The Scottish Investment Trust PLC

Annual Results for the year ended 31 October 2017.

***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 2017.*

Highlights

- **Step change 48.1% increase in regular dividend to 20p.**
- **Additional special dividend of 5p.**
- **Total dividend increase of 11.1%.**
- **Share price total return +12.8% and NAV total return +11.0%.**

Chairman's Statement

Performance

I am pleased to report that during the 12 months to 31 October 2017 a combination of capital appreciation and strong dividend income meant that the Company delivered another year of robust total returns. Over that period, the share price total return was 12.8% and the net asset value per share (NAV) total return (with borrowings at market value) was 11.0%.

The Company does not have a formal benchmark but, by way of comparison, the sterling total return of the international MSCI All Country World Index (ACWI) was 13.3% while the UK based MSCI UK All Cap Index total return was 13.5%. As noted in previous communications, elsewhere in this statement and in the Manager's review, we do not expect the Company's portfolio return to match any particular index return over any defined period due to the contrarian nature of the portfolio's composition. Our contrarian approach aims to achieve above average long-term performance. Given this focus and the fact that we expect to make more of our gains in particular market conditions, we believe that a period of at least five years is required to evaluate the Company's returns.

With the Company's portfolio rebalanced towards the high conviction, global contrarian approach described below, the Board now believes that the Company will generate a higher level of dividend income through an investment cycle than has previously been the case. The Board wishes to ensure that shareholders have greater clarity about their future dividend expectations and therefore recommends a positive step change increase in the regular dividend. I explain this later in this statement.

Low cost active management

Over the last three years, the Company has undertaken a significant process of change with our goal to continue to provide an attractive, low cost investment vehicle for our shareholders, who are mainly, and increasingly, individuals.

In the last year, we have reinvigorated our approach to marketing and communications, within our longstanding marketing budget. It is important that we raise the Company's profile, as we believe that our investment approach should appeal to a broad range of investors.

The ongoing charges figure for the year under review was 0.49%, which compares favourably with other actively-managed investment vehicles. As a self-managed investment trust, this figure represents the ongoing costs of running the Company as a proportion of net assets. We have reduced our costs in recent years, most notably by restructuring the investment team and by outsourcing a number of functions.

The ongoing charges figure has remained the same as last year, despite the reduction in net assets following the repurchase of Aviva's shareholding.

High conviction, global contrarians
The high conviction, global contrarian investment approach adopted by Alasdair McKinnon and his team clearly differentiates the Company from our global investment trust peers and from the vast array of passive investment products through which investors can 'track' stockmarket indices.

The approach reflects the investment team's natural style as independent thinkers and active, long-term investors who seldom follow the herd. The Manager believes that opportunities are created by the natural human tendency to focus on past performance as a predictor of future performance. Our approach aims to profit by investing in carefully selected, but unfashionable, companies which are undervalued as they are overlooked by other investors who prefer the comfort of investing with the crowd.

The portfolio reflects this contrarian philosophy and is constructed without reference to any benchmark or stockmarket index. Accordingly, we do not expect the portfolio return to be similar to a particular index return in any given year and we expect that the contrarian style will work differently depending on market conditions. For example, the Manager expects that the Company might not fully participate in more speculative market conditions as the investment team seeks to avoid investments that are sustained by overly enthusiastic positive sentiment. Likewise, we might expect better than average performance when market spirits are more tempered, as our holdings typically have less positive sentiment priced in.

During the year, the number of portfolio holdings was further reduced as the Manager believes that the best long-term returns will be generated by having the conviction to back the team's best investment ideas. The portfolio currently contains 54 listed equity holdings, which compares with 70 at the previous year end. The number of holdings will vary as the investment team unearths new opportunities.

Contrarian style boosts income generation
Over the past year earnings per share rose by 6.7% to 23.1p (2016: 21.6p).

In previous reports, I have noted that the Board wishes to maintain both the long track record of dividend increases and the aim of the Company to provide dividend growth ahead of UK inflation over the longer term. In recent years, this has been achieved by appropriate increases to the regular dividend, with any excess being distributed as a special dividend.

Since the adoption of the contrarian investment approach, income generated has been considerably more than that required to pay the regular dividend. The Board has discussed this extensively with the Manager and, despite the approach not explicitly targeting high yielding investments, we expect the contrarian investment style to generate a higher level of investment income through an investment cycle than was previously the case. A higher than average level of dividend income is often, but not always, a consequence of an investment in an unfashionable company.

Step change increase in the regular dividend
Given the above, the Board considers it is appropriate to make a significant step change increase in the regular dividend to make it clear to shareholders and prospective investors that the Company expects to generate a higher level of income through an investment cycle. A consequence of such a change will be that the Company is less likely to pay discretionary special dividends in future years and will not necessarily distribute income generated in excess of the requirements of the regular dividend.

One particular advantage of such a significant step change increase in the regular dividend is that it will give shareholders and potential investors a clearer indication of the income that they can expect to receive. This is because, when calculating the yield on ordinary shares, many investors ignore special dividends as they consider them non-recurring. The proposed step change increase in the regular dividend will, going forward, materially increase the stated yield of the Company's shares, which the Board believes will enhance their attraction to investors. Following the change, the Company will have one of the highest stated dividend yields among its global investment trust peers.

