

The Scottish Investment Trust PLC

Preliminary results for the year to 31 October 2014.

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 year to 31 October 2014.

Performance and Commentary

In the twelve months to 31 October 2014, the net asset value per share (NAV) total return was 1.0%.¹ The share price total return over the same period was 1.4%.

The portfolio is not modelled on any index and, to reflect this, the company does not have a formal benchmark. Performance is instead reviewed in the context of returns from broad baskets of UK and international equities. Over the same period, the FTSE All-World Index™ sterling total return was 8.8% and the FTSE All-Share Index™ total return was 1.0%.

The outlook for global economic growth slowed over the year as China and emerging markets proved a source of disappointment and Japanese reflationary measures known as ‘Abenomics’ were thwarted by a sales tax increase. The eurozone economy again flirted with a recession with further banking problems in the periphery and new, Russian sanctions-related, problems in the core countries.

The US economy endured a particularly harsh winter but the subsequent rapid recovery in economic activity was a source of positive surprise. The UK, although less important in a global context, was seen as the most dynamic economy although this view faded as the booming London housing market moderated late in the financial year.

Investors paid greatest heed to the machinations of the US Federal Reserve, which reduced and eventually ceased asset purchases (more commonly known as quantitative easing). The larger market corrections over the year were triggered by a realisation that the US Federal Reserve intended to persist with this policy of ‘tapering’ and was examining the prospects for an interest rate rise during 2015.

The disparity in growth prospects, and thus for stimulatory measures between the major economic regions, was a defining characteristic of the year. Investors anticipated interest rate increases in the US, which served to strengthen the US dollar late in the year and generally increased the attractiveness of US assets. In contrast, the eurozone, China and Japan were expected to enact further, currency-weakening, stimulatory measures. Sterling initially strengthened on suggestions of an interest rate rise but fell back against the US dollar as this prospect receded.

Gearing

Having started the year at a net cash position of 1%, gearing was gradually deployed to finish the year at 4%, with benefit to the income account.

¹ NAV (with borrowings at market value). Total return is the combination of capital and income.

Income and Dividends

Earnings per share were lower at 11.51p (2013: 13.41p), owing to a lower level of investment during the first part of the year and a higher contribution from special dividends in the preceding year.

The board recommends a final dividend of 7.20p per share (2013: 6.80p) which, if approved and combined with the interim dividend of 4.80p, will mean that the total regular dividend for the year will increase by 3.4% to 12.00p, ahead of the main measures of UK inflation.

This proposed dividend will entail the utilisation of 0.4p from revenue reserves; the board considers these reserves can be used in less buoyant years, however the revenue reserves remain robust at 44p per share.

Discount and Share Buybacks

The discount at which the share price trades to the NAV was again broadly stable and finished the year at 8.7% (2013: 8.6%).²

The company has for a number of years followed a policy that aims to maintain the discount at or below 9%. During the year 1.9m (2013: 1.9m) shares were repurchased for cancellation at an average discount of 9.7% (2013: 9.7%) and a cost of £11.3m (2013: £10.1m).

Change of Manager

During the year, the company announced that John Kennedy had left The Scottish Investment Trust PLC after ten years of service as SIT's Manager. The board thanks him for his substantial contribution and wishes him well for the future.

Alasdair McKinnon, previously Assistant Manager, has become Acting Manager. Alasdair has been with the company since 2003. He graduated MA with honours in Economic and Social History from the University of Edinburgh in 1997 and MSc in Investment Analysis (with distinction) from the University of Stirling in 2001.

Alasdair is a Chartered Financial Analyst (CFA)TM and an Associate of the UK Society of Investment Professionals.

Board Composition

James MacLeod has decided not to stand for re-election at the AGM having served on the board since 2005. The company has benefited greatly from his knowledge and experience. On behalf of the board, I should like to thank James for his outstanding contribution.

