# THE SCOTTISH Investment Trust

## Monthly Factsheet
September 2019

ALASDAIR MCKINNON

Despite conflict and geopolitical tensions heightening fears of a global recession, the world's equity markets rose modestly in September.

The trade dispute between the US and China escalated early in the month, with the imposition of US tariffs on Chinese imports. China responded by lodging a World Trade Organisation (WTO) complaint against the US, though some hopeful signs emerged later as both countries partially lifted tariffs.

Meanwhile, trade tensions between the US and Europe increased as the WTO ruled that the US could impose levies on goods from EU nations because of the bloc's illegal subsidies for Airbus.

In the Middle East, a drone attack on a Saudi Arabian oil facility caused a 19% spike in the price of crude. It later fell back as progress was made in restoring the lost output and US oil stockpiles were reported to have risen.

The US Federal Reserve cut interest rates again, but indicated that this would be its last cut for now – prompting a furious response from President Trump. As German manufacturing data slumped to its worst level in almost seven years, the European Central Bank reduced its benchmark interest rate to 0.5% and announced that it would resume quantitative easing in November.

In sterling terms, the US market was the month's poorest performer. This was partially due to a stronger pound, but also reflected growing political uncertainty as the Democrats began formal impeachment proceedings against President Trump.

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The strongest market was Japan, on reduced concerns over its economic health. Consumer purchases increased only slightly ahead of an increase in sales tax which took effect at the end of the month, suggesting that no disastrous slump in consumer spending will follow. The last time the tax rose, the subsequent fall-off led to a recession.

Despite a tumultuous political month, the UK market was also strong. The Supreme Court ruled that Boris Johnson's suspension of Parliament on 9 September was unlawful, and MPs returned to Westminster at the end of the month. Earlier, Parliament passed a law designed to avert a no-deal Brexit, prompting a rally in the pound. There was also reassurance from the Bank of England's Governor, Mark Carney, who said that greater preparation meant that the bank's worst case Brexit scenarios were now less severe.

> "a tumultuous political month"

A UK holding, BT, was one of our best performers in September. Its shares have long been out of favour, but it recently received a boost from the government's announcement of a £5 billion fund to support the deployment of rural fibre networks. Boris Johnson's plan to upgrade the nation's network could also lead to an easing of mobile infrastructure regulations. Meanwhile, BT has a turnaround strategy in place, with a focus on cutting costs and investing in network leadership. Philip Jansen, the new CEO, has added fresh impetus to this plan. We see BT an interesting contrarian opportunity given the scope for operating recovery and an improving environment – we believe this potential is not yet reflected in the share price.

## Performance

| Total return on £100 to 30 September 2019 | 6 months | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|---|
| Share price [1] | 105.5 | 99.1 | 130.4 | 163.4 | 255.1 |
| NAV per share [2] | 105.1 | 98.5 | 122.7 | 159.3 | 242.2 |
| MSCI All Countries World Index | 109.5 | 107.3 | 139.2 | 181.5 | 289.4 |
| MSCI UK All Cap Index | 104.0 | 102.3 | 121.0 | 137.4 | 217.8 |

## Summary balance sheet

| | 30/09/2019 | 31/08/2019 | Total return |
|---|---|---|---|
| Market capitalisation | £614m | £605m | |
| Total assets | £789m | £785m | |
| Borrowings at amortised cost | £84m | £84m | |
| Net assets [3] | £704m | £700m | |
| NAV [2] per share | 914.1p | 902.8p | 1.3% |
| NAV [3] per share | 952.0p | 941.6p | 1.1% |
| Share price | 831.0p | 814.0p | 2.1% |

[1] Net income reinvested and before expenses are deducted.

[2] With borrowings at market value [3] With borrowings at amortised cost

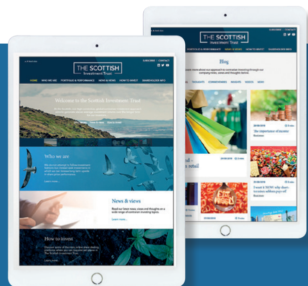
The figures refer to the past and past performance is not a reliable indicator of future results. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. Exchange rate changes may cause the value of non-sterling investments to go down as well as up.

## Company information

| | |
|---|---|
| Company founded | 1887 |
| Manager | Alasdair McKinnon |
| Ongoing charges figure (OCF) | 0.52% |
| Dividend yield | 2.6% |
| Number of listed holdings | 50 |
| Gearing/(net cash) [2] | 0% |
| Discount to NAV [2] | 9.1% |

The Company's discount policy aims, in normal market conditions, to maintain the discount to NAV at or below 9%.