The Board recommends a final dividend of 14.5p per share which, if approved, will mean that the total regular dividend for the year will increase by 48.1% to 20.0p and will represent the 34th consecutive year of regular dividend increase.

The Board also recommends a special dividend of 5.0p per share in order to distribute the income generated in the year to 31 October 2017 in excess of the requirements of the proposed regular dividend. This recommendation reflects past indications made as to how the Board would likely deal with such balance of income generated in respect of the financial year. As mentioned previously, the Company is less likely to pay discretionary special dividends in future years. If approved, the total dividend for the year will increase by 11.1%.

It is worth clarifying that the Board has not changed its future intentions for regular dividend increases. The Board wishes, from this higher level, to continue the Company's long track record of dividend increases and its aim to provide dividend growth ahead of UK inflation over the longer term.

Importantly, the Board remains of the view that the composition of the portfolio should not be dictated by this change to dividend policy and recognises that there may be occasions when the portfolio will generate a lower level of income that does not necessarily cover the requirements of the regular dividend. This dividend policy is supported by the Company's healthy revenue reserves of 70.6p per share, which would currently cover more than three years of the proposed new higher regular dividend. The Board considers that it would be appropriate to utilise such revenue reserves as required to support such a policy, drawing from revenue reserves in some years to supplement earnings for that year and adding to revenue reserves in other years.

Move to quarterly dividend payments
I announced in the interim report that the Company intended to adopt a quarterly schedule of dividend payments starting in the 2017/18 financial year. The Board recognises that predictable, regular distribution of income is desirable for the majority of our shareholders.

The proposed final and special dividends, which, if approved, will be paid to shareholders in February 2018 will mark the last dividends of the current distribution schedule before we move to quarterly payments. The Board's target is to declare three quarterly interim dividends of 5.0p, in the year to 31 October 2018 and recommend a final dividend of at least 5.0p for approval by Shareholders at the Annual General Meeting in 2019. It is intended that the first quarterly dividend will be paid in May 2018. The second and third quarterly dividends are expected to be paid no later than August and November 2018. The final dividend will be reviewed in accordance with the Board's desire to continue the long track record of annual dividend increases and the aim of the Company to provide dividend growth ahead of UK inflation over the longer term.

Aviva share repurchase
As I noted in the interim report, in March the Company completed the repurchase and cancellation of the shareholding of Aviva, representing 11.9% of the Company's issued share capital at that time. Aviva had gained control of this substantial shareholding in November 2015 through its purchase of Friends Life. Aviva had not previously been a long-term investor in the Company, did not have a history of holding investment trusts and had indicated that it did not plan to retain this shareholding.

At a specially convened General Meeting, shareholders approved the repurchase for cancellation of 11.4m shares from Aviva at a 10.75% discount to the cum-income NAV (with borrowings at market value). The Board considered this transaction to be in the best interests of the Company and shareholders as it removed a known seller of a large block of shares and enhanced this NAV for the ongoing shareholders by 1.4%.

Gearing

Gearing ended the year largely unchanged at 5%. During the year, the Company briefly moved to a net cash position to facilitate the transaction with Aviva.

Buybacks and updated policy
During the year, 16.9m shares were purchased for cancellation (2016: 9.2m) at an average discount of 10.5% to the cum-income NAV with borrowings at market value (9.5% to the ex-income NAV) and a cost of £135.2m. Excluding the repurchase of the Aviva shares, 5.5m shares were repurchased for cancellation at an average discount of 9.7% to the cum-income NAV with borrowings at market value (8.1% to the ex-income NAV) and a cost of £44.9m.

As announced in the interim results, the Company's buyback policy has been adjusted to aim, in normal market conditions, to maintain the discount to the cum-income NAV (with borrowings at market value) at or below 9%. This is a change from the previous policy which aimed to control the discount to the ex-income NAV (with borrowings at market value). The Company was an early adopter of a buyback policy in 2006 and, since then, it has become more normal industry practice to use the cum-income NAV rather than the ex-income NAV.

Successful migration of savings schemes
The savings schemes previously offered by the Company have now been closed but scheme holders were offered an attractive alternative arrangement for their shareholding. I would like to thank those shareholders affected for their understanding throughout the transition.

The schemes were set up in an era when it was expensive and complicated, particularly for a smaller shareholder, to buy shares directly in a single company. However, in recent years, a number of ways to buy the Company's shares in a simple and cost effective manner have been developed and very few providers offer the infrastructure to support single company savings schemes.

Accordingly, when the savings schemes' administrator informed us that they intended to withdraw from this business area, we were, despite an extensive search, unable to identify a viable alternative scheme administrator.

The majority of scheme holders have now transferred to AJ Bell Youinvest. We look forward to working with AJ Bell Youinvest in continuing to communicate with our shareholders.

Board composition

I would like to welcome Karyn Lamont to the Board. Karyn was appointed as a non-executive director and Chair of the Audit Committee in October 2017. Karyn brings a wealth of specialist audit experience from her long career in the field and will stand for election at the Annual General Meeting.

