.54p</b>	(19.36)p	8.67p

\* Includes actuarial deficit of £495,000

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (UNAUDITED)

	<b>Six months to 30 April 2015 £'000</b>	Six months to 30 April 2014 £'000	Year to 31 October 2014 £'000
Opening shareholders' funds	<b>734,293</b>	750,818	750,818
Total recognised gains/(losses)	<b>75,038</b>	(21,267)	9,468
Dividend payments	<b>(7,781)</b>	(9,453)	(14,685)
Share buybacks	<b>(3,643)</b>	(2,508)	(11,308)
Closing shareholders' funds	<b>797,907</b>	717,590	734,293

## CASH FLOW STATEMENT (UNAUDITED)

	Six months to 30 April 2015 £'000	Six months to 30 April 2014 £'000	Year to 31 October 2014 £'000
Net cash inflow from operating activities	6,778	4,976	13,367
Servicing of finance	(3,038)	(3,038)	(6,075)
Taxation recovered	30	32	54
Purchases of investments	(89,941)	(195,328)	(280,401)
Disposals of investments	80,253	176,655	259,082
Dividends paid	(7,781)	(9,453)	(14,685)
Decrease in short-term deposits	15,718	27,852	44,774
Share buybacks	(3,320)	(2,878)	(11,927)
(Decrease)/increase in cash	<u>(1,301)</u>	<u>(1,182)</u>	<u>4,189</u>

## 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 2014. 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 information contained in this report for the year ended 31 October 2014 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Where applicable, the figures have been extracted from the annual report and accounts for the year ended on that date which has been filed with the Registrar of Companies and which contains an unqualified report from the auditors. The financial information contained in this interim report does not constitute statutory accounts as defined in section 434-436 of the Companies Act 2006. The financial information for the six months ended 30 April 2015 and 30 April 2014 has not been audited.

Based on the number of shares in issue at 30 April 2015, the interim dividend will cost £5,375,000 (2014 - £5,232,000) and is payable on 20 July 2015 to shareholders registered at 19 June 2015. The shares will be traded 'ex' the interim dividend from 18 June 2015 and investors purchasing on or after that date will not be entitled to the interim dividend for 2014/15.

Equity investments include the unlisted portfolio of £2.1m (31 October 2014 - £2.4m).

The weighted average number of shares in issue during the half-year was 107,906,871 (2014 - 109,867,711) 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 2015 has been calculated using the number of shares in issue on that date which was 107,496,926 (31 October 2014 - 108,066,926).

The tax charge for the period is lower than that resulting from applying the standard rate of corporation tax in the UK of 21% for the year 2014/15 and 20% for the tax year 2015/16.

## ANALYSIS OF CHANGES IN NET DEBT

	31 October 2014 £'000	Cash flows £'000	Non-cash Movements £'000	30 April 2015 £'000
Cash	12,974	(1,301)	-	11,673
Short-term deposits	70,000	(15,718)	-	54,282
Long-term borrowings at par	(104,283)	-	(57)	(104,340)
	(21,309)	(17,019)	(57)	(38,385)

## 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 company's 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 existing 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.

**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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