EU Alternative Investment Fund Managers Directive (AIFMD)

As explained in previous reports, the company is now subject to the requirements of the AIFMD. The company has entered into an investment management agreement with SIT Savings Limited, a wholly-owned subsidiary, which will perform the role of Alternative Investment Fund Manager (AIFM). Northern Trust Global Services has been appointed to fulfil the required depositary function.

² This is referenced to the ex-income NAV (with borrowings at market value)

Outlook

Although more than half a decade has elapsed since the nadir of the financial crisis, interest rates remain extraordinarily low and major areas of the global economy continue to struggle. In the US, which has fared better than other regions over the past year, the US Federal Reserve has recently ceased to purchase financial assets and is now contemplating an interest rate rise in 2015.

An increase in US interest rates has the potential to have a destabilising impact on global markets as the stimulatory measures employed since the financial crisis have relied upon the creation of additional debt. Investment markets are therefore likely to remain in thrall to the deliberations of the US Federal Reserve and other central banks.

More positively, the recent sharp fall in the oil price is likely to have a stimulatory impact on economic activity and, if maintained, should filter through into an increase in consumer disposable income.

The company has deployed a proportion of the long-term borrowings into higher-yielding equities and retains more than £60m in cash which could be utilised should attractive opportunities arise.

Douglas McDougall
Chairman

5 December 2014

For further information, please contact:-
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SUMMARY OF RESULTS
For the year ended 31 October 2014

	<u>2014</u>	<u>2013</u>	<u>Change</u> <u>%</u>	<u>Total</u> <u>return</u> <u>%</u>
NAV with borrowings at market value	661.6p	668.4p	(1.0)	1.0
NAV with borrowings at par	679.5p	682.7p	(0.5)	1.5
Ex-income NAV with borrowings at market value	654.8p	659.7p	(0.7)	
Ex-income NAV with borrowings at par	672.7p	674.0p	(0.2)	
Share price	598.0p	603.0p	(0.8)	1.4
Discount to ex-income NAV with borrowings at market value	8.7%	8.6%		
FTSE All-World Index			6.1	8.8
UK FTSE All-Share Index			(2.3)	1.0
	<u>£'000</u>	<u>£'000</u>		
Equity investments	767,179	731,373		
Net current assets	74,010	126,172		
Total assets	841,189	857,545		
Long-term borrowings at par	(104,283)	(104,167)		
Pension liability	(2,613)	(2,560)		
Shareholders' funds	734,293	750,818		
Total income	19,854	22,290	(10.9)	
Earnings per share	11.51p	13.41p	(14.2)	
Regular dividend per share (2014: proposed final 7.20p)	12.00p	11.60p	3.4	
Special dividend per share	-	1.80p		
Total dividend per share	12.00p	13.40p	(10.4)	
UK Consumer Prices Index – annual inflation			1.3	
UK Retail Prices Index – annual inflation			2.3	

MANAGEMENT REVIEW

Over the year to 31 October 2014, UK equities made a modest total return, while international equities made better progress.

The company's NAV total return of 1.0% matched UK equity performance but lagged that of international equities. The underlying portfolio return of 3.2% was reduced mainly by the costs of interest payments on the company's long-term borrowings and expenses.

Global markets, as a whole, advanced over the year but most of this performance was delivered by the North American region which accounts for more than half of the global market but only a third of our portfolio, with a sterling total return of 16.7%. By way of contrast, the Europe (ex UK) region produced a negative return of 1.6% while the returns of the UK (0.6%) and Japan (0.2%) were barely positive in sterling terms.

As noted in the Chairman's Statement, this regional divergence was as much a function of the deterioration in growth prospects in the eurozone, Japan and China as it was a specific endorsement of US assets.

Investors favoured areas that were more loosely correlated with global economic activity. Accordingly, the Health Care and Technology industries, which have a preponderance of companies exposed to secular growth themes, performed extremely well. In contrast, cyclical industries such as Oil & Gas and Basic Materials lagged and declined in value over the year.

