THE SCOTTISH Investment Trust

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THE CONTRARIAN

ANALYSIS AND INSIGHT FROM **THE SCOTTISH INVESTMENT TRUST**

SPRING 2021

ABOUT THE SCOTTISH INVESTMENT TRUST

At The Scottish, our experienced team actively manages a high conviction, global investment portfolio with the aim of generating above-average investment returns over the longer term for our investors.

Our contrarian approach is benchmark agnostic and aims to benefit from profitable opportunities in any market environment.

Founded in 1887, the trust has a long tradition of providing shareholders with an accessible, low cost way to invest in companies from around the world, whilst further boosting returns through the provision of a growing dividend.

The Scottish has grown its regular dividend every year for the last 37 years. Our independently managed, closed-ended fund structure allows us to be patient with our investments.

Spring Bounce

Spring is a time of renewal and recovery. With vaccination programmes well underway and the outlook for the economy improving, we at The Scottish have been paying particular attention to 'reopening' stocks – those poised to benefit from a return to economic normality. A spring clean of our portfolio included many such investments.

One year ago, the economic damage from the unfolding pandemic appeared unquantifiable. It was unclear when, or indeed if, a vaccine would be available. Shares of companies most reliant on a buoyant economy were, rightly, marked down.

Of course, vaccines have now transformed the prospects of a recovery, but with valuations for many stocks still not reflecting the improving outlook, we believe that many investors are underestimating the potential rebound.

As pent-up demand is released, many of the companies that will see the greatest benefit are those that have been most overlooked in recent years.

EXCEPTIONAL MEASURES

The vaccine is not the only salve that has bolstered the economic outlook. Massive stimulus programmes from central banks and governments have ensured that consumers and businesses emerge from the crisis in a more robust state than in previous downturns. This should accelerate the rate of recovery. Stimulus has other side effects worth keeping an eye on. Signs of recovery are starting to drive bond yields higher – albeit from a very low base, which matters as higher bond yields reduce the value of profits that will come at some point in the future. In other words, higher yields favour companies that can make profits now.

Thus 'value' investments have outshone their 'growth' counterparts.

Continued: Overleaf

Nurturing a nest egg for the future

Did you know that tree cover in the Scottish Highlands was once so dense that a red squirrel could travel from east coast to west, without once touching ground? Today, tree loss and disease mean times are tougher for these elusive wee creatures. They've had to adapt and respond.

An environment of insecurity – in which we evaluate new threats and respond – is something us humans share with this well-loved animal. The Covid-19 pandemic has created unease and uncertainty for everyone, while new technology brings both challenges and opportunities. Financial technology (fintech) is great for monitoring your finances, but with amateur investors gathering online and taking bets on stocks – as we've seen in 2021 – the risks can be high.

In contrast, we prefer long-termism. The squirrel is a careful creature, preparing for the future by hiding nuts underground. They often make several nests (dreys) to bamboozle predators, and to safeguard against damage. There's a useful reminder from nature here: planning ahead and diversification beats gambling.

If you like our thinking and are considering us for your ISA or SIPP, our shares are available on all the major online share-dealing platforms or via stockbrokers and other financial intermediaries.

Continued: From front page

Spring Bounce

UNEXPECTED WINNERS

Many 'value' sectors face structural changes that obscure the winners within them. Retail is a prime example. The high street's struggles have been well documented, but the shakeout of weaker competitors leaves survivors with attractive brands and strong digital strategies to gain market share.

Likewise, companies that are quietly working to improve their prospects have also been masked by the economic turmoil.

To take advantage of such opportunities, we have added stocks such as H&M, Capri Holdings, Cheesecake Factory, Six Flags Entertainment and Whitbread, which are well placed to benefit when people start spending.

We also see compelling opportunities in the financial sector. Banks are direct beneficiaries of rising yields and improving credit trends. Our additions in the sector include Wells Fargo, First Horizon, Santander and HSBC.

In the often-overlooked life insurance industry, meanwhile, we favour the restructuring underway at both Aegon and Aviva.

Another opportunity lies in unloved cyclical stocks sensitive to economic activity. Here, we have increased exposure to energy stocks, such as Halliburton and Helmerich & Payne as well as industrials like General Electric.

THE VALUE OF GOLD

The other side of the recovery is the return of inflation. The extraordinary fiscal and monetary interventions we've seen worldwide will, inevitably, have consequences. Many people assume that central banks will intervene to stop inflation, but that assumption looks misplaced. Already, the US Federal Reserve has indicated that it is willing to maintain its exceptionally accommodative stance and to tolerate higher levels of inflation. And after all the borrowing they have done during the pandemic, governments need some inflation to whittle their debt piles down.

We think many investors are still underestimating the combined inflationary effect of massive stimulus and a population eager to start getting out and spending again. And once the inflationary genie is out of the bottle, it will prove difficult to control.

That's why gold remains central to our strategy. Unlike fiat currency, gold holds its value in the face of inflation. So gold miners should respond well to the re-emergence of inflation. We see them as beneficiaries of the post-pandemic environment rather than defensive investments. Our holdings include some of the world's leading gold miners, including Newmont and Barrick Gold.

