The Scottish Investment Trust PLC

Annual Results for the year to 31 October 2020.

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 2020.

Highlights

- 37th consecutive year of regular dividend increase
- Regular dividend increased by 1.8% to 23.2p
- Share price total return -12.0% and NAV total return -10.6%

Chairman's Statement

There have been many momentous periods for markets in the long history of the Company and 2020 will no doubt be counted as among the most noteworthy.

Stockmarket movements have been nearly as extraordinary as the events that swept the world. Fear and euphoria made their mark in equal measure, resulting in a period of significant volatility. The health and economic costs are still being counted, although, for the year under review, the significant interventions by governments and central banks have largely defined outcomes for equity investors.

During the financial year, markets boomed even as the pandemic initially raged, fell precipitously as the developed world 'locked down' their economies and then boomed again as support measures were judged to have averted the worst of the economic catastrophe.

The Company's portfolio held up well during the market sell-off but lagged considerably during both periods of market strength as momentum and growth companies soared irrespective of valuation.

Taken as a whole, it has been a challenging year for our contrarian approach. Seldom, if ever, has the dispersion of returns between growth and value names been so stark and, within this context, performance has been disappointing. While our performance relative to global indices has lagged in recent periods, we believe that this dispersion has created an opportunity to buy unloved, but robust, companies at attractive prices.

Performance

Amid this challenging environment, the share price total return was -12.0% and the net asset value per share (NAV) total return (with borrowings at market value) was -10.6%. 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 5.0% while the UK based MSCI UK All Cap Index total return was -20.6%. This leaves us strongly ahead of the UK comparator and well behind the global index.

Global markets continued this year to be dominated by a momentum style of investing which seemingly pays scant regard to valuation, and is an anathema to our value-focused style of investing. To have kept pace with global markets this year, our portfolio would have required a proportionately large exposure to a very small number of companies that we believe are greatly overvalued and a lot less exposure to the names which we consider offer the best potential for long-term gains.

This influence, unfortunately, has been a hallmark of markets during the five years since we adopted our contrarian approach and has become greater in more recent years. The result is an extreme divergence between the most and least expensive parts of the market. Such extremes have, historically, proved unsustainable and we believe that a new phase for markets is overdue, one that may favour those who, like us, do not follow the crowd.

Notwithstanding our lack of exposure to what we consider irrationally priced momentum driven investments, there were two particularly advantageous decisions made during the year. The first was our Manager's decision to take pre-emptive action to preserve capital at the onset of the Covid-19 crisis by selling out of some of the companies we believed would be most impacted. The second was a large exposure to gold miners, which participated strongly in the recovery. Unfortunately, the benefits of these decisions were masked in the second half of the year as markets rewarded stocks deemed impervious to the challenges facing the real economy, such as information technology stocks. In contrast we invested in companies we believed would be less impacted by the travails of the real economy, but were considered dull in the feverish monetary environment created by central bank support, which has fuelled momentum investing.

Our contrarian approach explicitly aims to take a different view from other managers and invest without regard to index composition in order to avoid the herding around popular investments that is an inherent trait of active management. We therefore expect our portfolio, and its returns, to be unlike any index.

Comparator index change

Reflecting our expectation that our portfolio, and its returns, will be unlike any index, the Company has for many years had two comparator indices, the MSCI All Country World Index (ACWI) and the MSCI UK All Cap index. The Board has however now come to the view that it would be helpful to the Manager, shareholders and the Board itself for the Company to move to a single comparator index in order to better judge the Company's performance. The most recent financial year has shown how difficult it is to assess performance against two comparator indices.

The Board considered a number of different indices as a new single comparator. As a high conviction contrarian fund, with a strong income ethos, there is no obvious single index to choose. The Board however concluded that shareholders are looking for performance to be measured against global markets. Accordingly, while it might appear counter-intuitive in view of this year's performance against the global index, the Board decided that the Company will henceforth compare performance against the MSCI All Country World Index as the sole comparator. While we always note performance for the year, I would remind shareholders that we assess progress over the longer term and we continue to expect to deliver above-average returns over an investment cycle.

Investing through the cycle

Our contrarian investment approach is grounded in the observation that stockmarket trends are frequently pushed to extremes, leading to their eventual reversal. What starts as an attractive opportunity is chased until the potential for further upside is eliminated and the potential for a fall becomes high. This process can transform great companies into bad investments. In a similar vein, companies can become so unloved that their improvement goes unnoticed, creating excellent investment opportunities.

It is already clear that this period marks an acute disparity between the out of favour 'value' areas of the market and the well-loved 'growth' segments. Although this is one of the largest recorded divergences, it is difficult to know what the precise trigger will be for a reversal. However, in a nutshell, once a particular investment becomes overly consensual, and thus overcrowded, the rotation out of those investments into other parts of the market can be swift and dramatic.

Standing apart from consensual trends during such times is discomforting, particularly during a cycle as long as this one. For us however the alternative is much more uncomfortable – owning stocks that are priced for perfection. Consequently, we continue to advocate a value-driven approach.

Income and dividend

Over the past year, earnings per share fell by 27.1% to 21.7p (2019: 29.8p). The decline was driven by reduced dividend receipts as many businesses, including some in which we invest, opted to curtail dividend payments to safeguard their financial health.

As I have previously mentioned, our portfolio is not explicitly invested for income and the Board recognises that there will be occasions when the portfolio does not necessarily fully cover the requirements of the regular dividend.