Our Health Care industry holdings produced the highest cash return for the portfolio with a gain of £21.5m. **UnitedHealth**, the US health insurer, made the largest positive contribution as the company was expected to benefit from US legislation to widen healthcare insurance. **Coloplast**, the Danish manufacturer of a diverse range of ostomy and other disposable equipment, also performed strongly as new products were well received. **Hikma Pharmaceuticals** and **Aspen Pharmacare**, both manufacturers and distributors of generic drugs, gained as they were able to increase prices and also made well-received acquisitions. **Biogen Idec**, the US biotechnology company, rose as sales of their multiple sclerosis drug were strong.

Our Technology industry holdings produced a gain of £15.9m. Chinese internet holdings, **Tencent** and **Baidu**, performed well as they were able to benefit from the transition of their enormous user bases to mobile devices. A number of US technology holdings also produced sizeable gains, most notably **Apple**, as the latest versions of the iPhone enjoyed a successful launch, and **NXP Semiconductors**, which benefited from new areas of microchip usage. A new holding in **Microsoft** also made a positive contribution, as it became apparent that the personal computer would remain an important productivity tool even in the era of the 'mobile internet'. In contrast, the value of our holding in Russian-based **Mail.Ru** fell in value prompted by Russian involvement in Crimea and Ukraine. A loss was realised in **LinkedIn**, the US-based professional network, when sold late in the year.

Within Consumer Goods, our holdings produced a gain of £5.8m. This was driven by strong performance from **Pandora**, the Danish retailer of charms and bracelets, and **Associated British Foods**, as plans were unveiled to launch its Primark chain in the US. Good gains from UK housebuilder **Persimmon** were tempered by a loss from a holding in Chinese car manufacturer **Great Wall Motor**.

Our Consumer Services holding **Comcast**, the US broadcasting and cable giant, performed well but this was offset by a loss realised in Chinese-based **New Oriental Education and Technology** which we sold as online competition disrupted their education model.

Our Financials holdings produced a small gain of £0.8m. **US Bancorp** and **Capital One Financial** gained due to an improved US credit environment while commercial property prices firmed in the UK to the benefit of **British Land** and insurer **Standard Life** performed well. The slowdown in the Brazilian economy resulted in our sale of **Banco do Brasil** early in the year at a loss. **BNP Paribas** suffered mainly due to the malaise in the

eurozone economy but also due to a large fine from the US authorities. **Sumitomo Mitsui Financial Group**, the Japanese bank, also declined but this followed an exceptionally strong prior year.

Our Oil & Gas industry holdings produced the largest loss for the portfolio, with a negative contribution of £9.5m. The oil price spent the majority of the year around \$100 per barrel but then fell heavily as the outlook for global growth slowed in the summer. We sold our oil service holdings **Seadrill** and **Petrofac** and realised losses, albeit this proved the correct decision. **Tüpras**, the Turkish refiner, suffered as a result of political turmoil in Turkey and was subsequently sold.

Our Industrials holdings produced a loss of £8.4m. **Spectris**, which produces a variety of products for industrial processes, suffered as the growth outlook declined while **Dürr** fell as it was feared the global automotive industry would slow. Brazilian infrastructure operator, **CCR**, and UK-based support services group, **Serco**, were both sold during the year at a loss.

Elsewhere in the portfolio, our mining holdings performed poorly, due to the aforementioned slowdown in China. More positively, the UK water utility **Severn Trent** performed well as the regulatory environment appeared to remain constructive and we added to our holding late in the year.

The underlying equity portfolio remains well diversified by geography and industry.

Holdings in Listed Closed-ended Investment Funds

Company holdings include investments in listed closed-ended investment funds of £16.5m: 2.0% of total assets (2013: £9.2m: 1.1%). The company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds.

Unlisted Portfolio

The company's unlisted holdings appreciated very slightly and were valued at £2.4m (0.3% of shareholders' funds). These are residual holdings from partnership agreements signed between 1996 and 2001. No new partnerships were entered into during the year.