Karyn replaced Ian Hunter who retired after three years of valuable service to the Company. The Board and I would like to extend our gratitude to Ian for his considerable contribution, particularly over the last eighteen months as the Company reorganised a number of its key administrative functions.

Hamish Buchan will retire at the AGM. The Company has benefited greatly from Hamish's knowledge and experience over the last fourteen years. On behalf of the Board, I should like to thank Hamish for his outstanding contribution. There is no current intention to replace Hamish as the Board considers that its membership will continue to ensure that the appropriate balance of skills, experience, independence and knowledge will be achieved.

Outlook

I have previously discussed the anti-establishment mood that seems to have characterised recent voting on both sides of the Atlantic. The most obvious examples are the Brexit vote, the election of Donald Trump and the unexpected result in the UK 'snap' election.

President Clinton's victory in the 1992 US Presidential election has often been attributed to the slogan "It's the economy, stupid" and this catchphrase remains highly relevant today. Large sections of the population, in a number of countries, feel disadvantaged in the current economic environment. Government policies have favoured asset prices with unintended consequences for the cost of living.

Markets do not operate in a vacuum and, to date, have generally interpreted this shift in the political climate as a positive development. This is justified, to some extent, as stimulatory measures to boost the 'real economy' may well improve the prospects of sections of the corporate sector. On the other hand, some of the more radical measures occasionally mooted, no doubt with the best of intentions, have potential to harm sections of the corporate sector and will not necessarily achieve their end purpose.

The US Federal Reserve, which sets the tone for global monetary policy, has continued to increase interest rates from a very low base and has started tentatively to reduce the stockpile of bonds purchased to lower long-term interest rates. Other central banks have taken this cue and have started either to reduce, or at least slow, the rate of increase in stimulatory measures. This is evidenced by the recent interest rate increase by the Bank of England and the planned reduction in European Central Bank bond purchases. Markets have undoubtedly benefited from low long-term interest rates and it remains to be seen how dependent these low rates are on central bank largesse.

As ever, there are a number of events which could potentially destabilise markets if the worst fears come to pass, or potentially boost markets if they are successfully resolved. Of the prominent events, tension in the Korean peninsula remains confined to sabre-rattling while some modest progress seems to have been made in the Brexit negotiations.

The Board is pleased with the progress made to transform the investment approach, to increase the regular dividend, to reduce the cost base and to improve the profile of the Company. It now believes that the Company is differentiated, competitive in costs and an attractive investment vehicle focused on delivering above-average returns and dividend growth over the longer term.

James Will
Chairman
8 December 2017

Manager's Review

Our Contrarian Approach

Shareholders who have read my previous Manager's Reviews will be aware that a simple philosophy underpins our approach to investment. At the core of this philosophy is a recognition that investors, in aggregate, are not dispassionate calculating machines but, in fact, retain human emotions.

While this may not seem a particularly radical observation, it nonetheless flies in the face of a large body of scholarly research into finance and economics. Theory would argue that, while any individual can behave irrationally this is averaged out within a group so that a rational decision is reached. In contrast, we do not think that groups always make rational investment decisions and, to evidence this, would merely point to the numerous bubbles which have bedevilled markets over the years. Over the last 20 years, we have witnessed bubbles in emerging markets, euro convergence beneficiaries, dotcom stocks, house builders, property stocks, oil stocks, miners and emerging markets (again).

The reason for this difference of opinion perhaps arises because, in many human endeavours, the group does indeed reach a rational solution. In more arduous times, our very survival depended on working as a group and the crucial skill to develop as an individual was cooperation as part of this group. An isolated individual was vulnerable and, even if the group was pursuing an endeavour in a suboptimal manner, it was safer to remain part of the group.

Society as we know it today, which has built a great civilisation, continues to depend on this cohesive group approach. Most individuals subconsciously understand that they need to recognise the written and unwritten rules of society and therefore feel uncomfortable outwith the mainstream.

However, we believe that this crowding instinct does not usefully translate into financial markets. This is because the view of the crowd naturally gravitates towards what has recently been successful and shuns what has recently been unsuccessful. The challenge posed by financial markets is that, by the time an investment has performed sufficiently well (or badly) for it to become an accepted wisdom, conditions are ripe for the trend to change.

Business and investment cycles have operated throughout recorded human history. The specifics are always different but the principles remain the same. Initially, a conducive environment and opportunity attracts investment to a 'good thing' and initial and subsequent success attracts further and further investment, with later investors increasingly willing to suspend disbelief about the durability of future prospects. The 'upcycle' is hypnotic but it always ends. Excess investment destroys the scarcity of the 'good thing' while those propagating it become heady on their success and throw caution to the winds. The downcycle occurs when the bubble bursts and this process goes into reverse, eventually creating an opportunity again.

We think that to profit, an investor has to take a different stance and that the biggest challenge for an investor is to recognise when the voice of the crowd no longer suggests a sensible balance between risk and reward. We seek to avoid speculation, which we define as investing largely on the basis that somebody else will pay more for an already fully priced, popular asset.

We are, of course, stock market investors and even if we are very skilful with our stock picking, we are likely to be affected by wider market movements. However, we think that one of the most prudent ways to make money in the stock market is to invest when others are reluctant to do so. We actively seek unpopular areas because this is where the balance between risk and reward can be most favourable. We believe in cycles rather than perpetual trends and wish to purchase at depressed prices to improve our margin of safety.