SPRING FORWARD

Our recent additions have fundamental opportunities to improve their prospects as well as the potential to capitalise on the environment that we see ahead. Many of these are in areas that were already unloved and depressed – as contrarians, that's why we've got a spring in our step as the weather turns warmer.

Aim high - for freedom and choice in retirement

One of the many odd things about 2020 was the amount of time we spent at home. The daily routine of rising, commuting to work and interacting with colleagues came to an abrupt halt. With a few exceptions, our new routine has been defined by the parameters of home.

That presents obvious challenges – even the most committed homebody would chafe under months of confinement. But it also gave us a glimpse of what it'd be like to spend zero time in the workplace – in a sense what retirement may look like. And that insight, although hard earned, is invaluable.

HAVE YOUR GOALS CHANGED?

The experience of the pandemic has changed the longer-term goals of some. A report by PwC finds that "Covid-19 has fundamentally changed the way we view cities", as people place greater value on homes with outdoor spaces in smaller towns over city living. The pandemic has also reminded us of the importance of family and friends. That too could prompt a move, as we rediscover the value of having loved ones close by.
For those of us still working, the glimpse into post-retirement life has come at a time when we still have the power to save and plan.

IT'S YOUR FUTURE. TAKE CHARGE!

For some people, saving and planning is a chore, but in reality, it's an ultimate act of self-care. Picture the life you want in retirement – the home you see in your mind's eye, the places you want to visit, the new experiences that await. Make it aspirational and then work backwards to find out what sort of annual income you'd need to make that life a reality. Retirement planning shouldn't be a bore – done right, it gives both freedom and choice.

There are lots of free online tools to help you get started. For example, the calculator from Age UK lets you input a desired retirement age and target retirement income. If there's a shortfall forecast from your current retirement plan, you can change it accordingly.

LIVE LONG AND PROSPER

According to the Office for National Statistics, people are living longer and therefore spending longer in retirement. This is clearly a 'good news story', but when you plan your retirement finances it makes sense to factor in Mr Spock's greeting.

WHAT ELSE CAN I DO?

As we've mentioned before, the golden rule to retirement planning is saving early in life. As soon as you're in permanent employment, get to know the details of your employer's pension scheme. Defined contribution schemes are the most common, requiring contributions from both the employer and employee. Get your pension fund off to a flying start by contributing as much as you can afford. You can also consider:

- When reviewing the portfolio of your employer's pension scheme, are you comfortable with the investments made on your behalf and the level of risk involved? If not, you may want to make changes or arrange to speak to a financial adviser.

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- The government encourages additional savings for retirement by offering supplementary tax-efficient options, such as Self-Invested Personal Pension (SIPP), Lifetime Individual Savings Account (LISA) or Individual Savings Account (ISA), allowing your money to grow over the long-term.

Remember, retirement is all about your future. Be proactive! And if you find that you're not saving enough, don't lose heart. Speak to a financial adviser about the best course of action.

Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up. You may not get back the amount you invest.

Meet the team

ALASDAIR MCKINNON
Manager

MARTIN ROBERTSON
Deputy Manager

MARK DOBBIE
Investment Manager

JAMES WEBB
Investment Manager

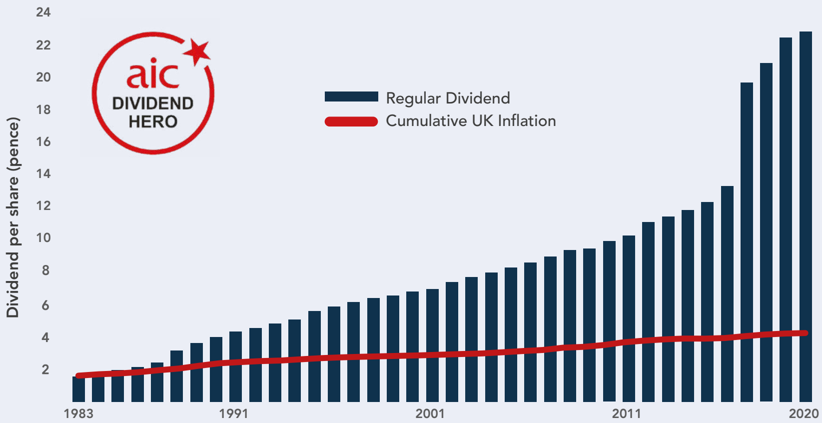
IGOR MALEWICZ
Investment Analyst

37 years and counting!

In 1983, the Ford Orion hit UK roads, the first pound coins were minted, and Return of the Jedi debuted in UK cinemas. That year marked the start of something else – since that time the Scottish has increased its regular dividend each year. Our prudent approach over the years means we have a substantial revenue reserve to draw upon when other businesses might have to tighten their belts and opt to curtail their dividends.

That's one of the reasons why the Association of Investment Companies (AIC) has designated us a Dividend Hero. And although dividend increases are never guaranteed, you can be sure that our investors' long-term financial wellbeing will always be our priority.

Increasing our regular dividend for 37 consecutive years



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More ways to connect with The Scottish

Please be assured that we are operating as normal during this Covid-19 pandemic.

Our latest company announcements are published on the Regulatory News Service and our website **www.thescottish.co.uk**
If you have any queries you may contact us by telephone, email or post, and if you'd like to hear from us more frequently, please subscribe for our monthly email via **www.thescottish.co.uk/subscribe**

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