The Scottish Investment Trust PLC

Annual Results for the year to 31 October 2019.

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 2019.*

Highlights

- Total dividend increased by 20.0%
- Regular dividend increased by 7.5% to 22.80p
- 36th consecutive year of regular dividend increase
- Additional special dividend of 7.45p
- Share price total return +1.0% and NAV total return +0.5%

Chairman's Statement

Performance

The Company delivered a modest total return during the twelve months to 31 October 2019.

The share price total return was +1.0% and the net asset value per share (NAV) total return (with borrowings at market value) was +0.5%. 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 +11.2% while the UK based MSCI UK All Cap Index total return was +5.8%.

This was not a fruitful year for our contrarian approach as cheap money continued to distort investor attitude to risk and reward. This situation looks increasingly stretched and we believe that it will correct over time. A key tenet of our philosophy is to invest in the knowledge that cycles still exist and that, when the trends inevitably change, it will prove a source of surprise to markets. The Manager seeks to position the portfolio to prepare for a change in consensual thinking. Cycles can represent both a threat to wealth (if investments are bought too near the top) and an opportunity to build wealth (if investments are bought near the trough).

Accordingly, the portfolio is invested in a contrarian manner, focusing on out-of-favour stocks, often in unloved areas of the market. Our logic is that there is a better long-term balance between risk and reward when the expectations for an investment's earnings power and future valuation are low.

This philosophy itself has been unfashionable in recent years, to the extent that the valuation gap between the cheapest and most expensive stocks and the widely divergent views about their prospects is reminiscent of the dotcom era. Then, the 'cheap stocks' bounced back after the 'tech mania' had passed and the Manager anticipates a similar period of mean reversion ahead.

A growing following

A focus in recent years has been to highlight the merits of the Company as an attractive and differentiated investment vehicle for the long-term investor. Individual investors are increasingly willing to self-select their investments through online platforms and our aim has been to build an identity with those investors.

We believe that a consistent, growing dividend is an important consideration for many long-term investors. Our contrarian approach has allowed the Company to deliver a step change increase in the regular dividend in recent years and we aim to continue to grow this dividend ahead of UK inflation. The Scottish is one of the highest yielding trusts in its peer group and is recognised as a 'Dividend Hero' by the AIC.

The team continues to create thoughtful and insightful content which is available on the Company's website and is shared on social media. As ever, I would encourage those of you who have not already done so to follow us on social media, where you can find the most up-to-date news and articles, and you can subscribe to our monthly email via the website.

We have set out to communicate our distinct identity to investors and are pleased to have attracted a loyal following who relate to our way of investing. We were delighted to be voted 'Best Investment Trust' in the Shares Awards 2019. This is the second consecutive year that the Company has won this award, sponsored by Shares Magazine.

Income and dividend

Over the past year, earnings per share rose by 14.4% to 29.80p (2018: 26.00p).

The Board recommends a final dividend of 6.90p which, if approved, will mean that the total regular dividend for the year will increase by 7.5% to 22.80p and will be the 36th consecutive year of regular dividend increase.

The Board's target is to declare three quarterly interim dividends of 5.70p for the year to 31 October 2020 and recommend a final dividend of at least 5.70p for approval by shareholders at the Annual General Meeting in 2021. 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.

Our income reserve remains substantial at 70.50p, equivalent to around three times the targeted annual dividend. As I have previously mentioned, our portfolio is not explicitly invested for income and the Board recognises that there may be occasions when the portfolio does not necessarily fully cover the requirements of the regular dividend. While it is currently academic, I would like to remind shareholders that we consider this reserve could be drawn upon in future, if required.

As I have previously outlined, following a step-change in our regular dividend, the Company does not intend to routinely pay discretionary special dividends. However, as the income generated during the year was substantial and we see no need to add significantly to revenue reserve this year, the Board recommends a special dividend of 7.45p. The total dividend for the year, if approved, will increase by 20.0% to 30.25p.

Discount, share buybacks and ongoing charges

The Company follows a policy that aims, in normal market conditions, to maintain the discount to NAV (with borrowings at market value) at or below 9%. The average discount over the year was 8.9%.

During the year, 3.3m shares were purchased for cancellation at an average discount of 9.4% and a cost of £27.0m. In the previous year, 2.3m shares were purchased.

The ongoing charges figure (OCF) for the year under review of 0.58% (2018: 0.52%) remains favourable compared with other actively-managed investment vehicles. As a self-managed investment trust, the OCF represents the ongoing costs of running the Company as a proportion of net assets.

Gearing

At 31 October 2019, gearing was 1% (31 October 2018: 0%). The Company continually reviews opportunities to deploy gearing and it is our expectation that borrowings will be utilised, over time, for the long-term benefit of shareholders.

Board composition

Russell Napier will retire as a Director and not stand for re-election at the AGM. The Company has benefitted immeasurably from Russell's knowledge and experience over the last ten years. The Board and I would like to extend our gratitude to Russell for his outstanding contribution.

We welcome Neil Rogan to the Board, following his appointment as a non-executive director in September 2019. Neil is an investment management specialist who brings extensive experience from his long career in the industry. Neil will stand for election at the AGM.