Contributors to Absolute Performance

for the year to 31 October 2014

	<u>Total return</u> <u>performance</u>	<u>Positive</u> <u>contribution</u>		<u>Total return</u> <u>performance</u>	<u>Negative</u> <u>contribution</u>
	%	%		%	%
UnitedHealth	42.0	0.8	New Oriental Education & Technology	-43.9	-0.3
Coloplast	38.3	0.7	Seadrill	-44.0	-0.3
Pandora	48.7	0.6	Banco do Brasil	-43.7	-0.3
Tencent	48.9	0.6	Mail.Ru	-41.0	-0.3
Hikma Pharmaceuticals	53.1	0.5	Spectris	-20.4	-0.3
Apple	48.5	0.5	Wharf Holdings	-33.4	-0.3
Baidu	50.6	0.4	Sumitomo Mitsui Financial	-15.7	-0.3
Comcast	18.4	0.3	Vale	-35.3	-0.2
Biogen Idec	32.0	0.3	Samsung Electronics	-21.7	-0.2
Aspen Pharmacare	26.9	0.3	Dürr	-18.0	-0.2

NAV Relative Performance Analysis
for the year to 31 October 2014

Relative to FTSE:	All-World	All-Share (UK)
	%	%
NAV total return (with borrowings at market value)	+1.0	+1.0
Index total return	+8.8	+1.0
Relative performance	-7.2	+0.0
Equity portfolio total return	-5.3	+2.4
Gearing	+0.4	-0.1
Other income, tax & currency	-0.4	-0.4
Buybacks	+0.1	+0.1
Interest and expenses	-1.5	-1.5
Change in market value of borrowings	-0.5	-0.5
Relative performance	-7.2	+0.0

Distribution of Shareholders' Funds

At 31 October

	<u>2014</u>	<u>2013</u>
	%	%
Equities		
UK	20.7	19.9
Europe (ex UK)	32.1	27.3
North America	36.5	24.8
Latin America	2.2	3.5
Japan	4.2	5.8
Asia Pacific (ex Japan)	9.7	16.3
Middle East & Africa	1.6	1.5
Unlisted	0.3	0.4
Total equities	107.3	99.5
Net current assets	10.4	17.1
Borrowings at market value	(17.3)	(16.3)
(Gearing)/net cash	(6.9)	0.8
Pension liability	(0.4)	(0.3)
Shareholders' funds	100.0	100.0

INCOME STATEMENT
(unaudited)
for the year to 31 October 2014

	Revenue £'000	2014 Capital £'000	Total £'000	Revenue £'000	2013 Capital £'000	Total £'000
Net gains on investments held at fair value through profit and loss	-	4,478	4,478	-	136,910	136,910
Net losses on currencies	-	(1,993)	(1,993)	-	(838)	(838)
Income	19,854	-	19,854	22,290	-	22,290
Expenses	(2,884)	(2,003)	(4,887)	(3,016)	(2,094)	(5,110)
Net Return before Finance Costs and Taxation	16,970	482	17,452	19,274	133,978	153,252
Interest payable	(3,096)	(3,095)	(6,191)	(3,096)	(3,095)	(6,191)
Return on Ordinary Activities before Tax	13,874	(2,613)	11,261	16,178	130,883	147,061
Tax on ordinary activities	(1,298)	-	(1,298)	(1,314)	-	(1,314)
Return attributable to Shareholders	12,576	(2,613)	9,963	14,864	130,883	145,747
Return per share	11.51p	(2.39)p	9.12p	13.41p	118.07p	131.48p
Weighted average number of shares in issue during the year		109,263,104			110,847,197	
	<u>2014</u>			<u>2013</u>		
	<u>£'000</u>			<u>£'000</u>		
Dividends paid and proposed						
Interim 2014 – 4.80p (2013 – 4.80p)	5,232			5,324		
Final 2014 – 7.20p (2013 – 6.80p)	7,781			7,474		
Special 2014 – Nil (2013 – 1.80p)	-			1,979		
Total 2014 – 12.00p (2013 – 13.40p)	<u>13,013</u>			<u>14,777</u>		

The total column of this statement is the profit and loss account of the company.