The precise causes of disruptions are often a surprise. The fact that they can and do occur is not. The Company prepares for these scenarios by building a substantial revenue reserve during more plentiful periods, which can be drawn down in less fruitful times. This approach serves us well in the current environment and the Company will utilise a small portion of its reserve in this financial year to cover the regular dividend. The revenue reserve remains substantial at 60.8p, equivalent to more than 2.5 times the targeted annual dividend for the year to 31 October 2021.

The Board recognises the importance of dividend income to many shareholders and our intent with regard to dividends remains unchanged. The Board aims to maintain the Company's long track record of annual regular dividend increases and also its objective to provide regular dividend growth ahead of UK inflation over the longer term.

Accordingly, the Board recommends a final dividend of 6.1p which, if approved, will mean that the total regular dividend for the year will increase by 1.8% to 23.2p. If approved, this will be the 37th year of annual regular dividend increases.

The Board's target is to declare three quarterly interim dividends of 5.8p for the year to 31 October 2021 and recommend a final dividend of at least 5.8p for approval by shareholders at the Annual General Meeting in 2022. 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.

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 discount at which the share price traded to NAV over the year was more volatile than normal, reflecting the periods of extreme market dislocation, but finished the year at 9.9%.

The average discount over the year was 10.0%. During the period, 1.0m shares were purchased for cancellation at an average discount of 10.6% and a cost of £7.3m. In the previous year, 3.3m shares were purchased.

The ongoing charges figure (OCF) for the year under review of 0.52% (2019: 0.58%) 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

As the Covid-19 pandemic looked certain to severely weaken the economy, the Company reduced gearing from its 31 October 2019 level of 1% to a net cash position of around 5%. In other words, we held all of our borrowings and an additional 5% of net assets in cash. This move was designed to shelter funds from a market decline and to preserve firepower for a period of sustained recovery.

As funds were deployed to take advantage of the recovery, gearing was increased and ended the year at 0%. It is our belief that there will be further compelling recovery opportunities and we continually assess when to deploy gearing for the long-term benefit of shareholders.

Amendments to the Articles of Association

The global pandemic highlighted challenges in companies' ability to hold shareholder meetings which complied with their Articles of Association. Fortunately, the government introduced temporary legislation which permitted companies to meet their obligations in this regard by holding virtual meetings and by restricting the ability of shareholders to attend. To avoid any such difficulties in the future, at the forthcoming Annual General Meeting (AGM), the Company will be seeking shareholder approval to amend its articles to allow for virtual, hybrid and/or physical meetings to be held at the discretion of the Directors. A number of other non-substantive changes are also proposed. Further details can be found in the Corporate Governance Report within the Annual Report and Financial Statements.

Annual General Meeting (AGM)

The Company's 133rd Annual General Meeting will be held at the offices of Dickson Minto W.S., 16 Charlotte Square, Edinburgh EH2 4DF at 10.30am on Tuesday, 2 February 2021. Full details of the business to be conducted at the AGM are given in the Notice of Meeting within the Annual Report and Financial Statements.

In light of the restrictions on travel and social gatherings and as permitted by recent temporary legislation the AGM will, for the first time in its history, be held as a closed meeting and shareholders will not be able to attend in person. Shareholders' views are important and the Board encourages shareholders to vote on the resolutions within the Notice of AGM.

The Board always welcomes questions from our shareholders at the AGM. This year, to ensure that we are able to respond to any questions you may have for either the Board or the Manager, please send these via email to info@thescottish.co.uk or in writing to the Company's registered office.

Outlook

The course of the pandemic remains a matter of serious concern to markets and recent news about vaccines has been well received. Clearly there will be challenges to come, not least managing the current wave of Covid, but we believe the reaction to the vaccine newsflow demonstrates the potential for recovery in beaten down and overlooked areas should the good news be sustained.

During the pandemic, the Company has successfully operated with roles performed at home. If required, the Company can continue to operate on this basis for a further extended period.

The drama around the US presidential election was emblematic of Donald Trump's tenure, but apparent President-elect Joe Biden is likely to bring a more diplomatic approach to the role. That said, President Trump clearly galvanised a substantial portion of the population and his better than anticipated showing perhaps suggests that the populist tendencies of recent years could be a durable trend.

At the time of writing, Brexit negotiations remain ongoing and have proven fractious. Although we continually review the potential effects of Brexit, we remain of the view that it will not have a material adverse impact on the Company's business model or operations.

While it is certainly premature to look beyond the impact of the virus, eventually attention will turn to how we deal with the long-term effects of the 'whatever it takes' fiscal and monetary response. While these measures were undoubtedly necessary to avoid more lasting damage to jobs and businesses, we have now entered a new era in economic policymaking. It has become obvious, especially to those who wish to control the levers of power, that governments can borrow without regard to the tax-base as interest rates remain very low. Borrowing and spending money is popular.

Central banks have directly or indirectly communicated a greater tolerance for inflation, which may prove an unstoppable development once it becomes apparent. This, combined with the eventual prospect of higher rates of interest, may favour our investment style over others.

The divergence of valuations within markets has reached new extremes, a position that we believe is unsustainable and likely to reverse. This favours a contrarian approach which seeks out mispriced investments that have been overlooked. We believe that the Company is well placed for the future.

James Will
Chairman
11 December 2020

Manager's Review

Markets have continued to reward past winners, leaving the unloved parts of the market, where we prefer to invest, in their shadow.

Before we consider the portfolio over the last year, I want to reflect on the position in which we find ourselves now.

On one hand there is reason for us to be optimistic. The divergence in the performance and valuation of the most loved companies and those that are unloved, has seldom been more extreme. As contrarian stock pickers, that excites us and offers the potential to buy attractive companies at a good price. Certain areas of the market look especially cheap but, on the whole, there are companies in almost all sectors that go unrewarded despite their incumbent market positions, durability and cash generation. That is where our opportunity lies.