Outlook

Broadly speaking, the uncertain issues outlined in my previous outlook statements remain unresolved.

However, a significant new development was that the US Federal Reserve, which sets the benchmark for the global cost of money, was forced to abandon efforts to 'normalise' interest rates.

The cost of money remains too low as policy makers continue to grapple with the ramifications of the financial crisis of more than a decade ago. In August, close to a quarter of the global stock of government bonds offered negative yields, meaning that, if purchased at the prevailing price and held to maturity, the investor was guaranteed to lose money. Around the same time, a Danish bank made headlines by offering the world's first negative interest rate mortgage. It is uncertain if this more mainstream adoption of negative interest rates will prove transient or become the norm. However, one thing that is abundantly clear is that the long-term implications are not well understood.

Cheap money has exacerbated wealth inequality and created a wider schism between the 'haves' and the 'have nots' in society. The Brexit vote and the election of Donald Trump were amongst the first salvos in a popular rebellion against the economic status quo and there seems to be an increasing number of these episodes of popular rage, as we have seen in France, Hong Kong, Spain and Chile. To appease this discontent, fiscal largesse is on the increase, with austerity on the wane.

Politics and political considerations will continue to have an impact on markets with the most notable being the Sino-US trade discussions, the 2020 US Presidential election and, as I write, the result of the UK general election and subsequent state of the Brexit negotiations. The potential impact of Brexit is reviewed regularly by the Company. As a global investment trust with a diversified portfolio of international equities, it is unlikely that the Company's business model or operations will be adversely impacted as a direct result of Brexit. Generally speaking, politicians seem motivated to resolve international disputes, but they obviously have to sell those solutions to their respective domestic audiences.

In the stockmarket, various trends resulting from cheap money, such as the substantial divergence of stock valuations, seem over-extended and, given our contrarian stance, we believe that the Company remains well placed for the future.

James Will
Chairman
13 December 2019

Manager's Review

One evening in September 2007, whilst on holiday, a flickering TV caught my attention. I was stunned to see a report that concerns about the financial strength of Northern Rock had dramatically escalated. Rather than accept the reassurances of the authorities, people were queuing around the block to withdraw their money. Admittedly, I had been worried for some time about the debt-funded party that had characterised the previous few years of economic activity but, to me, this was a tangible sign that we had reached the peak of that cycle. I had no exact knowledge of what would happen next but I reasoned that anything that had come to depend on easy money was shortly going to be in difficulty.

As it turned out, money markets and credit conditions continued to deteriorate, which culminated, a year later, in the bankruptcy of Lehman Brothers. Looking back, there are two factors that I continue to find surprising. The first is how bad things got. I would not have predicted, in 2007, the de facto bankruptcy of the Western banking system within a year. The second is how the markets initially reacted to the downturn in the cycle. As credit markets froze and the US headed for recession, the markets' 'animal spirits' decided that emerging markets could 'decouple' from developed markets. Further, as emerging markets required a lot of raw materials, the logic was extended such that commodity prices could also 'decouple'. Accordingly, for about nine months 'decoupling' became the hottest investment theme, culminating most memorably in the oil price hitting a high of around $146 per barrel in July 2008. By the end of that year, as economic activity ground to a halt, the oil price was close to $40 which showed that decoupling was always a fanciful notion. Nevertheless, had investors correctly predicted the outcome of these events and acted accordingly in September 2007, they still would have endured a very uncomfortable nine months before their investment decisions came good.

I mention this because it seems that the recently failed IPO of WeWork is a similarly significant event for the 'unicorn' party and, perhaps, loss making ventures in general. A unicorn is the term given to private, recently started businesses that have an implied valuation of over $1bn. WeWork was one of the biggest unicorns of all, with an implied valuation of $47bn (for context, a well known company of similar market capitalisation is BMW). Many unicorns present themselves as technology based disrupters but actually operate at vast losses in low margin, cyclical industries with revenue growth only sustained through a subsidised user experience. In effect, these companies require a constant supply of new capital to sustain their business models.

I cannot say with certainty what the ramifications will be of the bursting of this 'disruption' bubble but, as I have expressed before, my view is that this particular investment theme has been one of the more egregious by-products of a cheap money environment. I think, if the mood is starting to turn away from these sorts of investments, that the unloved but cheap areas of the market will find favour.

The portfolio

Our gold miners, in aggregate, provided our largest gains during the year. **Newcrest Mining** (+£12.2m total return), **Barrick Gold** (+£8.2m) and **Newmont Goldcorp** (+£7.6m) appreciated as the gold price increased and investors were encouraged by a recent wave of mergers between the big miners and a greater focus on efficiency and capital discipline. Gold is perceived as a safe haven at times of market turbulence but, for us, a more attractive feature is the fact that it acts as a currency which is not susceptible to the devaluing effect that loose monetary policy and unfunded government spending has on paper money.

