



ALASDAIR MCKINNON

In August, the stockmarket recovery resumed, taking global equities to new all-time highs. This apparently full recovery is deceptive, however. Many stocks are still significantly below their pre-pandemic levels – particularly those directly correlated with the state of the economy.

During the month, sentiment was bolstered by earnings reports that were generally less bad than feared and data that appeared to confirm that an economic recovery was underway. But Covid-19 has not gone away. Cases rose in Europe, prompting the tightening of measures in affected countries, as well as renewed travel restrictions. Despite that, various European leaders appeared to rule out a return to national lockdowns.

Signs of further progress towards an effective vaccine for Covid-19 also lifted investor sentiment. During the month, Russia became the first country to grant approval for a vaccine, although experts cautioned against deploying drugs that have not been fully tested.

Data from China, where the virus originated, suggested that the economic recovery is progressing well, with exports back to pre-pandemic levels and industrial profits rising at a robust pace. Tensions between the US and China continued to simmer, however, with the US imposing new restrictions on Chinese social media services WeChat and TikTok as well as telecoms equipment maker Huawei. Against that, trade talks later in the month were said to be constructive. Stimulus measures have been an important salve for stockmarkets during the crisis. As a result, there was some unease over the expiry of the US's enhanced unemployment benefits program at the beginning of the month. Republicans and Democrats failed to find a compromise,

“This apparently full recovery is deceptive”

although executive orders from President Trump provided a temporary reprieve.

The extraordinary monetary stimulus applied by the world's central banks has led many observers to predict rising inflation. Those expectations were reinforced by data showing that US consumer price inflation had risen at its fastest monthly rate since 1991. Meanwhile, the Jackson Hole symposium of central bankers confirmed that the US Federal Reserve is willing to allow inflation to run higher than its previous 2% target, removing a potential brake on continued stimulus. We believe that the inflationary effects of stimulus have important implications for investors.

Japan was the strongest equity market in August, despite late-month news that Shinzo Abe, the architect of the country's sweeping economic reforms, would stand down as prime minister for health reasons. North American stocks also performed well, with Apple becoming the first US company to reach a market capitalisation of \$2 trillion. The weakest region was Latin America. Brazil's central bank and President Bolsonaro both indicated that there was limited scope for further stimulus.

The best performing sectors globally were consumer discretionary, information technology and industrials. Utilities, healthcare, real estate and energy were the weakest areas of the market.

As the Covid-19 pandemic accelerates changes in consumer habits, US retailer Target is showing how companies can adapt. Target's efforts to increase its online sales and roll out more convenient store formats have been vindicated during the pandemic. Its second quarter results demonstrated its ability to gain market share – and the share price response made it one of our best performers in August.

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Performance

Total return on £100 to 31 August 2020	6 months	1 year	3 years	5 years	10 years
Share price ⁽¹⁾	104.0	93.6	98.2	143.7	228.3
NAV per share ⁽²⁾	102.8	92.3	97.1	140.2	219.4
MSCI All Countries World Index	109.9	106.0	124.6	186.8	295.2
MSCI UK All Cap Index	91.1	85.6	89.5	114.3	171.0

Summary balance sheet

	31/08/2020	31/7/2020	Total return
Market capitalisation	£538m	£537m	
Total assets	£704m	£712m	
Borrowings at amortised cost	£84m	£84m	
Net assets ⁽³⁾	£618m	£627m	
NAV ⁽²⁾ per share	802.8p	811.7p	-1.1%
NAV ⁽³⁾ per share	841.4p	851.8p	-1.2%
Share price	732.0p	729.0p	0.4%

⁽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) *	0.58%
Dividend yield	3.1%
Number of listed holdings	54
Gearing/(net cash) ⁽²⁾	(4%)
Discount to NAV ⁽²⁾	8.8%

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

*Calculated as at 31/10/19.