Our style is distinct and we would expect other investors to ebb and flow in their support for the types of stocks we favour. We aim to achieve above-average long-term performance, although we do not expect this to be achieved in a linear manner. We are less likely to participate in the exhilarating latter stages of a bull market because we think it is vitally important to survive the down leg of an investment cycle.

NAV Absolute Performance Attribution
Year to 31 October 2017

	Contribution %
Equity portfolio (ungeared)	+9.5
Gearing	+0.8
Total equities	**+10.3**
Other income and currency	-0.2
Buybacks	+1.7
Expenses	-0.5
Interest charges	-0.6
Change in market value of borrowings	+0.0
Change in pension liability	+0.3
NAV with borrowings at market value total return	**+11.0**

Gains and Losses
Year to 31 October 2017

	Performance %	Gains £m
Treasury Wine Estates	39.6	15.4
Rentokil Initial	49.1	14.7
Nintendo	51.5	8.3
ING	34.4	7.8
Royal Dutch Shell	22.7	4.6
BNP Paribas	29.4	4.4
Citigroup	38.8	4.1
Microsoft*	25.6	3.6
SAP	20.6	3.6
Comcast*	20.4	3.5

	Performance %	Losses £m
General Electric	-34.3	-4.6
Tesco	-13.5	-3.7
GlaxoSmithKline	-12.1	-3.1
BT	-27.3	-2.9
KDDI	-17.2	-2.7
Baker Hughes	-26.1	-2.5
Macy's	-22.3	-2.2
Cemex	-13.6	-2.1
Kingfisher*	-13.2	-2.0
Tourmaline Oil	-35.8	-1.7

* Sold during the year.

To apply our approach, we divide the stocks in which we invest into three categories.

First, we have those that we describe as **ugly ducklings** – unloved shares that most investors shun. These companies have endured an extended period of poor operating performance and, for the majority, the near-term outlook continues to appear uninspiring. However, we see their out-of-favour status as an opportunity and can foresee the circumstances in which these investments will surprise on the upside.

The second category consists of companies where **change is afoot**. These companies have also endured a long period of poor operating performance but have recently demonstrated that their prospects have significantly improved. However, other investors continue to overlook this change for historical reasons.

In our third category, **more to come**, we have investments that are more generally recognised as good businesses with decent prospects. However, we see an opportunity as we believe there is scope for further improvement that is not yet fully recognised.

The Financial Year
Investment returns were again strong during the year. In contrast with last year, markets showed less favour towards a margin of safety based investment approach such as our own.

The election of President Trump represented a blow to the establishment but investors interpreted this positively, as it provided the theoretical basis for a new round of stimulatory policies. The slight conundrum is that Donald Trump was elected to improve the living standards of the mass of population, rather than boost asset prices. There is a risk that investors may discover that populist policies do not necessarily coincide with their interests.

Investors in general seem enthusiastic about the prospects for asset markets and exhibit a low level of scepticism about some of the most popular investment themes. Confidence has returned and there is now a lot of money seeking a return driven by low cash interest rates and the commensurate low cost of debt.

Central banks, led by the US Federal Reserve, have taken the first steps to unwind this era of ultra cheap money. Central banks clearly do not wish to unduly upset investors but this assumes that they have perfect control and, as suggested above, the political backdrop is shifting.

The most obvious sign of overly confident cheap money is the current boom in cryptocurrencies such as Bitcoin. We have concerns because, although the core technology has potential, there appears an unlimited supply of these currencies and governance appears very poor. Likewise, it is noteworthy that some of the largest US stocks have gained the moniker 'FANG' (an acronym of Facebook, Amazon/Apple, Netflix, Google). It is probably fair to say that by the time an investment theme gains an acronym it is so well established that a reasonable opportunity for a risk-adjusted return may no longer exist. The last 'acronym investment theme' you may recall was the 'BRICs' (Brazil, Russia, India, China), which did very well for the early entrants but less so for later participants who probably lost money.

The Portfolio

Portfolio turnover was elevated by the need to raise funds for the buyback transaction with Aviva. Rather than apply a pro-rata reduction across the portfolio, we took the opportunity to selectively reduce the number of holdings.

Given our focus on individual stock ideas, I thought it most useful to discuss the notable gains and losses, in total return terms, over the year.

Treasury Wine Estates (+£15.4m), the Australian wine producer continued to refocus on premium brands to drive higher profit margins. Having delivered outstanding performance since it was bought as an 'ugly duckling' in 2015, the company has now graduated through each of our three categories. We now see Treasury Wine Estates as one with 'more to come'.

Rentokil Initial (+£14.7m) also moved into the 'more to come' category after another year of excellent performance. Its transformation from an unloved and underperforming conglomerate to a business focused chiefly on the attractive market for pest control helped the group to deliver strong results.

We added to our holding in **Nintendo** (+£8.3m), as we were surprised by the muted investor reaction towards the new 'Switch' games console. The Switch is an excellent product but, later in the year, as other investors became more enthusiastic and as expectations of future success increased, we reduced our holding. We have also moved this company into the 'more to come' category.