Returns from the retail sector were, overall, not as pleasing. Strong gains came from US-based **Target** (+£7.7m), which reaped the reward of a programme to optimise its operations for both online and in-store transactions. We believe this type of 'multi-channel' approach is most likely to prosper given the poor economics of online-only sales. UK supermarket **Tesco** (+£4.3m) also performed well as it continued to make significant strides towards rebuilding profitability. However, US department store operator **Macy's** (-£13.2m) was a source of disappointment as a stumble in the turnaround plan wiped out the strong gains from the previous year. We had hoped that **Gap** (-£9.6m) could unlock value by splitting the business in order to focus on distinct brands but this was undermined by weak sales in its most profitable brand. **Marks & Spencer** (-£6.9m) performed poorly as it entered into a venture with online food retailer Ocado.

Among our health care holdings, **GlaxoSmithKline** (+£5.4m) and **Roche** (+£4.0m) performed well as they advanced plans to reinvigorate their pipeline of drugs. **Pfizer** (-£2.5m), meanwhile, gave back some of its previous gains as it transforms from health conglomerate to a company focused on innovative pharmaceuticals.

In financials, the subdued yield environment was particularly disadvantageous for our Japanese banks **Mitsubishi UFJ Financial** (-£2.3m) and **Sumitomo Mitsui Financial** (-£2.0m). Solid returns came from emerging markets focused lender **Standard Chartered** (+£4.5m), which resumed share buybacks in a sign of progress with its turnaround plan, but we substantially reduced our holding when it became apparent to us that protests in Hong Kong would be longstanding.

Among our oil holdings, we continue to see exceptional value in the oil majors, which now have the whip hand when procuring services, but **Exxon Mobil** (-£2.5m) and **Royal Dutch Shell** (-£2.0m) retreated on concerns about a slower global economy. We sold **National Oilwell Varco** (-£4.1m) and **Diamond Offshore Drilling** (-£2.3m) as our analysis showed it would be several years before they again enjoyed pricing power.

Japanese electronic goods companies **Sony** (-£2.5m) and **Nintendo** (-£1.3m) were both sold during the period having successfully revived their fortunes. Despite recording losses during this reporting period, they were very fruitful investments over our holding period.

In telecommunications, our new holdings made modest gains **AT&T** (+£0.6m), **Deutsche Telekom** (+£0.6m), **KPN** (+£0.3m), **Orange** (+£0.6m), **Tele2** (+£0.6m) and **Telstra** (+£0.3m). Their defensive characteristics and attractive dividends are complemented by a shifting regulatory cycle which may incentivise investment in next generation networks. Among our pre-existing telecommunications holdings, **China Mobile** (-£2.3m) declined, not helped by its Hong Kong listing, while **BT** (+£1.8m) advanced as investors anticipated a more benign environment.

BHP (+£4.8m), a diversified miner, was aided by high iron ore prices and a focus on capital discipline which has helped fuel a meaningful recovery in cash flows. As this improvement seemed more fully appreciated by investors, we sold our holding during the year.

UK water and waste services company **United Utilities** (+£3.6m) recorded solid gains as the regulatory backdrop eased, defensive assets found favour with investors and, perhaps most importantly, investors sensed the chance of an unfavourable political environment had diminished.

Outlook

The stockmarket remains strong but the global economy seems to be slowing. Markets continue to dance to a cheap money tune but recently have shown less appetite for profitless growth at inflated valuations. We think this new mood will spread to other areas of the market where investors have been prepared to accept ever fancier valuations for ‘certain’ growth. We cannot be precise on when this will happen but we do know that ‘sure’ things almost always disappoint and that paying a steep price is a bad starting point.

There has been much talk of a recession lately, but the reality is that, outwith the US, most of the world is already enduring sluggish conditions. Most of our holdings are in the unloved and out-of-favour parts of the market and, arguably, many are already priced for a recession. We think this gives scope to defy low expectations and thus to generate long term gains.

A global recession is a possibility but politicians are alive to this threat. President Trump seems keen to sign a watered down trade deal with China, with one eye on his re-election, while the US Federal Reserve has not only cut interest rates but has again started to inject money into the financial system in a QE-like manner.

We think the Brexit fog is starting to lift and we believe that the combination of a cheap currency and depressed UK stocks relative to other parts of the world could be an interesting opportunity.

I have previously noted that, as contrarian investors, we actively seek unfashionable investments that we believe have underappreciated potential. Where expectations are low there can be significant scope for positive surprises and this is where we believe the best balance between risk and reward exists.

Alasdair McKinnon
Manager
13 December 2019

Our approach
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.

NAV Absolute Performance Attribution Year to 31 October 2019	Contribution %
Equity portfolio (ungeared)	+2.5
Gearing	+0.0
Total equities	**+2.5**
Other income and currency	+0.0
Buybacks	+0.3
Expenses	-0.8
Interest charges	-0.5
Change in market value of borrowings	-1.0
Change in pension liability	0.0
NAV with borrowings at market value total return	**+0.5**

Top Ten Gains and Losses
Year to 31 October 2019

	Performance† %	Gains £m		Performance† %	Losses £m
Newcrest Mining	47.6	12.2	Macy's	-53.7	-13.2
Barrick Gold	40.8	8.2	Gap	-38.8	-9.6
Target	29.7	7.7	Marks & Spencer	-33.0	-6.9
Newmont Goldcorp	32.8	7.6	National Oilwell Varco*	-37.5	-4.1
GlaxoSmithKline	18.5	5.4	Sony*	-9.4	-2.5
BHP*	12.8	4.8	Pfizer	-13.0	-2.5
Standard Chartered	13.5	4.5	Exxon Mobil	-21.9	-2.5
Tesco	23.7	4.3	Diamond Offshore Drilling*	-10.9	-2.3
PepsiCo	24.5	4.3	Mitsubishi UFJ Financial	-44.6	-2.3
Roche	25.1	4.0	China Mobile	-12.4	-2.3

* Sold during the year.
† Total return on investment, taking into account both capital returns and entitlement to dividends declared, for the period the investment was held during the year.