On the other hand, we continue to worry about the overextended valuations accorded to previous 'winners'. These can appear to offer the prospect of perpetual growth. We understand why this finds favour with some but, in contrast, we are wary of paying a fancy valuation for a company that is priced as if nothing will ever go wrong. In our view the margin of error is diminished and the potential for disappointment large.

Scott McNealy, then CEO of Sun Microsystems, one of the 'winners' in the dotcom boom, famously lambasted his own investors after the crash. He asked those who had paid a multiple of 10 times sales for his company's shares, "what were you thinking?". As he pointed out, at this valuation the payback period is likely to be unfathomably long. Having worked through that era, I never thought I would witness similar conditions, but here we are. Like then, the 'fear of missing out' has become one of the hottest investment themes. Indeed, the proportion of companies trading at 10 times sales or greater is near to that seen at the height of the dotcom boom.

The root cause of such exuberance is, like then, too much cheap money creating a febrile atmosphere. In the period we have seen an electric truck maker, without a product in production, soar in valuation to become one of the biggest companies in the world. The share price quickly crashed when it was revealed that the promotional video purporting to show the vehicle in action was filmed using a mocked-up truck rolling down a slope.

Our view is that a large proportion of market participants do not make discerning value judgements. This allows momentum to build for extended periods. There is tremendous pressure on many to perform in a similar manner to markets (or benchmarks), while passive investment products explicitly target such an outcome. Success breeds confidence which breeds inflows which breeds momentum. All we can say is that, without valuation support, when markets turn, as they always do, the virtuous circle quickly becomes vicious.

I remember from my formative investing experiences how easy it was to be wowed by a good story and a stock chart pointing to the sky. On occasion, I even found myself parroting some of these stock-hype narratives. This is what happens in a crowd –members tell each other what they think they are meant to say. Given the exceptional length of the current investment cycle, many professional investors have never experienced a period where growth and momentum investments are not the only game in town. As a result, sceptics (such as ourselves) are in short supply, so that the possibility of a change in trends is widely ignored.

For value-orientated investors the current market drivers can be viewed as a potential positive because of the opportunity they provide. The arithmetic of indices determines that they will struggle to increase if the speculative bubble in the most popular part of the market starts to deflate, potentially allowing the unloved names to outperform. Wavering equity markets would also almost certainly push central banks to redouble efforts in order to prop them up and, as after the dotcom crash, the unintended consequence of this would be to provide substantial liquidity to the, currently unfashionable, areas of markets where we invest.

The portfolio

Gold typically offers shelter from the devaluing effects of unfettered money printing, so the period provided a favourable backdrop for our two largest gold mining investments **Newmont** (+£18.8m total return) and **Barrick Gold** (+£16.9m). Production challenges held back **Newcrest Mining** (-£1.2m), but we believe there are interesting growth opportunities that are being overlooked. Exposure to the sector was increased with the addition of two South African listed miners **Gold Fields** (+£4.6m) and **AngloGold Ashanti** (+£1.3m) that are working to substantially improve operating performance.

US retailer **Target** (+£4.6m) performed well as efforts to tilt its business model towards online sales and convenient store formats bolstered sales and profitability, an approach that served particularly well during the pandemic. **Tesco** (-£1.8m) declined despite taking positive steps towards divesting its overseas operations and refocusing on growing profitability in its core UK market. Many traditional retailers have found their operations severely crimped, of course, and those that had not sufficiently advanced their transformations were sold early in the year, including **Gap** (+£0.2m), **Macy's** (-£0.1m) and **Marks & Spencer** (-£1.0m). We added a holding in US fashion group **Capri** (-£0.1m), which is undergoing a turnaround of its strong but underperforming brands.

PepsiCo (£0.0m) continues to benefit from plans to enhance growth and profitability, while Japanese beverages group **Kirin** (-£2.1m) declined as the closure of the hospitality sector hampered sales. Brazilian brewing giant **Ambev** (-£0.4m) is a new holding and we expect it to participate in a recovery in consumption.

We made a timely reduction in our energy holdings, leaving only oil majors with the greatest ability to withstand oil price volatility. Their comparative strength did not shield them from the weak operating environment, however, and **Royal Dutch Shell** (-£10.8m), **Exxon Mobil** (-£5.7m), **Chevron** (-£5.2m) and **Total** (-£5.1m) all declined in value. We took the opportunity to purchase oil services group **Halliburton** (-£0.5m) at a discounted valuation to take advantage of its strong position within the sector and recovery potential.

We also scaled down our investments in banks, in advance of the pandemic, in anticipation of a more challenging lending environment. We retained a small exposure to strong franchises that have scope to rebound as the economy improves including **NatWest** (-£4.1m), **ING** (-£3.8m), **Lloyds Banking** (-£2.3m) and **BNP Paribas** (-£1.6m). Later in the period, we added **JPMorgan Chase** (-£0.5m), **Banco Santander** (+£0.1m) and **First Horizon** (+£0.1m). We also established a position in Dutch life insurer **Aegon** (-£0.1m) which is undergoing a transformation under new leadership. Meanwhile, we completely sold UK real estate trust **British Land** (-£5.6m) as lockdowns looked set to place considerable strain on tenants.

East Japan Railway (-£5.2m) declined as passenger volumes were severely curtailed by lockdown measures, though we see rebound potential as well as longer term value in the company's property assets.