Our bank holdings performed strongly, as they had previously been inexpensively valued and stood to benefit from the prospect of higher interest rates and stimulus policies designed to help the mainstream economy. Our biggest gain was from Dutch lender **ING** (+£7.8m), while we also saw strong gains from **BNP Paribas** (+£4.4m), **Citigroup** (+£4.1m), **Intesa Sanpaolo** (+£2.6m), **Bank of Kyoto** (+£2.1m), **Citizens Financial** (+£2.1m), **Sumitomo Mitsui Financial Group** (+£1.7m) and **Standard Chartered** (+£1.2m).

The continued rebound in commodities prices helped a number of our investments, with energy holdings a notable beneficiary later in the period. **Royal Dutch Shell** (+£4.6m), produced the biggest gain, as well as **BHP Billiton** (+£2.6m), **BASF** (+£1.8m), **Total** (+£1.7m), **Suncor Energy** (+£1.5m) and **Diamond Offshore Drilling** (+£1.4m). However, we lost money in **Hess** (-£1.1m) and **Tourmaline Oil** (-£1.7m).

German software provider **SAP** (+£3.6m) gained credit for an encouraging transition to a recurring subscription-based model. **Vinci** (+£2.7m) did well on an improved outlook for the European construction market. **RSA Insurance** (+£2.3m), was buoyed by the continued progress of a turnaround strategy. Good results from **Johnson & Johnson**'s (+£2.2m) pharmaceuticals business helped the business to deliver a solid performance, while **Adecco** (+£2.0m) gained on the prospect of better conditions in the temporary staffing market.

We consider **Tesco** (-£3.7m), one of our 'ugly ducklings', an excellent turnaround opportunity but this was obscured by the proposed acquisition of wholesaler Booker. However, we think that other investors will pay more attention now that this transaction has been approved. Our holding in **Marks & Spencer** (+£1.2m) endured fluctuating fortunes but showed some signs of progress and has a senior management team committed to change. We sold our entire holding in **Kingfisher** (-£2.0m), prompted by a need to raise funds for the Aviva transaction but also because we preferred the outlook for Marks & Spencer.

General Electric (-£4.6m) performed poorly in anticipation of a strategy review update at which new leadership reset profit and dividend expectations. **GlaxoSmithKline** (-£3.1m), also delivered a negative return as the new CEO unnerved investors as to where the dividend lay on her list of priorities.

Our telecom holdings in **BT** (-£2.9m), **KDDI** (-£2.7m) and **China Mobile** (-£1.1m) did not prove fruitful over the year. BT depressed investors with a disappointing trading update but, in general, we think that these telecom stocks have suffered from a rotation away from the more defensive areas of the market.

We sold our entire holding in **Microsoft** (+£3.6m) as we thought that the turnaround in the company's fortunes was adequately reflected in the share price. We also completely sold **Comcast** (+£3.5m) as, although the company is likely to continue to benefit from greater demand for high-speed internet we judged that the valuation already reflected this.

Outlook

The late Andy Grove, founder and former CEO of Intel, distilled his thoughts about management into a book called "Only the Paranoid Survive". However, I've always thought this would make a good title for a book about investing.

The reason for this is that a successful investor has to continually question their every assumption because things can, and do, change. The political environment is never static, new competition can emerge, advances in technology can drive structural change, management can remove their focus on the core business and apparently successful business models can mask hidden flaws while apparently unsuccessful business models can evolve positively.

The views of the crowd are a particularly poor predictor of future investment performance because the crowd extrapolates recent history and assumes it is a constant.

We could debate whether particular asset classes are overly elevated but perhaps less in question is that there have been a number of years of good returns and there are now signs of complacency in investors' attitude to risk. To some extent this is understandable as the world is awash with cheap money and the curators of this capital are desperate for a return. Symptoms of this excess are the appearance of get-rich-quick schemes such as cryptocurrency investments and the fact that an acronym (FANG) has been attributed to a narrow group of stocks which are all viewed as sure-fire winners.

This is not to say that the wider market will fall but more to observe that the risks currently being taken in some areas may not be justified by the future returns. The spread of valuations across the market is wide and, accordingly, we continue to identify opportunities which we believe will generate good long-term returns for shareholders.

We are contrarian investors and, as such, we seek unfashionable and unpopular investments that we think can recover. We invest, but with our guard up, as hot money has less tendency to inhabit the areas we favour. As I have noted in previous Manager's Reviews, our investment approach is designed to anticipate and benefit from change and we will continue to seek out opportunities with potential to profit the long-term investor.