Strategic Report

Business Model and Status
The Company is a self-managed global growth investment trust and is an investment company within the meaning of the Companies Act 2006. HM Revenue & Customs has approved the Company as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010. The Company continues to satisfy the conditions for such approval. The Company is registered in Scotland and its registered office is 6 Albyn Place, Edinburgh EH2 4NL.

Investment objective and policy
The Company's 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.

In order to achieve this objective, the Company invests in an integrated global portfolio constructed through an investment process whereby assets are primarily allocated on the basis of the investment merits of individual stocks rather than those of regions, sectors or themes.

The Company's portfolio is actively managed and typically will contain 50 to 100 listed international equity investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is compared against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the Company's investment portfolio and performance may deviate from the comparator indices.

Since the Company's assets are invested globally and without regard to the composition of any index, there are no restrictions on maximum or minimum exposures to specific geographic regions, industry sectors or unlisted investments. However, such exposures are reported in detail to, and monitored by, the Board at each Board meeting in order to ensure that adequate diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. In pursuing its investment objective, from time to time the Company will hold certain financial instruments comprising equity and non-equity shares, fixed income securities, interests in limited partnerships, structured products and cash and liquid resources. The Company may use derivatives, other than in relation to the sale of index futures, for hedging or tactical investment purposes. The Company may only sell index futures for efficient portfolio management purposes. For the avoidance of doubt, any derivative instrument may only be used with the prior authorisation of the Board.

The Company has the ability to enter into contracts to hedge against currency risks on both capital and income.
The Company's investment activities are subject to the following limitations and restrictions:

- under the Company's Articles of Association, up to 40% of the Company's total assets on the last audited balance sheet may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made;
- 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 Company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds; and
- the Company may not make investments in respect of which there is unlimited liability except that the Company may sell index futures for efficient portfolio management purposes.

Investment policy – implementation

During the year under review, the assets of the Company were invested in accordance with the Company's investment policy.

A full list of holdings and detailed analysis of the spread of investments by geographic region and industry sector is shown below. A further analysis of changes in asset distribution by industry sector over the year, including the sources of appreciation/depreciation, is shown below. Attribution of NAV performance is shown above.

At the year end, the number of listed holdings was 51 (2018: 50). The top ten holdings comprised 37.0% of total assets (2018: 33.8%).

Details of the extent to which the Company's objective has been achieved and how the investment policy was implemented are provided above in the Chairman's Statement and the Manager's Review.

Additional limitations on borrowings

Under the Company's Articles of Association, the Directors control the borrowings of the Company and its subsidiaries to ensure that the aggregate amount of borrowings does not, unless approved by an ordinary resolution of shareholders, exceed the aggregate of the reserves excluding unrealised capital profits of the Company and its subsidiaries, as published in the latest accounts. In addition, the Directors are authorised to incur temporary borrowings in the ordinary course of business of up to 10% of the Company's issued share capital. Such temporary borrowings are to be for no longer than six months.

Principal risks and uncertainties
The principal risks and uncertainties facing the Company are considered under the following categories:

- Strategic – the level of investor appetite for the Company declines resulting in divestment or the Company's objective is challenged by significant external events such as regulatory change, global financial instability and the uncertainties around Brexit and Scottish independence;
- Investment portfolio and performance – the Company becomes unattractive due to level of relative performance, whether against peers or global market trends;
- Financial – failure to set and monitor appropriate policies and controls in relation to market risk, credit risk and liquidity risk;
- Operational – specific focus on the potential failure of the Company's third party service providers' systems, including vulnerability to cyber attack or loss of key personnel; and
- Tax, legal and regulatory – compliance with existing requirements and the ability to identify and respond to the continued volume of change in this area.

These and other risks facing the Company are reviewed regularly by the Audit Committee and the Board.

Performance
Management provides the Board with detailed information on the Company's performance at every Board meeting. Performance is measured in comparison with the Company's peers and comparator indices.

Key Performance Indicators
The Directors use the following Key Performance Indicators (KPIs) and a number of Alternative Performance Measures (APMs) in order to assess the Company's success in achieving its objectives. These KPIs and APMs are viewed by the Board to be the most appropriate long term measures to enable investors to gain an understanding of the Company's business.

- NAV total return;
- NAV total return against comparators;
- NAV and share price total return against peers;
- discount with debt at market value;
- dividend growth against UK inflation; and
- ongoing charges figure.

Future Developments
The main trends and factors likely to affect the future development, performance and position of the Company's business are set out in the Chairman's Statement and the Manager's Review.

Dividends
The Board may declare dividends, including interim dividends, but no dividend is payable in excess of the amount recommended by the Directors. The Company updated its Articles of Association in 2019 to allow distribution of its capital profits.