Link to our [Annual and Interim Reports](#)

Contact **US**

...to get in touch and find out more

info@thescottish.co.uk 0131 225 7781

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

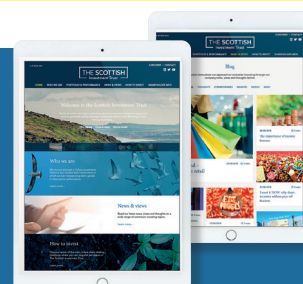
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The Scottish Investment Trust PLC



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 (31 August 2020)

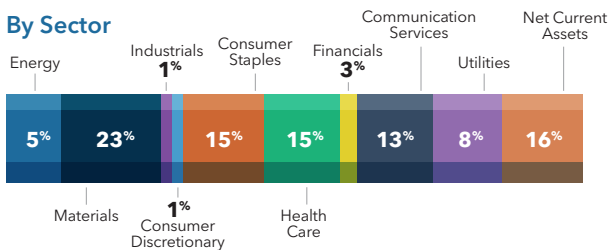
Holding	Sector	Country	£m	% ⁽⁴⁾
Newmont	Materials	US	50.9	7.2
Barrick Gold	Materials	Canada	49.8	7.1
Newcrest Mining	Materials	Australia	39.1	5.6
Pfizer	Health Care	US	23.1	3.3
Roche	Health Care	Switzerland	22.0	3.1
Japan Tobacco	Consumer Staples	Japan	20.5	2.9
PepsiCo	Consumer Staples	US	16.9	2.4
United Utilities	Utilities	UK	16.9	2.4
Gilead Sciences	Health Care	US	16.5	2.4
Severn Trent	Utilities	UK	15.4	2.2
Aggregate of top 10 holdings			271.1	38.6

[Link to a full list of holdings](#)

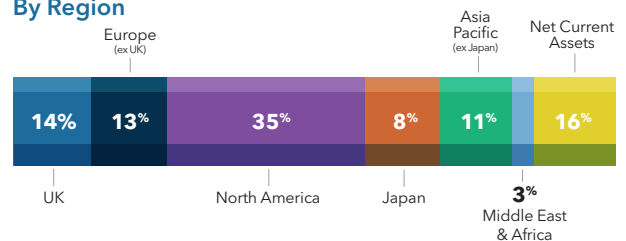
⁽⁴⁾ Percentage of total assets

Distribution of total assets (31 August 2020)

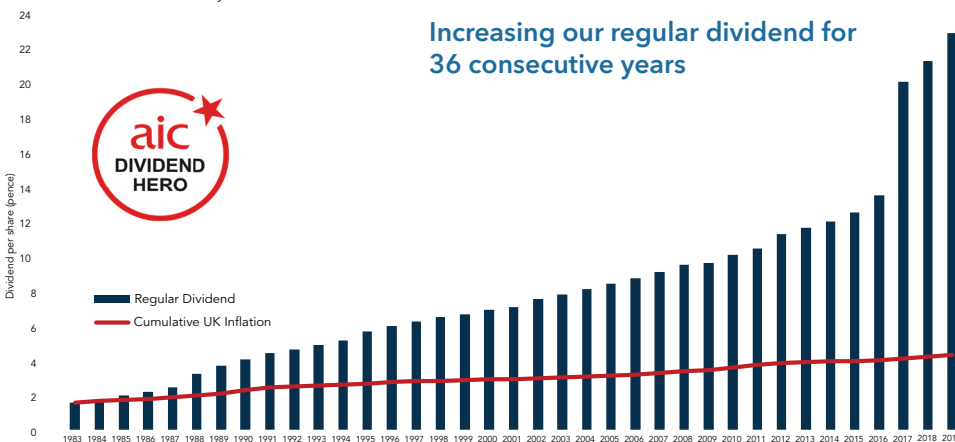
By Sector



By Region



Increasing our regular dividend for 36 consecutive years



QUARTERLY DIVIDEND PAYMENT

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

IMPORTANT INFORMATION

Please remember 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.

The Scottish Investment Trust PLC (the Company) is not authorised to give financial advice. This information should not be considered an offer, invitation, recommendation or solicitation to deal in investments. The Company has a long-term policy of borrowing money to invest in equities ('gearing') in the expectation that this will improve returns but should stockmarkets fall, such borrowings would magnify losses on these investments. SIT can buy back and cancel its own shares. All other things being equal this would have the effect of increasing gearing.

All sources the Scottish Investment Trust unless otherwise stated.

Issued and approved by SIT Savings Ltd, registered in Scotland No: SC91859. Registered office: 6 Albyn Place, Edinburgh, EH2 4NL.

Authorised and regulated by the Financial Conduct Authority.

Telephone: 0131 225 7781 | Email: info@thescottish.co.uk | Website: www.thescottish.co.uk