Alasdair McKinnon
Manager
8 December 2017

Financial Summary

	2017	2016	Change %	Total Return %
NAV with borrowings at market value	924.4p	854.9p	+8.1	+11.0
NAV with borrowings at amortised cost	956.8p	881.2p	+8.6	+11.4
Ex-income NAV with borrowings at market value	904.8p	837. 5p	+8.0	
Ex-income NAV with borrowings at amortised cost	937.2p	863.9p	+8.5	
Share price	843.0p	769.5p	+9.6	+12.8
Discount to cum-income NAV with borrowings at market value	8.8%	10.0%		
Discount to ex-income NAV with borrowings at market value	6.8%	8.1%		
MSCI ACWI			+11.1	+13.3
MSCI UK All Cap Index			+9.2	+13.5
	£'000	**£'000**		
Equity investments	801,302	893,432		
Net current assets	43,897	42,502		
Total assets	845,199	935,934		
Long-term borrowings at amortised cost	(83,737)	(83,645)		
Pension liability	(1,091)	(3,272)		
Shareholders' funds	760,371	849,017		
Earnings per share	23.06p	21.62p	+6.7	
Regular dividend per share (2017: proposed final 14.50p)	20.00p	13.50p	+48.1	
Special dividend per share (proposed)	5.00p	9.00p		
Total dividend per share	25.00p	22.50p	+11.1	
UK Consumer Prices Index – annual inflation			+3.0	

Year's High & Low

	Year to 31 October 2017 High	Year to 31 October 2017 Low	Year to 31 October 2016 High	Year to 31 October 2016 Low
NAV with borrowings at market value	938.2p	817.1p	867.8p	606.3p
Closing share price	850.0p	739.0p	774.0p	544.5p
Discount to cum-income NAV with borrowings at market value	12.2%	7.1%	15.8%	9.3%
Discount to ex-income NAV with borrowings at market value	10.6%	6.6%	14.4%	8.1%

List of Investments
As at 31 October 2017

Listed equities

Holding	Country	Market value £'000	Cumulative weight %
Treasury Wine Estates	Australia	48,511	
Rentokil Initial	UK	44,389	
ING	Netherlands	29,626	
Standard Chartered	UK	27,787	
Marks & Spencer	UK	25,508	
Newcrest Mining	Australia	25,301	
Royal Dutch Shell	UK	24,452	
Tesco	UK	23,945	
Suncor Energy	Canada	23,517	
GlaxoSmithKline	UK	23,218	37.0
Sumitomo Mitsui Financial	Japan	21,867	
SAP	Germany	20,919	
Gap	US	20,627	
BNP Paribas	France	18,891	
Johnson & Johnson	US	18,674	
BHP Billiton	UK	18,537	
Citigroup	US	16,574	
Pepsico	US	16,352	
United Utilities	UK	15,869	
Exxon Mobil	US	15,691	59.9
China Mobile	Hong Kong	15,554	
Pfizer	US	15,466	
RSA Insurance	UK	15,223	
Cemex	Mexico	14,894	
Roche	Switzerland	14,744	
Total	France	14,187	
British Land	UK	12,677	
Vinci	France	12,302	
BASF	Germany	12,191	
Macy's	US	10,860	77.3
National Oilwell Varco	US	11,609	
KDDI	Japan	10,918	
Ambev	Brazil	10,589	
Verizon Communications	US	10,291	
Chevron	US	9,991	
East Japan Railway	Japan	9,447	
Adecco	Switzerland	9,403	
Sony	Japan	9,298	
Nintendo	Japan	9,114	
General Electric	US	8,694	89.7
Bank of Kyoto	Japan	8,592	
Intesa Sanpaolo	Italy	8,450	
Citizens Financial	US	7,986	
International Business Machines	US	7,657	
BT	UK	7,500	
Hess	US	6,649	
Bank of Ireland	Ireland	6,056	
Baker Hughes	US	6,008	
Diamond Offshore Drilling	US	5,414	
TGS-NOPEC Geophysical	Norway	4,916	98.3
BorgWarner	US	4,645	
Tourmaline Oil	Canada	3,074	
Freehold Royalties	Canada	2,990	
Greggs	UK	1,223	
Total listed equities		**799,867**	**99.8**

Unlisted

Holding	Country	Market value £'000	Cumulative weight %
Heritable property & subsidiary	UK	1,400	
Apax Europe V-B	UK	35	
Total unlisted		**1,435**	**0.2**
Total equities		**801,302**	**100.0**

Distribution of Total Assets

By Sector	31 October 2017 %	31 October 2016 %
Energy	15.2	12.4
Materials	8.4	7.1
Industrials	10.0	10.5
Consumer Discretionary	8.6	12.4
Consumer Staples	11.8	10.4
Health Care	8.5	8.3
Financials	19.2	15.1
Information Technology	4.5	8.0
Telecommunication Services	5.2	5.1
Utilities	1.9	5.1
Real Estate	1.5	1.1
Net current assets	5.2	4.5
Total assets	**100.0**	**100.0**

By Region	31 October 2017 %	31 October 2016 %
UK	28.6	32.2
Europe (ex UK)	17.9	14.9
North America	26.5	24.9
Latin America	3.0	3.0
Japan	8.2	10.0
Asia Pacific (ex Japan)	10.6	10.5
Net current assets	5.2	4.5
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	31 October 2017 %
Total equities	**105.4**
Net current assets	5.8
Borrowings at amortised cost	(11.0)
Pension liability	(0.2)
Shareholders' funds	**100.0**