Link to our **Annual and Interim Reports**




## Contact US …to get in touch and find out more

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# ABOUT THE SCOTTISH

## Our Objective

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.

## Our High Conviction, Global Contrarian Investment Approach

- We are contrarian investors.
- We believe markets are driven by cycles of emotion rather than dispassionate calculation. This creates profitable investment opportunities.
- We take a different view from the crowd.
- We seek undervalued, unfashionable companies that are ripe for improvement.
- We are prepared to be patient.
- We back our judgement and run a portfolio of our best ideas, selected on a global basis.
- Our portfolio is unlike any benchmark or index and we fully expect to have differentiated performance.
- Our approach will not always be in fashion but we believe it delivers above-average returns over the longer term, by which we mean at least five years.

Link to more about our philosophy, approach and process

## Top 10 holdings (30 September 2019)

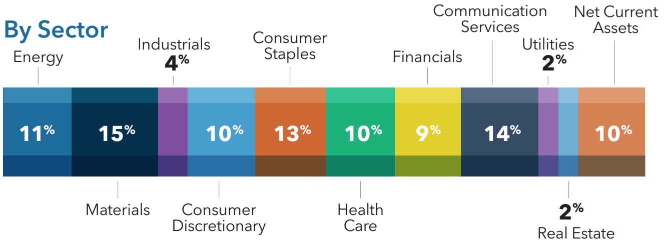
| Holding | Sector | Country | £m | %[4] |
|---|---|---|---|---|
| Newcrest Mining | Materials | Australia | 43.1 | 5.5 |
| Tesco | Consumer Staples | UK | 36.4 | 4.6 |
| Target | Consumer Discretionary | US | 35.4 | 4.5 |
| GlaxoSmithKline | Health Care | UK | 33.6 | 4.3 |
| Barrick Gold | Materials | Canada | 32.0 | 4.1 |
| Newmont Goldcorp | Materials | US | 31.3 | 4.0 |
| Royal Dutch Shell | Energy | UK | 24.2 | 3.1 |
| Pfizer | Health Care | US | 23.6 | 3.0 |
| PepsiCo | Consumer Staples | US | 21.9 | 2.8 |
| Roche | Health Care | Switzerland | 20.0 | 2.5 |
| **Aggregate of top 10 holdings** | | | **301.5** | **38.4** |

Link to a full list of holdings

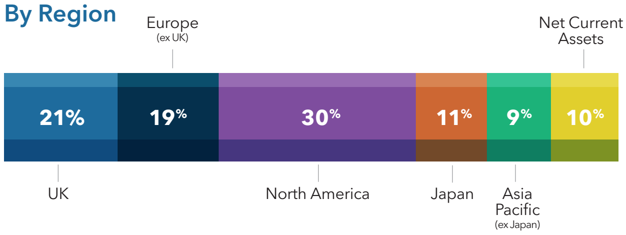
[4] Percentage of total assets

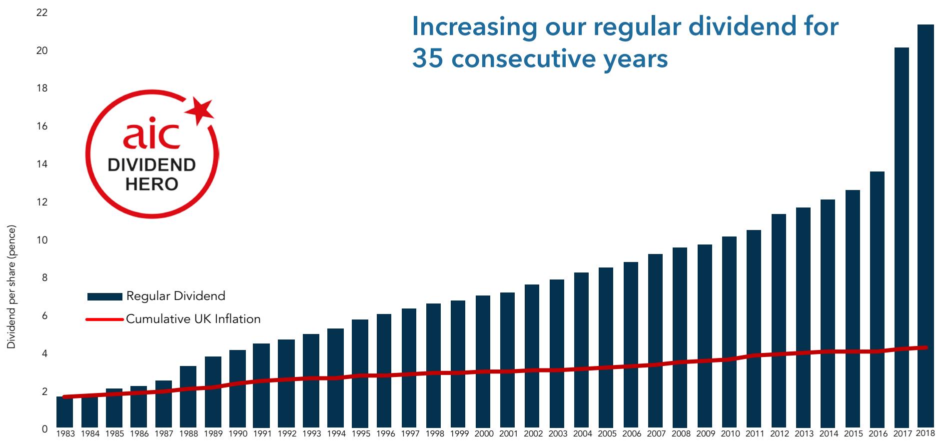
## Distribution of total assets (30 September 2019)

### By Sector




### By Region




## QUARTERLY DIVIDEND PAYMENT

| | |
|---|---|
| FIRST INTERIM | May |
| SECOND INTERIM | August |
| THIRD INTERIM | November |
| FINAL | February |

## IMPORTANT INFORMATION



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