Within the health care sector, **Roche** (+£1.9m) and **GlaxoSmithKline** (-£4.0m) continue to make progress in their transitions to a new generation of innovative medicines. New holdings were established in **Bristol-Myers Squibb** (-£0.3m), **Sanofi** (-£1.3m) and **Gilead Sciences** (-£3.5m) where we believe the market has misjudged the potential for these businesses to transform and grow. Gilead has become famous for its Covid-19 treatment remdesivir, though we believe that value lies elsewhere in the business.

BT (-£13.8m) was a notable disappointment as tentative efforts to revive the business were overshadowed by the additional headwind of Covid-19. More broadly, telecoms were lacklustre despite increased reliance on communications infrastructure during lockdowns. **KPN** (-£0.6m), **AT&T** (-£2.1m), **Telstra** (-£2.1m), **Orange** (-£2.6m) and **China Mobile** (-£3.3m) all fell in value.

We took new positions in several tobacco firms including **Altria** (-£1.2m), **British American Tobacco** (-£0.8m), **Philip Morris International** (-£0.4m) and **KT&G** (-£0.5m) where we believe that the durability of cash flows has been underappreciated by the market. Our longer- standing investment in **Japan Tobacco** fell in value (-£2.5m). Among utilities, **United Utilities** (+£0.7m) gained on the back of stabilising regulatory and political environment. We also added two US utilities, **Duke Energy** (-£1.2m) and **Dominion Energy** (-£0.2m), as we concluded that the potential for asset growth is not fully reflected in their discounted valuations versus peers.

Outlook

Great uncertainty remains but it seems as if a return to some form of normality will occur next year, even if the various vaccines do not make their anticipated impact. That said, the recent rapid spread of Covid-19 in numerous countries indicates that restrictions may remain part of life for some time.

Government and central bank support have been crucial to supporting economies and stockmarkets. We believe this will continue and expect its beneficiaries to be more broadly spread if a sustainable recovery is evident in the real economy. The out of favour stocks that we prefer have lagged the stockmarket recovery to date but still offer excellent long term investment opportunities for patient investors. This is a positive environment for contrarian investors.

Alasdair McKinnon
Manager
11 December 2020

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 2020	**Contribution %**
Equity portfolio (ungeared)	-8.8
Gearing	-0.7
Total equities	**-9.5**
Other income and currency	+0.1
Buybacks	+0.1
Expenses	-0.7
Interest charges	-0.5
Change in market value of borrowings	+0.1
Change in pension liability/surplus	-0.2
NAV with borrowings at market value total return	**-10.6**

Top Ten Gains and Losses
Year to 31 October 2020

	Performance† %	**Gains £m**		**Performance† %**	**Losses £m**
Newmont	60.3	18.8	BT	-49.3	-13.8
Barrick Gold	55.7	16.9	Royal Dutch Shell	-60.5	-10.8
Target	57.9	4.6	Exxon Mobil	-44.8	-5.7
Gold Fields	54.9	4.6	British Land*	-54.9	-5.6
Roche	9.6	1.9	East Japan Railway	-43.4	-5.2
Anglogold Ashanti	9.4	1.3	Chevron	-37.4	-5.2
Heritable Property and subsidiary	58.3	0.9	Total	-38.2	-5.1

United Utilities	3.8	0.7	Natwest	-43.6	-4.1
Gap*	1.1	0.2	GlaxoSmithKline	-23.3	-4.0
Tourmaline Oil*	7.5	0.1	ING	-30.6	-3.8

* 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.

The Company has a premium listing on the London Stock Exchange, within the Financial Services sector, and is identified by the TIDM or ticker symbol 'SCIN'. The Company's ISIN is GB00007826091 and SEDOL is 0782609.

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 in the Annual Report and Financial Statements. A further analysis of changes in asset distribution by industry sector over the year, including the sources of gains/losses, is also shown therein. Attribution of NAV performance is shown above.

At the year end, the number of listed holdings was 59 (2019: 51). The top ten holdings comprised 39.5% of total assets (2019: 37.0%).

Details of the extent to which the Company's objective has been achieved and how the investment policy was implemented are provided 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, Scottish independence and the global pandemic;
- 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 – 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 assessed in comparison with the Company's peers and the comparator indices. During the financial year, the Board received regular updates from the management team, in response to and in order to more closely monitor market volatility and macro-economic uncertainty caused by the global pandemic.

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.

Due to the contrarian nature of the Company's investment strategy, no formal targets are set for the KPIs and APMs referred to above.

Definitions of the APMs can be found in the Glossary in the Annual Report and Financial Statements.

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 6.1p payable on 12 February 2021. With the interim dividends each of 5.7p already paid in May, August and November 2020, this makes a total of 23.2p for the year. Based on 72,896,247 shares in issue at 31 October 2020, the final dividend will cost £4.447m. The total dividend for the year will cost £17.026m.

Share capital

General

The Company had 72,896,247 shares of 25p each in issue on 31 October 2020 (2019: 73,893,508). Since the year end, the Company has bought back 545,747 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 2020, the Company bought back for cancellation a total of 997,261 shares of 25p each representing 1.3% of shares in issue at 31 October 2019, at a cost of £7,334,000.

At the AGM on 4 February 2020, authority was granted to repurchase up to 14.99% of shares in issue on that date. The number of shares authorised for repurchase was 11,067,642. Share buybacks from the date of the AGM to the Company's year end amounted to 937,261 shares or 1.27 percentage points of the 14.99% authority.

Holding in listed closed-ended investment funds

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 £2.4m (0.4% of shareholders' funds). These comprise the Company's office property and subsidiary company.