The Directors recommend a final dividend of 6.90p and a special dividend of 7.45p payable on 14 February 2020. With the interim dividends each of 5.30p already paid in May, August and November 2019, this makes a total of 30.25p for the year. Based on 73,893,508 shares in issue at 31 October 2019, the final and special dividend will cost £10.604m. The total dividend for the year will cost £22.573m.

Share capital
General
The Company had 73,893,508 shares of 25p each in issue on 31 October 2019 (2018: 77,184,578). Since the year end, the Company has bought back 50,000 shares for cancellation. The rights attaching to shares in the Company are set out in the Company's Articles of Association which may be amended by the passing of a special resolution of shareholders, that is, by the approval of a majority of not less than 75% of votes cast.

The Financial Conduct Authority rules in relation to non-mainstream investment products do not apply to the Company.

Rights to the capital of the Company on winding up
Shareholders would be entitled to the assets of the Company in the event of a winding up (after the Company's other liabilities had been satisfied).

Voting
On a show of hands, every shareholder present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for each share.

Transfer

There are no restrictions concerning the holding or transfer of shares in the Company and there are no special rights attaching to any of the shares. The Company is not aware of any agreements between shareholders which might result in any restriction on the transfer of shares or their voting rights.

Deadlines for exercising voting rights

If a shareholder wishes to appoint a proxy to attend, speak and vote at a meeting on their behalf, a valid appointment is made when the form of proxy (together, where relevant, with a notarially certified copy of the power of attorney or other authority under which the form of proxy is signed) is received by the Company's registrar not less than 48 hours before the start of the meeting or the adjourned meeting at which the proxy is appointed to vote (or, in the case of a poll taken more than 48 hours after it is demanded, no later than 24 hours before the time appointed for taking the poll). In calculating these time periods, no account is taken of any day or part thereof that is not a working day.

Discount control policy

The Company's policy aims, in normal market conditions, to maintain the discount to cum-income NAV at or below 9%. In calculating the NAV for the purposes of this policy, the Company's borrowings are taken at their market value so as to ensure that future repurchases of shares will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. During the year ended 31 October 2019, the Company bought back for cancellation a total of 3,291,070 shares of 25p each representing 4.3% of shares in issue at 31 October 2018, at a cost of £26,978,000.

At the AGM on 7 February 2019, authority was granted to repurchase up to 14.99% of shares in issue on that date. The number of shares authorised for repurchase was 11,502,977. Share buybacks from the date of the AGM to the Company's year end amounted to 2,844,162 shares or 3.71% percentage points of the 14.99% authority.

Holding in listed closed-ended investment fund

Company holdings include one investment in a listed closed-ended investment fund of £13.1m: 1.7% of total assets (2018: £12.5m: 1.6%). This comprised solely of an investment in British Land, a UK property fund. 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 were valued at £1.5m (0.2% of shareholders' funds). These comprise the Company's office property and subsidiary.

Viability statement

The Directors have assessed the prospects of the Company for a period of five years. The Board believes this time period is appropriate having consideration for the Company's principal risks and uncertainties; its portfolio of liquid listed international equity investments and cash balances; and its ability to achieve the stated dividend policy and to cover interest payments on the Company's debt.

In making this assessment, the Directors have considered detailed information provided at Board meetings which includes the Company's balance sheet, gearing level, share price discount, asset allocation, income and operating expenses.

Based on the above, the Board confirms it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of this assessment.

Investment risk

The investment portfolio is diversified over a range of industries and regions in order to spread risk. The Company has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns but, should stockmarkets fall, such borrowings would magnify losses. The Company can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing.

Performance comparators

The Company does not have a formal benchmark. Performance is reviewed in the context of returns achieved by a broad basket of UK equities through the MSCI UK All Cap Index and of international equities through the MSCI All Country World Index (ACWI). The portfolio is not modelled on any index.

Management

The Board has appointed the Company's wholly-owned subsidiary, S.I.T. Savings Limited, as its Alternative Investment Fund Manager (AIFM).

Day-to-day management of the Company is delegated to the Company's executive management which reports directly to the Board.

The Board has appointed Maitland Administration Services (Scotland) Limited to provide company secretarial, administration and accounting services to the Company.

Substantial shareholdings

At 31 October 2019, the Company had been informed of the following notifiable interest in its voting rights:

	Shares	% held
Wells Capital Management Inc.	4,924,836	6.7

There have been no changes notified to the Company in respect of the above interest, and no new interests notified, since 31 October 2019.

Analysis of share register at 31 October 2019

Category of holder	Share capital %
Individuals	82.9
Investment companies	5.5
Pension funds	4.8
Other	6.8
Total	**100.0**

Company's directors and employees

The table below shows the breakdown of Directors and employees.

	31 October 2019		31 October 2018	
	Male	Female	Male	Female
Directors	4	2	3	2
Senior Manager	1	0	1	0
Employees	4	5	5	3

Environmental, Social and Governance Policy

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on the performance are considered and these may include environmental, social and governance issues.

As an investment trust, the Company does not provide goods or services in the normal course of business, nor does it have customers. Accordingly, the Directors consider that the Company does not fall within the scope of the Modern Slavery Act 2015 and that there are no disclosures to be made in respect of human rights or community issues.

