

THE SCOTTISH Investment Trust

The **CONTRARIAN** SUMMER 2017

ANALYSIS AND INSIGHT FROM **THE SCOTTISH INVESTMENT TRUST**



ABOUT

The Scottish Investment Trust

At The Scottish, our experienced team actively manages a high conviction, global investment portfolio with the aim of generating superior investment returns over the long term for our investors. Our contrarian approach is benchmark agnostic and provides profitable opportunities in any market environment. Founded in 1887, the trust has a long tradition of providing shareholders with an accessible, low cost way to invest in companies from around the world, whilst further boosting returns through the provision of a growing dividend. The Scottish has grown its regular dividend every year for the last 33 years. Our independently managed, closed-end fund structure allows us to be patient with our investments allowing them to mature profitability.

Finding the next big thing

With equity markets pushing to new highs in 2017, led by a narrow selection of large technology companies, many investors have been pondering whether to continue to follow the herd or to look elsewhere for further investment gains.

At The Scottish, we favour the road less travelled and are prepared to follow a different path from the pack. It is invariably uncomfortable to take a contrarian approach, because human instinct to be part of a crowd is powerful. Humans have evolved to feel ill at ease outside the mainstream because, in more arduous times, a coordinated group stood a better chance of survival. But this instinct can work against the best interests of investors because to profit in financial markets, you need to be invested ahead of the crowd.

Ultimately, we like companies that are out of favour or underappreciated by the market. The opportunity is that the potential returns from such companies are greater, on average, simply because expectations are so low. Like most things in life – what you take from a situation is directly related to expectations.

One example where we see such an opportunity is Cemex, the Mexican company that is the world's number-two cement

producer. Cemex found itself burdened with debt after a wildly expensive acquisition at the peak of the Florida building boom in 2007 – management got caught up in the mania of the crowd and forgot that booms don't last forever. We purchased last year after the shares had lost two-thirds of their value in the previous 18 months. We believed that very pessimistic expectations were already factored in and that investors were ignoring the fact that the company's management were making positive changes. Our investment has performed very well since purchase and the company is ideally placed to benefit from US infrastructure investment.

In the United States, a contrarian call that worked well for us is Citizens Financial. This large regional bank was owned by RBS until it withdrew from the US market two years ago. Since its IPO, Citizens has focused on improving its returns to shareholders whilst reversing years of underinvestment from its previous owner. In November of last year, the company benefited from the expectations that President Trump's policies would lead to a reflationary environment. We had, however purchased our shares in Citizens prior to

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Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for shareholders. However, should markets fall these borrowings would magnify any losses on these investments. This may mean you get back nothing at all. Investment trusts are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority. Please note that SIT Savings Ltd is not authorised to provide advice to individual investors and nothing in this promotion should be considered to be or relied upon as constituting investment advice. If you are unsure about the suitability of an investment, you should contact your financial advisor. This promotion is issued and approved by SIT Savings Limited. Authorised and regulated by the Financial Conduct Authority.

Our 130 YEAR ANNIVERSARY

The Scottish Investment Trust

The Scottish Investment Trust celebrates its 130th anniversary this year. Over the course of these 130 years The Scottish has witnessed many landmark and historical events that have helped shape the world we know today. To celebrate this milestone, we wanted to highlight a few interesting events that share our birth year.

130 YEARS

1887-2017



JANUARY 1887

As the year began, construction got underway on the Eiffel Tower ahead of the 1889 World's Fair in Paris. It was originally intended to stand for only 20 years before being dismantled, but its use as a wireless telegraph transmitter meant it was allowed to stay and, eventually, become one of the most visited monuments in the world.

JANUARY 1887

January also witnessed the end of a truly epic journey by adventurer Thomas Stevens who became the first person to circumnavigate the globe on a bicycle. He left San Francisco at 8 o'clock on 22 April 1884 and returned three years later in January 1887. Unbelievably, he completed the journey riding a penny farthing.

MARCH 1887

In March of this year, earmuffs were patented. Their invention, by Chester Greenwood of Farmington, Maine, is still celebrated in the inventor's home town on December 21st each year.