Viability statement

The Directors have assessed the prospects of the Company for a period of five years. The Board believes this time period continues to be most appropriate as it aligns with the Company's strategy to deliver above-average returns over the longer term, being at least five years.

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 (or premium), asset allocation, income and operating expenses.

Consideration was also given to the principal risks and uncertainties faced by the Company, its portfolio of liquid listed international equity investments and cash balances, as well as its ability to achieve the stated dividend policy and to cover the interest payments on the Company's debt.

The Board has also considered the implications of the global pandemic in 2020 and resultant global macro-economic uncertainty, in relation to the Company's investment position, its future income streams, its gearing covenants and its ability to continue trading operationally.

The Company was in a resilient financial position as at 31 October 2020, with a strong asset-backed balance sheet and a flexible team capable of adapting to different working patterns. If necessary, the Company would be able to withstand continuing market volatility, reduced asset values and income streams and a depressed macro-economic outlook for a considerable period of time.

Based on the above, and notwithstanding a more uncertain macro-economic outlook this year, 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 viability assessment.

Stakeholder relations (s.172 Statement)

In performing its duties, the Board applies the following key principles of section 172 of the Companies Act 2006, being those relevant to the Company as a listed investment company, to all its decision making:

(a) the likely consequences of any decision in the long term;
(b) the interests of the Company's employees;
(c) the need to foster the Company's business relationships with suppliers, customers and others;
(d) the impact of the Company's operations on the community and the environment;
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between members of the Company.

As the Board considers that the Company in fact has relatively few external stakeholders, the key groups being its shareholders, its employees and its key service providers, the Directors have focused attention on ensuring the following robust mechanisms protect their interests:

Stakeholder	Engagement in year
Shareholders	The Board recognises the importance of communications with shareholders. The primary modes of communication are the interim and annual reports which are designed to provide shareholders with a full understanding of the Company's activities and performance. The Company's Annual General Meeting in February 2020 was held in person. The Company also engages with shareholders and potential shareholders via its website, social media and a regular newsletter. Under normal circumstances, the Board welcomes the opportunity to meet with shareholders at the Annual General Meeting and to respond to any questions that may be raised. Due to the unprecedented circumstances arising from the global pandemic, the Company will be holding a closed AGM in 2021; however, shareholders are welcome to submit questions ahead of the AGM or at any time throughout the year via email to info@thescottish.co.uk or by writing to the Chairman at the Company's registered office.
Employees	The Company is fortunate to benefit from a group of long-serving, experienced staff. The team works closely with the Board in defining and implementing strategy to meet the Company's objective. In light of the small number of employees, there is regular formal and informal interaction between the Board and staff. In addition, an Employee Handbook is provided to all staff. The handbook, which is reviewed annually, sets out key policies and procedures to ensure the well-being of all employees. The Company has also established a whistleblowing policy which enables concerns to be raised and investigated in a confidential manner.

	As a result of the global pandemic, provision has been made to ensure that employees are able to work safely and effectively from home. Appropriate adaptations have been made to the office space to create a Covid-safe working environment for employees' return in due course.
Key Service Providers	As a company with a listing on the Premium Segment of the London Stock Exchange, the Board is mindful of the importance of ensuring compliance with appropriate corporate legislation and the rules and regulations of the Financial Conduct Authority insofar as they relate to the Company and its wholly owned subsidiary, S.I.T. Savings Limited. There is a robust oversight framework in place to evaluate the performance of key service providers, including Maitland (who provide company secretarial and administration services) as well as our custodian and depositary. The Board and management maintain regular communication with senior personnel at key service providers to provide feedback, ensure open communications and to develop and maintain long-term collaborative partnerships. There was enhanced dialogue between the Company and its key service providers during the year to monitor their responses to the Covid-19 pandemic and to ensure that business continuity processes were operating effectively.
Community and Environment	As stated in the Chairman's Statement, in pursuing the Company's objectives, various factors that may impact on the performance are considered and these may include environmental, social and governance issues. The consideration of ESG factors is an important part of the investment process as the Company believes that poor practices can have an impact on the value of investments and potential investments. In a broader context, the Company's operations create employment, aid economic growth, as well as generating tax revenues and wealth, thereby benefitting the community, economy and environment more generally.

Principal Decisions

We set out below some examples of how the Board has had regard to the matters set out in section 172(1) (a)-(f) when discharging its section 172 duty and the effect of that on decisions taken by us. We define principal decisions as both those that are material to the Company, but also those that are significant to any of our key stakeholders. In making the following principal decisions, the Board considered the relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct.

Principal decision 1 – Dividend declarations

Each year, in conjunction with advice from the Manager, the Board makes an assessment of the strength of the Company's income, forecast revenue, revenue reserve and future prospects relative to uncertainties in the external environment and makes decisions about the payment of dividends. Despite the uncertainties arising from the global pandemic and having reviewed a range of metrics, the Board approved and declared dividends totalling £17.026m to shareholders during the year to 31 October 2020.

Principal decision 2 – Comparator index change

As part of the Board's annual review of the Company's strategy, it considered the ongoing appropriateness of the two comparator indices which it had been using to assess performance. Taking into account feedback from some shareholders and the views of the current Directors, it was concluded that it would be better to move to a single comparator index, the MSCI All Country World Index. The Board believes that this will provide shareholders with a clear comparison of the Company's performance against global markets, as well as providing direction to the Manager on how we will be assessing performance in the future.