Bribery Act 2010

The Company has a zero tolerance policy towards bribery and a commitment to carry out business fairly, honestly and openly.

Criminal Finances Act 2017

The Company has a zero tolerance policy to tax evasion and the facilitation of tax evasion.

The Strategic Report was approved by the Board and signed on its behalf by:

James Will
Chairman
13 December 2019

Financial Summary

	2019	2018	Change %	Total Return %
NAV with borrowings at market value	878.5p	900.1p	(2.4)	0.5§
NAV with borrowings at amortised cost	915.9p	926.8p	(1.2)	1.7§
Ex-income NAV with borrowings at market value§	864.2p	888.9p	(2.8)	
Ex-income NAV with borrowings at amortised cost	901.6p	915.5p	(1.5)	
Share price	807.0p	825.0p	(2.2)	1.0
Discount to NAV with borrowings at market value§	8.1%	8.3%		
MSCI ACWI			+8.9	+11.2
MSCI UK All Cap Index			+1.0	+5.8

	£'000	£'000	
Equity investments	687,820	717,547	
Net current assets	74,173	82,931	
Total assets	761,993	800,478	
Long-term borrowings at amortised cost	(83,921)	(83,829)	
Pension liability	(1,279)	(1,337)	
Shareholders' funds	676,793	715,312	
Earnings per share	29.75p	26.02p	+14.4
Regular dividend per share (2019: proposed final 6.90p)	22.80p	21.20p	+7.5
Special dividend per share	7.45p	4.00p	
Total dividend per share	30.25p	25.20p	+20.0
UK Consumer Prices Index – annual inflation			+1.5

§ Alternative Performance Measures

Year's High & Low

	Year to 31 October 2019 High	Year to 31 October 2019 Low	Year to 31 October 2018 High	Year to 31 October 2018 Low
NAV with borrowings at market value	930.6p	812.9p	991.8p	844.9p
Closing share price	843.0p	748.0p	902.0p	771.0p
Discount to NAV with borrowings at market value	10.1%	7.0%	10.7%	6.2%

List of Investments
As at 31 October 2019

Listed Equities

Holding	Country	Market value £'000	Cumulative weight %
Newcrest Mining	Australia	37,565	
Tesco	UK	35,539	
Target	US	33,699	
Newmont Goldcorp	US	31,256	
Barrick Gold	Canada	30,534	
BT	UK	28,548	
Pfizer	US	24,048	
Royal Dutch Shell	UK	22,402	
Roche	Switzerland	19,677	
ING	Netherlands	18,599	41.0
GlaxoSmithKline	UK	18,040	
Japan Tobacco	Japan	18,002	
United Utilities	UK	17,661	
East Japan Railway	Japan	17,598	
PepsiCo	US	17,067	
Kirin	Japan	16,516	
Exxon Mobil	US	16,501	
China Mobile	China	16,104	
Gap	US	14,752	
Chevron	US	14,358	65.2

Total	France	13,735	
Royal Bank of Scotland	UK	13,613	
Marks & Spencer	UK	13,455	
Verizon Communications	US	13,342	
British Land	UK	13,101	
BNP Paribas	France	12,967	
Telstra	Australia	12,515	
Deutsche Telekom	Germany	11,501	
Macy's	US	10,970	
Carrefour	France	10,176	83.4
Sumitomo Mitsui Financial	Japan	9,631	
Orange	France	9,524	
BASF	Germany	8,746	
AT&T	US	8,475	
Adecco	Switzerland	7,211	
KPN	Netherlands	6,850	
Mitsubishi UFJ Financial	Japan	6,505	
Intesa SanPaolo	Italy	6,468	
Bank of Kyoto	Japan	5,757	
TGS Nopec Geophysical	Norway	5,714	94.3
KDDI	Japan	5,508	
Vinci	France	5,455	
Lloyds Banking	UK	5,111	
Hess	US	5,030	
Tele2	Sweden	4,717	
Bank of Ireland	Ireland	3,815	
Baker Hughes	US	2,098	
BP	UK	1,957	
Tourmaline Oil	Canada	1,486	
Freehold Royalties	Canada	1,236	
Standard Chartered	UK	1,185	
Total listed equities		**686,320**	**99.8**

Unlisted

Holding	**Country**	**Market value £'000**	**Cumulative weight %**
Heritable property and subsidiary	UK	1,500	
Total unlisted		**1,500**	**0.2**
Total equities		**687,820**	**100.0**

The 10 largest holdings have an aggregate market value of £281,867,000.