Changes in Asset Distribution

	31 October 2016 £m	Net purchases (sales) £m	Appreciation (depreciation) £m	**31 October 2017 £m**
Energy	115.9	25.2	(12.6)	128.5
Materials	66.3	2.8	1.8	70.9
Industrials	98.6	(27.6)	13.2	84.2
Consumer Discretionary	116.4	(60.0)	16.7	73.1
Consumer Staples	97.1	(6.4)	8.7	99.4
Health Care	77.7	(2.0)	(3.6)	72.1
Financials	141.1	(1.5)	22.9	162.5
Information Technology	75.2	(50.9)	13.4	37.7
Telecommunication Services	48.1	5.6	(9.4)	44.3
Utilities	47.2	(28.1)	(3.2)	15.9
Real Estate	9.8	-	2.9	12.7
Total equities	**893.4**	**(142.9)**	**50.8**	**801.3**

Changes in Shareholders' Funds

	31 October 2016 £m	Net purchases (sales) £m	**31 October 2017 £m**	Appreciation (depreciation) £m	Dividend income £m	Total return £m
Total equities	**893.4**	**(142.9)**	**801.3**	**50.8**	**25.7**	**76.5**
Net current assets	42.5	2.6	43.9			
Total assets	935.9	(140.3)	845.2			
Long-term borrowings at amortised cost	(83.6)	(0.1)	(83.7)			
Pension liability	(3.3)	-	(1.1)			
Shareholders' funds	**849.0**	**(140.4)**	**760.4**			

Income Statement

For the year to 31 October 2017

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Net gains on investments held at fair value through profit and loss	-	50,816	50,816	-	177,326	177,326
Net (losses)/gains on currencies	-	(1,185)	(1,185)	-	6,024	6,024
Income	25,898	-	25,898	28,440	-	28,440
Expenses	(2,075)	(1,442)	(3,517)	(2,407)	(1,673)	(4,080)
Net Return before Finance Costs and Taxation	23,823	48,189	72,012	26,033	181,677	207,710
Premium on repayment of secured bonds	-	-	-	-	(7,393)	(7,393)
Interest payable	(2,474)	(2,475)	(4,949)	(2,529)	(2,529)	(5,058)
Return on Ordinary Activities before Tax	21,349	45,714	67,063	23,504	171,755	195,259
Tax on ordinary activities	(1,252)	-	(1,252)	(1,534)	-	(1,534)
Return attributable to Shareholders	**20,097**	**45,714**	**65,811**	**21,970**	**171,755**	**193,725**
Return per share (basic and fully diluted)	**23.06p**	**52.46p**	**75.52p**	**21.62p**	**169.04p**	**190.66p**
Weighted average number of shares in issue during the year		**87,144,760**			**101,606,378**	

	2017 £'000	2016 £'000
Dividends paid and proposed		
Interim 2017 - 5.50p (2016: 5.25p)	4,543	5,276
Final 2017 – 14.50p (2016: 8.25p)	11,523	7,916
Special 2017 – 5.00p (2016: 9.00p)	3,973	8,636
Total 2017 – 25.00p (2016: 22.50p)	**20,039**	**21,828**

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

Balance Sheet
As at 31 October 2017

	£'000	2017 £'000	£'000	2016 £'000
Fixed Assets				
Investments		801,302		893,432
Current Assets				
Debtors	2,113		2,260	
Cash	5,240		11,694	
Cash equivalents	37,696		29,210	
	45,049		43,164	
Creditors: liabilities falling due within one year	(1,152)		(662)	
Net Current Assets		**43,897**		**42,502**
Total Assets less Current Liabilities		**845,199**		**935,934**
Creditors: liabilities falling due after more than one year				
Long-term borrowings at amortised cost		(83,737)		(83,645)
Provisions for Liabilities				
Pension liability		(1,091)		(3,272)
Net Assets		**760,371**		**849,017**
Capital and Reserves				
Called-up share capital		19,867		24,086
Share premium account		39,922		39,922
Other reserves				
Capital redemption reserve		50,994		46,775
Capital reserve		593,484		682,209
Revenue reserve		56,104		56,025
Shareholders' Funds		**760,371**		**849,017**
Net Asset Value per share with borrowings at amortised cost		**956.8p**		**881.2p**
Number of shares in issue at year end		**79,468,458**		**96,342,683**

Statement of Comprehensive Income
For the year to 31 October 2017

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Return attributable to shareholders	20,097	45,714	65,811	21,970	171,755	193,725
Actuarial gains/(losses) relating to pension scheme	1,077	749	1,826	(596)	(414)	(1,010)
Total comprehensive income for the year	21,174	46,463	67,637	21,374	171,341	192,715
Total comprehensive income per share	24.30p	53.31p	77.61p	21.04p	168.63p	189.67p

Statement of Changes in Equity

For the year to 31 October 2017

	2017 £'000	2016 £'000
Opening balance	849,017	733,056
Total comprehensive income	67,637	192,715
Dividend payments	(21,095)	(16,810)
Aviva share buyback	(90,255)	-
Regular share buybacks	(44,933)	(59,944)
Closing balance	**760,371**	**849,017**