Principal decision 2 – Elimination of the actuarial deficit in the Company's defined benefit pension scheme

Following completion of the latest triennial valuation of the Company's defined benefit pension scheme, the Board gave consideration to the options around the future funding of the scheme. As a result of its deliberations, the Board approved a one-off contribution of £3,220,000 to the Company's Retirement Benefits Scheme to eliminate the remaining actuarial deficit after deduction of regular payments in the year. In reaching this decision, the Board considered the effects on key stakeholders including employees, shareholders and the Company as a whole. Further information is provided in note 4 to the financial statements.

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.

As explained in the Chairman's Statement, with effect from 1 November 2020 the Company will henceforth compare performance against the MSCI All Country World Index as the sole comparator.

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 Limited to provide company secretarial, administration and accounting services to the Company. Northern Trust acts as custodian and depositary.

Substantial shareholdings

At 31 October 2020, the Company had been informed of the following notifiable interest in its voting rights:

	Shares	% held
Wells Capital Management Inc.	4,924,836	6.8

On 4 November 2020, Wells Capital Management Inc. informed the Company that it no longer held a notifiable interest in its voting rights. On the same date, 1607 Capital Partners, LLC informed the Company of its interest in 3,785,706 shares, being 5.2% of the share capital as at 31 October 2020.

Analysis of share register at 31 October 2020

Category of holder	Share capital %
Individuals	82.6
Investment companies	5.2
Pension funds	5.7
Other	6.5
Total	**100.0**

Company's directors and employees

The table below shows the breakdown of Directors and employees.

	31 October 2020		31 October 2019	
	Male	Female	Male	Female
Directors	3	2	4	2
Senior Manager	1	0	1	0
Employees	5	5	4	5

Purpose, Culture and Stakeholders

Reflecting the time the Board has spent considering these areas during the year, our stakeholder responsibilities and approach to purpose, culture and values are reviewed in more detail within the Annual Report and Financial Statements.

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.

The consideration of ESG factors is an important part of the investment process as the Board and Manager believe that poor practices can have an impact on the value of the Company's investments and/or potential investments. Prescriptive criteria are not applied; however, the Manager considers the circumstances of each situation.

If an ESG concern pertaining to an existing investment is identified the Manager would initially consider if engagement with the investee company would give rise to a satisfactory resolution. Depending on the conclusion, the Manager will either engage with the company to encourage resolution of the issue or sell the investment.

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
11 December 2020

Financial Summary

	2020	2019	Change %	Total Return %
NAV with borrowings at market value	755.5p	878.5p	-14.0	-10.6§
NAV with borrowings at amortised cost	793.6p	915.9p	-13.4	-10.1§
Ex-income NAV with borrowings at market value§	750.9p	864.2p	-13.1	
Ex-income NAV with borrowings at amortised cost	789.0p	901.6p	-12.5	
Share price	681.0p	807.0p	-15.6	-12.0
Discount to NAV with borrowings at market value§	9.9%	8.1%		
MSCI ACWI			+3.2	+5.0
MSCI UK All Cap Index			-23.0	-20.6
	£'000	£'000		
Equity investments	581,235	687,820		
Pension surplus	1,161	-		
Net current assets	80,542	74,173		
Total assets	662,938	761,993		
Long-term borrowings at amortised cost	(84,013)	(83,921)		
Pension scheme deferred tax on surplus	(406)	-		
Pension liability	-	(1,279)		
Shareholders' funds	578,519	676,793		
Earnings per share	21.70p	29.75p	-27.1	
Regular dividend per share (2020: proposed final 6.10p)	23.20p	22.80p	+1.8	
Special dividend per share	-	7.45p		
Total dividend per share	23.20p	30.25p	-23.3	
UK Consumer Prices Index – annual inflation			+0.7	

§ Alternative Performance Measures (please refer to Glossary in Annual Report and Financial Statements)

Year's High & Low	Year to 31 October 2020		Year to 31 October 2019	
	High	Low	High	Low
NAV with borrowings at market value	924.0p	705.2p	930.6p	812.9p
Closing share price	841.0p	557.0p	843.0p	748.0p
Discount to NAV with borrowings at market value	25.8%	5.9%	10.1%	7.0%

List of Investments

As at 31 October 2020

Listed Equities

Holding	Country	Market value £'000	Cumulative weight %
Newmont	US	49,475	
Barrick Gold	Canada	47,034	
Newcrest Mining	Australia	35,884	
Pfizer	US	22,254	
Japan Tobacco	Japan	21,209	
Roche	Switzerland	21,041	
United Utilities	UK	17,515	
Severn Trent	UK	16,031	
Duke Energy	US	16,029	
Gilead Sciences	US	15,201	45.0
BT	UK	14,135	
Kirin	Japan	13,939	
KT&G	South Korea	13,830	
Tesco	UK	13,365	
Sanofi	France	13,278	
GlaxoSmithKline	UK	13,176	
Verizon Communications	US	12,584	
China Mobile	China	12,037	
PepsiCo	US	11,443	
Gold Fields	South Africa	11,176	67.2
Bristol-Myers Squibb	US	10,849	
Deutsche Telekom	Germany	9,961	
Target	US	9,948	
Telstra	Australia	9,803	
Carrefour	France	9,316	
Altria	US	9,206	
Chevron	US	8,600	
Anglogold Ashanti	South Africa	8,163	
Total	France	7,862	
Orange	France	6,630	82.8
National Grid	UK	6,548	
JPMorgan Chase	US	6,063	
British American Tobacco	UK	5,996	
KPN	Netherlands	5,974	
AT&T	US	5,956	
BP	UK	5,603	
KDDI	Japan	5,301	
East Japan Railway	Japan	5,046	
Royal Dutch Shell	UK	4,829	
Aegon	Netherlands	4,267	92.3
Tele2	Sweden	3,907	
Exxon Mobil	US	3,431	
Dominion Energy	US	3,169	
First Horizon	US	3,059	
Banco Santander	Spain	3,005	
Philip Morris International	US	2,856	
Capri	US	2,805	
Bank of Kyoto	Japan	2,581	
Ambev	Brazil	2,539	
Sumitomo Mitsui Financial	Japan	2,461	97.4
Halliburton	US	2,425	
NatWest	UK	1,925	
Mitsubishi UFJ Financial	Japan	1,602	
ING	Netherlands	1,557	
Lloyds Banking	UK	1,303	
BNP Paribas	France	1,286	
Adecco	Switzerland	928	
Intesa Sanpaolo	Italy	869	