Distribution of Total Assets

by Sector	**31 October 2019 %**	31 October 2018 %
Energy	11.1	17.9
Materials	14.2	9.5
Industrials	4.0	3.3
Consumer Discretionary	9.5	14.6
Consumer Staples	12.8	7.2
Health Care	8.1	9.1
Financials	11.2	18.8
Information Technology	–	–
Communication Services	15.4	5.9
Utilities	2.3	1.7
Real Estate	1.7	1.6
Net current assets	9.7	10.4
Total assets	**100.0**	**100.0**

by Region	**31 October 2019 %**	31 October 2018 %
UK	22.6	24.5
Europe (ex UK)	19.1	14.8
North America	29.5	34.5
Japan	10.4	10.7
Asia Pacific (ex Japan)	8.7	5.1
Net current assets	9.7	10.4
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	%
Total equities	**101.6**
Net current assets	11.0
Borrowings at amortised cost	-12.4
Pension liability	-0.2
Shareholders' funds	**100.0**

Changes in Asset Distribution

by Sector	31 October 2018 £m	Net purchases (sales) £m	Appreciation (depreciation) £m	31 October 2019 £m
Energy	143.3	(39.9)	(18.9)	84.5
Materials	76.4	0.5	31.2	108.1
Industrials	26.6	2.0	1.7	30.3
Consumer Discretionary	117.1	(17.1)	(27.1)	72.9
Consumer Staples	57.7	35.6	4.0	97.3
Health Care	72.6	(14.9)	4.1	61.8
Financials	150.2	(58.2)	(6.9)	85.1
Information Technology	–	–	–	–
Communication Services	47.3	69.9	(0.1)	117.1
Utilities	13.8	1.0	2.8	17.6
Real Estate	12.5	–	0.6	13.1
Total equities	**717.5**	**(21.1)**	**(8.6)**	**687.8**

Changes in Shareholders' Funds

	31 October 2018 £m	Net purchases (sales) £m	31 October 2019 £m	Appreciation (depreciation) £m	Dividend income £m	Total return £m
Total equities	**717.5**	**(21.1)**	**687.8**	**(8.6)**	**27.9**	**19.3**
Net current assets	82.9	(7.9)	74.2			
Total assets	**800.4**	**(29.0)**	**762.0**			
Borrowings at amortised cost	(83.8)	(0.1)	(83.9)			
Pension liability	(1.3)	–	(1.3)			
Shareholders' funds	**715.3**	**(29.1)**	**676.8**			

Income Statement
For the year to 31 October 2019

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Net losses on investments held at fair value through profit and loss	–	(8,651)	(8,651)	–	(14,566)	(14,566)
Net (losses)/gains on currencies	–	(1,175)	(1,175)	–	819	819
Income	28,859	–	28,859	25,854	–	25,854
Expenses	(2,625)	(1,508)	(4,133)	(2,045)	(1,209)	(3,254)*
Net Return before Finance Costs and Taxation	26,234	(11,334)	14,900	23,809	(14,956)	8,853
Interest payable	(1,732)	(3,217)	(4,949)	(1,732)	(3,217)	(4,949)
Return on Ordinary Activities before Tax	24,502	(14,551)	9,951	22,077	(18,173)	3,904
Tax on ordinary activities	(1,929)	–	(1,929)	(1,697)	–	(1,697)
Return attributable to Shareholders	**22,573**	**(14,551)**	**8,022**	20,380	(18,173)	2,207
Return per share (basic and fully diluted)	**29.75p**	**(19.18)p**	**10.57p**	26.02p	(23.20)p	2.82p
Weighted average number of shares in issue during the year		**75,862,506**			78,338,201	

	2019 £'000	2018 £'000
Dividends paid and proposed		
First interim 2019: 5.30p (2018: 5.00p)	4,055	3,931
Second interim 2019: 5.30p (2018: 5.00p)	3,996	3,906
Third interim 2019: 5.30p (2018: 5.00p)	3,918	3,880
Final 2019: 6.90p (2018: 6.20p)	5,099	4,758
Special 2019: 7.45p (2018: 4.00p)	5,505	3,069
Total 2019: 30.25p (2018: 25.20p)	**22,573**	**19,544**

* Includes a refund of previously paid expenses

All revenue and capital items in the above statement derive from continuing operations

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

Balance Sheet

As at 31 October 2019

		2019		2018
	£'000	£'000	£'000	£'000
Fixed Assets				
Investments		687,820		717,547
Current Assets				
Debtors	2,459		12,733	
Cash and cash equivalents	72,378		83,236	
	74,837		95,969	
Creditors: liabilities falling due within one year	(664)		(13,038)	
Net Current Assets		**74,173**		**82,931**
Total Assets less Current Liabilities		**761,993**		**800,478**
Creditors: liabilities falling due after more than one year				
Long-term borrowings at amortised cost		(83,921)		(83,829)
Provisions for Liabilities				
Pension liability		(1,279)		(1,337)
Net Assets		**676,793**		**715,312**
Capital and Reserves				
Called-up share capital		18,474		19,296
Share premium account		39,922		39,922
Other reserves:				
Capital redemption reserve		52,387		51,565
Capital reserve		513,930		555,308
Revenue reserve		52,080		49,221
Shareholders' Funds		**676,793**		**715,312**
Net Asset Value per share with borrowings at amortised cost (basic and fully diluted)		**915.9p**		**926.8p**
Number of shares in issue at year end		**73,893,508**		**77,184,578**

Statement of Comprehensive Income

For the year to 31 October 2019

		2019			2018	
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return attributable to shareholders	22,573	(14,551)	8,022	20,380	(18,173)	2,207
Actuarial gains /(losses) relating to pension scheme	82	151	233	(216)	(400)	(616)
Total comprehensive income for the year	22,655	(14,400)	8,255	20,164	(18,573)	1,591
Total comprehensive income per share	29.86p	(18.98)p	10.88p	25.74p	(23.71)p	2.03p