SUMMARY BALANCE SHEET

(unaudited)
as at 31 October 2014

	<u>2014</u> <u>£'000</u>	<u>2013</u> <u>£'000</u>
Equity investments	767,179	731,373
Net current assets	74,010	126,172
Total assets less current liabilities	841,189	857,545
Long-term borrowings at par	(104,283)	(104,167)
Pension liability	(2,613)	(2,560)
Shareholders' funds	734,293	750,818
NAV with borrowings at par	679.5p	682.7p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

(unaudited)
for the year to 31 October 2014

	Revenue £'000	2014 Capital £'000	Total £'000	Revenue £'000	2013 Capital £'000	Total £'000
Return attributable to shareholders	12,576	(2,613)	9,963	14,864	130,883	145,747
Actuarial losses relating to pension scheme	(292)	(203)	(495)	(186)	(129)	(315)
Total recognised gains/(losses) for the year	12,284	(2,816)	9,468	14,678	130,754	145,432
Total recognised gains/(losses) per share	11.24p	(2.57)p	8.67p	13.24p	117.96p	131.20p

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

(unaudited)
for the year to 31 October 2014

	<u>2014</u> <u>£'000</u>	<u>2013</u> <u>£'000</u>
Opening shareholders' funds	750,818	628,244
Total recognised gains	9,468	145,432
Dividend payments	(14,685)	(12,719)
Share buybacks	(11,308)	(10,139)
Closing shareholders' funds	<u>734,293</u>	<u>750,818</u>

SUMMARY CASH FLOW STATEMENT

(unaudited)
for the year to 31 October 2014

	<u>2014</u> <u>£'000</u>	<u>2013</u> <u>£'000</u>
Net cash inflow from operating activities	13,367	15,509
Servicing of finance	(6,075)	(6,075)
Taxation	54	340
Investing activities	(21,319)	38,128
Dividends paid	<u>(14,685)</u>	<u>(12,719)</u>
Net cash (outflow)/inflow before use of liquid resources and financing	(28,658)	35,183
Management of liquid resources	44,774	(41,410)
Financing	<u>(11,927)</u>	<u>(9,697)</u>
Increase/(decrease) in cash	<u>4,189</u>	<u>(15,924)</u>

NOTES:

The directors recommend a final dividend of 7.20p per share which, together with the interim dividend of 4.80p per share paid on 21 July 2014, makes a total of 12.00p for the year. Based on the number of shares in issue at 31 October 2014, the final dividend will cost £7,781,000 and is payable on 5 February 2015 to shareholders registered at 5 January 2015. The shares will be traded 'ex' the final dividend from 2 January 2015 and investors purchasing on or after that date will not be entitled to the final dividend.

The income figure is made up as follows:-

	<u>2014</u> <u>£'000</u>	<u>2013</u> <u>£'000</u>
Dividends	19,496	22,380
Deposit interest	250	142
Gains/(losses) on forward currency sales	108	(232)
	<u>19,854</u>	<u>22,290</u>

The weighted average number of shares in issue throughout the year was 109,263,104 (2013 – 110,847,197) and this figure has been used to calculate the returns per share shown in the income statement and statement of total recognised gains and losses. The net asset value per share at 31 October 2014 has been calculated using the number of shares in issue on that date which was 108,066,926 (2013 – 109,979,926).

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 October 2014 or 2013. The financial information for the year ended 31 October 2013 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s498(2) or s498(3) Companies Act 2006. The audit of the statutory accounts for the year ended 31 October 2014 is not yet complete. These will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting on 30 January 2015. The accounting policies applied to these accounts are consistent with those applied on the accounts for the year ended 31 October 2013.

The 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.