Standard Chartered	UK	595	
Total listed equities		**578,860**	**99.6**

Unlisted

Holding	**Country**	**Market value £'000**	**Cumulative weight %**
Heritable property and subsidiary	UK	2,375	
Total unlisted		**2,375**	**0.4**
Total equities		**581,235**	**100.0**

The 10 largest holdings have an aggregate market value of £261,673,000.

Distribution of Total Assets

by Sector	**31 October 2020 %**	31 October 2019 %
Energy	4.9	11.1
Materials	22.9	14.2
Industrials	0.9	4.0
Consumer Discretionary	1.9	9.5
Consumer Staples	15.7	12.8
Health Care	14.5	8.1
Financials	5.0	11.2
Information Technology	-	-
Communication Services	13.0	15.4
Utilities	8.9	2.3
Real Estate	-	1.7
Pension surplus	0.2	-
Net current assets	12.1	9.7
Total assets	**100.0**	**100.0**

by Region	**31 October 2020 %**	31 October 2019 %
UK	15.6	22.6
Europe (ex UK)	13.5	19.1
North America	36.6	29.5
Latin America	0.4	-
Japan	7.9	10.4
Asia Pacific (ex Japan)	10.8	8.7
Middle East & Africa	2.9	-
Pension surplus	0.2	-
Net current assets	12.1	9.7
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	%
Total equities	**100.5**
Pension surplus	0.2
Net current assets	13.9
Borrowings at amortised cost	-14.5
Provisions for liabilities	-0.1
Shareholders' funds	**100.0**

Changes in Asset Distribution

by Sector	**31 October 2019 £m**	**Net purchases (sales) £m**	**Appreciation (depreciation) £m**	**31 October 2020 £m**
Energy	84.5	(19.7)	(32.1)	32.7
Materials	108.1	5.7	37.9	151.7
Industrials	30.3	(18.4)	(5.9)	6.0
Consumer Discretionary	72.9	(62.6)	2.5	12.8
Consumer Staples	97.3	20.7	(14.3)	103.7
Health Care	61.8	45.7	(11.7)	95.8
Financials	85.1	(37.4)	(14.8)	32.9
Information Technology	–	-	-	-

Communication Services	117.1	-	(30.8)	86.3
Utilities	17.6	45.4	(3.7)	59.3
Real Estate	13.1	(7.3)	(5.8)	-
Total equities	**687.8**	**(27.9)**	**(78.7)**	**581.2**

Changes in Shareholders' Funds

	31 October 2019 £m	Net purchases (sales) £m	31 October 2020 £m	Gains (losses) £m	Dividend income £m	Total return £m
Total equities	**687.8**	**(27.9)**	**581.2**	**(78.7)**	**19.9**	**(58.8)**
Pension surplus	-	-	1.2			
Net current assets	74.2	6.0	80.5			
Total assets	**762.0**	**(21.9)**	**662.9**			
Borrowings at amortised cost	(83.9)	(0.1)	(84.0)			
Provision for liabilities	(1.3)	–	(0.4)			
Shareholders' funds	**676.8**	**(22.0)**	**578.5**			

Income Statement

For the year to 31 October 2020

	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Net losses on investments held at fair value through profit and loss	–	(78,698)	(78,698)	–	(8,651)	(8,651)
Net gains/(losses) on currencies	–	818	818	–	(1,175)	(1,175)
Income	21,737	–	21,737	28,859	–	28,859
Expenses	(2,346)	(1,069)	(3,415)	(2,625)	(1,508)	(4,133)
Net Return before Finance Costs and Taxation	19,391	(78,949)	(59,558)	26,234	(11,334)	14,900
Interest payable	(1,732)	(3,217)	(4,949)	(1,732)	(3,217)	(4,949)
Return on Ordinary Activities before Tax	17,659	(82,166)	(64,507)	24,502	(14,551)	9,951
Tax on ordinary activities	(1,673)	–	(1,673)	(1,929)	–	(1,929)
Return attributable to Shareholders	**15,986**	**(82,166)**	**(66,180)**	22,573	(14,551)	8,022
Return per share (basic and fully diluted)	**21.70p**	**(111.52)p**	**(89.82)p**	29.75p	(19.18)p	10.57p
Weighted average number of shares in issue during the year		**73,677,432**			75,862,506	

	2020 £'000	2019 £'000
Dividends paid and proposed		
First interim 2020: 5.70p (2019: 5.30p)	4,207	4,055
Second interim 2020: 5.70p (2019: 5.30p)	4,204	3,996

Third interim 2020: 5.70p (2019: 5.30p)	4,168	3,918
Final 2020: 6.10p (2019: 6.90p)	4,447	5,098
Special 2020: Nil (2019: 7.45p)	-	5,501
Total 2020: 23.20p (2019: 30.25p)	**17,026**	**22,568**

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.

The accompanying notes are an integral part of this statement.