JUNE 1887

50 years as the monarch made Queen Victoria the longest reigning of any British sovereign, in June 1887. Surprisingly, Buffalo Bill and his Wild West Show got two audiences with Her Majesty in this year when his Wild West Show opened in London.

JULY 1887

The United Kingdom's reputation for green energy can be traced back to July 1887, when James Blyth engineered the first electricity-generating wind turbine. His legacy lives on today with wind power contributing to 11% of UK electricity supply and producing more power than coal in 2016.

JULY 1887

The Scottish Investment Trust Company Limited was incorporated in Edinburgh on 27 July 1887, with a capital of £250,000, equally divided between preferred and deferred shares. It was the second investment trust company to be launched in Scotland. The company's prospectus stated "the object of the Scottish Investment Trust is to apply the principles of co-operation to the investment of money so that investors may, by uniting their means, spread their investment over a wider field, thus obtaining a higher rate of interest with greater security and exemption from liability than

if the amount subscribed by each shareholder were independently invested", and that same principle holds true today.

OCTOBER 1887

In a small factory in Macclesfield, Cheshire a British icon was patented, Hovis. The innovative process may well have been regarded as the best thing until sliced bread, over 40 years later.

NOVEMBER 1887

Just a stone's throw away from Macclesfield costing a startling £15 million to complete, (£1.8 billion in today's money) the Manchester Ship Canal was created to link the North West of England to the Irish sea. After 130 years, it remains the eighth longest ship canal in the world and is the owner of the proud title of the longest river navigation canal.

NOVEMBER 1887

In the arts, on a cold and misty night in November 1887, Mr William Henry Pratt was born. With a change of name to Boris Karloff and a move to the silver screen the infamous actor haunted us with the terrors of Frankenstein and The Mummy.

NOVEMBER 1887

One of the world's most beloved detectives, Sherlock Holmes turns 130 in November this year. Sir Arthur Conan Doyle put pen to paper bringing the character to life in his very first novel, A Study In Scarlet, in Beeton's Christmas Annual.

DECEMBER 1887

The year was rounded off with a very Merry Christmas for the inhabitants of Dufftown, Scotland. On Christmas Day, not then a public holiday in Scotland, William Grant first started distilling his single malt whisky. Since then Glenfiddich has become the world's bestselling single malt whisky and accounts for 35% of the world's single malt whisky sales.

Though the world has seen significant change in 130 years, some things remain unchanged. The Scottish Investment Trust continues, as an independent trust, to invest around the world to seek out profitable opportunities and provide enduring, long-term returns for its investors.

Our PEOPLE



ALASDAIR MCKINNON
Manager



MARTIN ROBERTSON
Deputy Manager



SARAH MONACO
Investment Manager



MARK DOBBIE
Investment Manager

We favour the road less travelled

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this move, when banks were very much out of favour amid concerns over the global economic outlook. The shares have risen significantly since our initial purchase, exemplifying that opportunities are always available for contrarian investors.

Technology companies can sometimes exhibit valuations that are extremely difficult to justify when observed dispassionately. However, we are by no means averse to holding technology companies in the portfolio. This year we increased our position in Nintendo, the Japanese gaming company which we believe has underappreciated potential. The company recently launched its new Switch console, and the positive reception to the product prompted the company to double its production rate. Nintendo is also starting to monetise its substantial intellectual property more fully through mobile gaming, providing the potential to generate significant recurring revenue in time.

The constant cycles that are an inherent part of investment markets mean there are always opportunities for contrarian investors. While the global outlook remains uncertain, particularly for politics, there is no shortage of unappreciated investments for those willing to stray from the crowd. We seek to unearth those opportunities for the long-term benefit of our investors.

Our AWARDS



Upcoming EVENTS

Annual REPORT - DECEMBER 2017

Final DIVIDEND - FEBRUARY 2018

Contact US

To find out more about
The Scottish Investment Trust

E: info@thescottish.co.uk T: 0131 225 7781

The Scottish Investment Trust PLC, 6 Albyn Place,
Edinburgh EH2 4NL

www.thescottish.co.uk