THE SCOTTISH Investment Trust

PRESS RELEASE
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The Scottish Investment Trust backing a rebound for 'Ugly Duckling' bricks and mortar retailers

The Scottish Investment Trust PLC (The Scottish) is backing bricks and mortar retailers for the longer term as it increases its holdings in well-known brands in the UK and US, despite a broader global decline in investor sentiment for the sector.

The current retail environment remains tough with a weak economic background and uncertainties for shoppers in both the UK and the US. Political concerns continue to abound on both sides of the Atlantic. 'Brexit' fears have driven down the value of sterling, shaking both consumer confidence and spend in the UK, contributing to promotional pricing and rising costs over the last 18 months.

The emergence of disruptive online retailers, such as Amazon, as well as the arrival of discounters in the mix has also weighed considerably on valuations for incumbent physical store based companies. It's not hard to see why the sector has lost its popularity.

However, as contrarians, Alasdair McKinnon and his team, at The Scottish, believe there is a very real investment opportunity in a number of these retailer stocks. They believe opportunities arise where there is an overly pessimistic market reaction and therefore tend to avoid the 'wisdom of the crowd' in the search for superior returns. Small incremental positives can result in exaggerated share price reactions for unloved over-penalised companies, especially if there is a short position.

The team feel that there has been a shift in the political climate and that the market is ignoring the potential for government policy that will better support the consumer over the longer term. Both UK and US economies have a high level of exposure to consumer spending as a contributor to GDP and populist policy action should prove positive.

Whilst their retail holdings are undoubtedly 'ugly ducklings', the team can foresee circumstances in which particular retailers can turn their operations around and confound the market's expectations.

These companies are streamlining excess space to focus on shopping as an experience, implementing new technology, optimising sourcing and logistics and investing in successful multi-channel strategies. All of these actions should allow them to survive and thrive in the highly competitive digital environment.

These initiatives require strong, often new, leadership for successful execution, and innovative management can create winning propositions that meet their customers' needs and allow them to take or regain market share. Well-constructed realistic strategic 'comeback' plans in the hands of talented turnaround executives such as Archie Norman and Steve Rowe at Marks & Spencer's, Dave Lewis at Tesco and Art Peck at Gap have improved fortunes. Gap's share price has risen more than 35% over the last 6 months as sales have shown renewed momentum and gross margins improved. Tesco has also seen some positive share price movement recently and with the provisional approval of its acquisition of Booker through, investors will once again be able to focus on the group's positive transformation plan progress.

As a 'belt and braces' safety net to their approach McKinnon and his team look for strong enduring brands, sustainable dividends which pay them to wait for their thesis to unfold, manageable balance sheets to ensure the company can get through the cycle and other signs of asset backing, such as property.

The backing of the sector is a key call reflecting the contrarian investment strategy at The Scottish. It aims to exploit the behavioural biases of market participants by identifying three types of company: the very unloved or out-of-favour; those where improvements have not been appreciated by the consensus; and companies that have done well but where the market is still underestimating the outlook. These three categories are named: 'ugly ducklings', 'change is afoot' and 'more to come'.

The team believes that stocks can go in and out of fashion and can become under or over appreciated by investors due as much to cyclicality as to structural or fundamental issues. This is a highly active and differentiated style delivered at a very low cost.

The Scottish's ugly duckling retail holdings include Tesco, Gap, M&S and Macy's and make up over 11% of their global equity focused portfolio. While sentiment in the sector is low there is a strong expectation of an impressive return over the longer-term investment horizon.

Commenting on the retail sector, McKinnon said:

"While other investors are bullish on companies like Amazon, we see greater value potential in the bricks and mortar retail sector in both the UK and US. With valuations at a historical low, we believe that a number of retailers with strong brands and turnaround potential will survive this cycle as they adapt to a new retail landscape. We see these stocks as unloved and ones that will help us generate superior returns for our investors."

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Notes to Editors:

The Scottish Invest ment Trust
The Scottish Investment Trust is a self-managed global investment trust with assets of £850 million. Established in 1887, it is listed on the London Stock Exchange and is a member of the FTSE™ 250. The Scottish Investment Trust has seen many market, industry and stock cycles and events over its long 130 years and remains committed today to its prime objective of providing strong capital growth and dividends for its shareholders, using its own innovative contrarian investment management style.

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