Balance Sheet

As at 31 October 2020

		2020		2019
	£'000	£'000	£'000	£'000
Fixed Assets				
Investments		581,235		687,820
Non-current Assets				
Pension surplus		1,161		-
		582,396		**687,820**
Current Assets				
Debtors	7,188		2,459	
Cash and cash equivalents	75,981		72,378	
	83,169		74,837	
Creditors: liabilities falling due within one year	(2,627)		(664)	
Net Current Assets		**80,542**		**74,173**
Total Assets less Current Liabilities		**662,938**		**761,993**
Creditors: liabilities falling due after more than one year				
Long-term borrowings at amortised cost		(84,013)		(83,921)
Provisions for Liabilities				
Pension scheme deferred tax on surplus		(406)		
Pension liability		-		(1,279)
Net Assets		**578,519**		**676,793**
Capital and Reserves				
Called-up share capital		18,224		18,474
Share premium account		39,922		39,922
Other reserves:				
Capital redemption reserve		52,637		52,387
Capital reserve		423,402		513,930
Revenue reserve		44,334		52,080
Shareholders' Funds		**578,519**		**676,793**
Net Asset Value per share with borrowings at amortised cost (basic and fully diluted)		**793.6p**		**915.9p**
Number of shares in issue at year end		**72,896,247**		**73,893,508**

Statement of Comprehensive Income

For the year to 31 October 2020

		2020			2019	
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return attributable to shareholders	15,986	(82,166)	(66,180)	22,573	(14,551)	8,022
Actuarial (losses)/gains relating to pension scheme	(412)	(764)	(1,176)	82	151	233
Pension scheme deferred tax on surplus	(142)	(264)	(406)	-	-	-
Total comprehensive income for the year	15,432	(83,194)	(67,762)	22,655	(14,400)	8,255
Total comprehensive income per share	20.95p	(112.92)p	(91.97)p	29.86p	(18.98)p	10.88p

Statement of Changes in Equity
For the year to 31 October 2020

	2020 £'000	2019 £'000
Opening balance	676,793	715,312
Total comprehensive income	(67,762)	8,255
Dividends	(23,178)	(19,796)
Share buybacks	(7,334)	(26,978)
Closing balance	**578,519**	**676,793**

Cash Flow Statement
For the year to 31 October 2020

	2020 £'000	2019 £'000
Operating activities		
Net revenue before finance costs and taxation	19,391	26,234
Expenses charged to capital	(1,069)	(1,508)
Decrease/(increase) in accrued income	278	(91)
(Decrease)/increase in other payables	(60)	(135)
Decrease/(increase) in other receivables	158	(80)
Adjustment for pension funding	(3,616)	175
Tax on investment income	(1,637)	(1,929)
Cash flows from operating activities	**13,445**	**22,666**
Investing activities		
Purchases of investments	**(178,725)**	(176,213)
Disposals of investments	**203,970**	196,088
Cash flows from investing activities	**25,245**	**19,875**
Cash flows before financing activities	**38,690**	**42,541**
Financing activities		
Dividends paid	(23,178)	(19,800)
Share buybacks	(7,052)	(28,742)
Interest paid	(4,857)	(4,857)
Cash flows used in financing activities	**(35,087)**	**(53,399)**
Net movement in cash and cash equivalents	**3,603**	**(10,858)**
Cash and cash equivalents at the beginning of year	**72,378**	**83,236**
Cash and cash equivalents at the end of year *	**75,981**	**72,378**

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

The accompanying notes are an integral part of this statement.

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
11 December 2020

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) and in accordance with the Companies Act 2006. They are also prepared on a going concern basis under the historical cost convention, modified to include the revaluation of investments at fair value. It is the opinion of the Directors that, as most of the Company's assets are readily realisable and exceed its liabilities, it is expected that the Company will continue in operational existence for the foreseeable future and for at least the next 12 months from the date of signing these financial statements. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates. The Company has chosen to apply the provisions of Sections 11 and 12 of FRS 102 in full in respect of the financial instruments.

2. Return per ordinary share

The revenue return per share is calculated on net revenue on ordinary activities after taxation for the year of £15,986,000 (2019: £22,573,000) and on 73,677,432 (2019: 75,862,506) 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 £82,166,000 (2019: net capital loss of £14,551,000) and on 73,677,432 (2019: 75,862,506) shares, being the weighted average number of shares in issue during the year.

The total return per share is calculated on total loss for the year of £66,180,000 (2019: profit of £8,022,000) and on 73,677,432 shares (2019: 75,862,506), 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 £578,519,000 (2019: £676,793,000) and on 72,896,247 (2019: 73,893,508) 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 2020 of 6.10p (2019 – 6.90p) per share will be paid on 12 February 2021 to shareholders on the register on 15 January 2021 (ex-dividend 14 January 2021).

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. S.I.T. Savings Limited is a wholly owned subsidiary of the Company. During the year to 31 October 2020 the net amount paid to S.I.T. Savings Limited was £1,667 (2019: nil) in relation to expenses. At 31 October 2020 the net amount due to S.I.T. Savings Limited was £10,501 (2019: £14,011). The net amount receivable from S.I.T. Savings Limited was £13,860 (2019: £14,812).

The financial information set out above does not constitute the Company's statutory Financial Statements for the year ended 31 October 2020 but is derived from those Financial Statements. Statutory Financial Statements for the year ended 31 October 2020 will be delivered to the Registrar of Companies in due course. The Auditors have reported on those Financial Statements; their report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors 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 Auditors' 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 Limited, Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY.

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.

Please refer to the Corporate Governance Report in the Annual Report and Financial Statements regarding the Company's risk as a result of Covid-19.

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 82% 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.