Cash Flow Statement

For the year to 31 October 2017

	2017 £'000	2016 £'000
Operating activities		
Net revenue before finance costs and taxation	23,823	26,033
Expenses charged to capital	(1,442)	(1,673)
Decrease/(increase) in accrued income	226	(287)
Increase/(decrease) in other payables	47	(403)
(Increase)/decrease in other receivables	(3)	81
Adjustment for pension funding	(355)	(288)
Tax on investment income	(1,327)	(1,919)
Cash flows from operating activities	**20,969**	**21,544**
Investing activities		
Purchases of investments	**(131,714)**	**(162,884)**
Disposals of investments	**273,474**	**218,530**
Cash flows from investing activities	**141,760**	**55,646**
Cash flows before financing activities	**162,729**	**77,190**
Financing activities		
Dividends paid	(21,095)	(16,810)
Repayment of secured bond	-	(28,241)
Aviva share buyback	(90,255)	-
Regular share buybacks	(44,490)	(60,158)
Interest paid	(4,857)	(5,030)
Cash flows from financing activities	**(160,697)**	**(110,239)**
Net movement in cash and cash equivalents	**2,032**	**(33,049)**
Cash and cash equivalents at the beginning of year	**40,904**	**73,953**
Cash and cash equivalents at the end of year	**42,936**	**40,904**

Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Board of Directors confirms that to the best of its knowledge:

a) the Financial Statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and return of the Company;
b) the Strategic Report includes 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) the Annual Report and Financial Statements, 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.

The responsibility statement was approved by the Board of Directors and signed on its behalf by:

James Will
Chairman
8 December 2017

Notes

1. The financial statements have been prepared in accordance with Financial Reporting Standard 102 and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued in 2014 and updated in January 2017. The financial statements are prepared in sterling which is the functional currency of the Company and are rounded to the nearest £'000. They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis.

2. Return per ordinary share

The revenue return per share is calculated on net revenue on ordinary activities after taxation for the year of £20,097,000 (2016 - £21,970,000) and on 87,144,760 (2016 – 101,606,378) shares, being the weighted average number of shares in issue during the year.

The capital return per share is calculated on net capital return for the year of £45,714,000 (2016 –£171,755,000) and on 87,144,760 (2016 – 101,606,378) shares, being the weighted average number of shares in issue during the year.

The total return per share is calculated on total return for the year of £65,811,000 (2016 –£193,725,000) and on 87,144,760 (2016 – 101,606,378) shares, being the weighted average number of shares in issue during the year.

3. Net asset value per share

The net asset value per share is based on net assets of £760,371,000 (2016: £849,017,000) and on 79,468,458 (2016: 96,342,683) shares, being the number of shares in issue at the year end.

4. Dividends

A final dividend in respect of the year ended 31 October 2017 of 14.50p (2016 – 8.25p) per share will be paid on 9 February 2018 to shareholders on the register on 12 January 2018.

A special dividend in respect of the year ended 31 October 2017 of 5.00p (2016 – 9.00p) per share will be paid on 9 February 2018 to shareholders on the register on 12 January 2018.

5. Related parties

The Directors of the Company receive fees for their services.

6. The financial information set out above does not constitute the Company's statutory Financial Statements for the year ended 31 October 2017 but is derived from those Financial Statements. Statutory Financial Statements for the year ended 31 October 2017 will be delivered to the Registrar of Companies in due course. The Auditor has reported on those Financial Statements; its report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The text of the Auditor's Report will be found in the Company's full Annual Report and Financial Statements on the Company's website: **www.thescottish.co.uk** Copies may also be obtained from the Company Secretary: Maitland Administration Services (Scotland) Limited, 20 Forth Street, Edinburgh EH1 3LH.

Risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective stated above. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets and a reduction in the profits available for dividend.

The main risks include investment and market price risk (comprising foreign currency risk and interest rate risk), liquidity risk and credit risk. The Directors' approach to the management of these risks is set out below. The Directors of the Company and of S.I.T. Savings Limited coordinate the Company's risk management.

The Company's policies and processes for managing the risks, and the methods used to measure the risks, which are set out below, have not changed from those applied in the previous year.

a. Investment and market price risk

The holding of securities and investing activities involve certain inherent risks. Events may occur which affect the value of investments. The Company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. From time to time, the Company may wish to use derivatives in order to protect against a specific risk or to facilitate a change in investment strategy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the Board.

b. Foreign currency risk

Approximately 70% of the Company's assets are invested overseas which gives rise to a currency risk. From time to time, specific hedging transactions are undertaken. The Company's overseas income is subject to currency movements.

c. Interest rate risk

The Company finances its operations through a combination of investment realisations, retained revenue reserves, debenture stocks and secured bonds. All debenture stocks and secured bonds are at fixed rates.

d. Liquidity risk

Almost all of the Company's assets comprise listed securities which represent a ready source of funds.

e. Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

f. Capital management policies and procedures

The Company carries on its business as a global growth investment trust. 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.

The levels of gearing and gross gearing are monitored closely by the Board and the Manager. The Board currently limits gearing to 20%. While gearing will be employed in a typical range of 0% to 20%, the Company retains the ability to lower equity exposure to a net cash position if deemed appropriate.

The Board, with the assistance of the management, monitors and reviews the structure of the Company's capital on an ongoing basis. This review includes the planned level of gearing which will take into account the management's view on the market, the need to buy back shares for cancellation and the level of dividends.

The Company's policies and processes for managing capital are unchanged from the previous year.