Statement of Changes in Equity
For the year to 31 October 2019

	2019 £'000	2018 £'000
Opening balance	715,312	760,371
Total comprehensive income	8,255	1,591
Dividends	(19,796)	(27,047)
Share buybacks	(26,978)	(19,603)
Closing balance	**676,793**	**715,312**

Cash Flow Statement
For the year to 31 October 2019

	2019 £'000	2018 £'000
Operating activities		
Net revenue before finance costs and taxation	26,234	23,809
Expenses charged to capital	(1,508)	(1,209)
Increase in accrued income	(91)	(72)
(Decrease)/increase in other payables	(135)	264
(Increase)/decrease in other receivables	(80)	9
Adjustment for pension funding	175	(370)
Tax on investment income	(1,929)	(1,809)
Cash flows from operating activities	**22,666**	**20,622**
Investing activities		
Purchases of investments	**(176,213)**	(105,183)
Disposals of investments	**196,088**	175,216
Cash flows from investing activities	**19,875**	**70,033**
Cash flows before financing activities	**42,541**	**90,655**
Financing activities		
Dividends paid	(19,800)	(27,047)
Share buybacks	(28,742)	(18,451)
Interest paid	(4,857)	(4,857)
Cash flows used in financing activities	**(53,399)**	**(50,355)**
Net movement in cash and cash equivalents	**(10,858)**	**40,300**
Cash and cash equivalents at the beginning of year	**83,236**	**42,936**
Cash and cash equivalents at the end of year *	**72,378**	**83,236**

* Cash and cash equivalents represent cash at bank and short-term money market deposits repayable on demand.

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 position, performance, business model and strategy.

The Responsibility Statement was approved by the Board and signed on its behalf by:

James Will
Chairman
13 December 2019

Notes

1. Basis of accounting

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" (SORP). They are also prepared on a going concern basis under the historical cost convention, modified to include the revaluation of investments at fair value. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates.

2. Return per ordinary share

The revenue return per share is calculated on net revenue on ordinary activities after taxation for the year of £22,573,000 (2018: £20,380,000) and on 75,862,506 (2018: 78,338,201) shares, being the weighted average number of shares in issue during the year.

The capital return per share is calculated on net capital loss for the year of £14,551,000 (2018: net capital loss of £18,173,000) and on 75,862,506 (2018: 78,338,201) 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 £8,022,000 (2018: £2,207,000) and on 75,862,506 (2018: 78,338,201), being the weighted average number of shares in issue during the year.

3. Net asset value per share

The net asset value per share with borrowings at amortised cost is based on net assets of £676,793,000 (2018: £715,312,000) and on 73,893,508 (2018: 77,184,578 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 2019 of 6.90p (2018 – 6.20p) per share will be paid on 14 February 2020 to shareholders on the register on 17 January 2020 (ex-dividend 16 January 2020).

A special dividend in respect of the year ended 31 October 2019 of 7.45p (2018 - 4.00p) per share will be paid on 14 February 2020 to shareholders on the register on 17 January 2020(ex-dividend 16 January 2020).

5. Related parties

Directors' fees are detailed in the Directors' Remuneration Report. There were no matters requiring disclosure under section 412 of the Companies Act 2006.

The financial information set out above does not constitute the Company's statutory Financial Statements for the year ended 31 October 2019 but is derived from those Financial Statements. Statutory Financial Statements for the year ended 31 October 2019 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. 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, principally in relation to market risk. A contrarian investment approach is a distinctive style that may deviate from comparator indices and peer group performance over discrete periods. Whilst performance is compared against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the Company's investment portfolio and performance may deviate from the comparator indices. Events may occur which affect the value of investments. 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.

Management of the risk

Company performance is monitored at each Board meeting, including investment performance. The Company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. The contrarian investment approach is explained in our shareholder communications and through meetings with media and the investor community. 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.

b. Foreign currency risk

Approximately 75% of the Company's assets are invested overseas which gives rise to a currency risk. From time to time, specific hedging transactions may be undertaken. The Company's overseas income is subject to currency movements. The currency profile of the Company's monetary assets and liabilities is set out below.

Management of the risk

Management monitors the Company's exposure to foreign currencies on a daily basis, and reports to the Board at regular intervals. Management measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed.

Foreign currency borrowings and forward currency contracts may be used to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments or the income received from them. These borrowings and contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is receivable and its receipt.

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.

Management of the risk

The Company finances part of its activities through borrowings at levels which have been approved and are monitored by the Board.

d. Liquidity risk

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

Management of the risk

Liquidity risk is not as significant as the other risks as most of the Company's assets are investments in quoted equities and are readily realisable. Management reviews the liquidity of the portfolio when making investment decisions.

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.

Management of the risk

This risk is managed as follows:
- by dealing only with brokers and banks which have been approved by the Audit Committee and which have credit ratings assigned by international credit rating agencies; and
- by setting limits on the maximum exposure to any one counterparty at any time, which are reviewed semi-annually at meetings of the Audit Committee.

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 management. 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 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 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.