



ALASDAIR MCKINNON

Amid rising expectations of higher inflation and interest rates, global markets fell back a little in May. Shares in companies that benefit from the prospect of higher rates performed well, as did gold-related stocks. Beneficiaries of economic reopening were also strong.

The prospect of higher inflation loomed larger as many consumer facing companies warned that supply shortages and logistical logjams might force them to raise prices. Survey data pointed to diminishing inventories of inputs such as steel, lumber, cotton and semiconductors. European and US manufacturers reported record backlogs and higher input prices as they scrambled to keep up with accelerating demand. Meanwhile, official reports confirmed that inflation had outstripped forecasts, prompting fears that central banks might raise interest rates. Such an environment tends to be bad news for the popular growth stocks that have been market leaders in recent years.

In the US, President Biden's \$4 trillion vision of reshaping the federal government's role in the economy is now in the hands of Congress where some compromise may be necessary. The package would add to the inflationary pressures that are already building.

Janet Yellen, the US Treasury Secretary, acknowledged these pressures, saying that interest rates might have to rise modestly

to keep the US economy from overheating. However, Government and Federal Reserve officials declared that this year's price increases would prove transitory.

The oil price rose as reserves accumulated during lockdowns declined. In the US, gasoline prices now exceed \$3 a gallon, the highest level in almost seven years. After a ransomware attack forced the shutdown of a key gasoline distribution pipeline for several days, some US states faced major shortfalls.

Latin American markets rebounded strongly over the month as Brazil's economy grew faster than expected in the first quarter and the rise in the country's consumer price index was less pronounced than feared. Markets in the UK and Europe also delivered positive returns. In Europe, an agreement which allows quarantine free travel within the EU-bloc offered some relief for the region's battered tourist industry. The weakest region was North America where technology-related stocks declined.

One of our best performers during May was Royal Mail, whose full-year results were well received by the market. We believe that the stars are aligning for Royal Mail to allow it to escape past challenges. Growth returned as parcels became a larger part of its business mix due to the surge in online activity, a trend that has accelerated over the last year. Thanks to its recent share price performance, Royal Mail is now on the cusp of being added to the FTSE 100 index.

“inflation had outstripped forecasts”

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Performance

Total return on £100 to 31 May 2021	6 months	1 year	3 years	5 years	10 years
Share price ⁽¹⁾	116.3	111.8	103.1	153.8	210.9
NAV per share ⁽²⁾	116.4	111.5	104.6	149.3	204.5
MSCI All Countries World Index	108.9	123.4	138.2	198.7	289.1
MSCI UK All Cap Index	115.8	122.1	103.6	137.4	178.3

Summary balance sheet

	31/05/2021	30/04/2021	Total return
Market capitalisation	£532m	£519m	
Total assets	£706m	£677m	
Borrowings at amortised cost	£84m	£84m	
Net assets ⁽³⁾	£621m	£593m	
NAV ⁽²⁾ per share	896.1p	851.6p	5.2%
NAV ⁽³⁾ per share	935.7p	891.2p	5.0%
Share price	801.0p	780.0p	2.7%

⁽¹⁾ Net income reinvested and before expenses are deducted.

⁽²⁾ With borrowings at market value ⁽³⁾ With borrowings at amortised cost

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

Company information

Company founded	1887
Manager	Alasdair McKinnon
Ongoing charges figure (OCF) *	0.52%
Dividend yield	2.9%
Number of listed holdings	52
Gearing/(net cash) ⁽²⁾	7%
Discount to NAV ⁽²⁾	10.6%

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

*Calculated as at 31/10/20.

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

Contact **US**

...to get in touch and find out more

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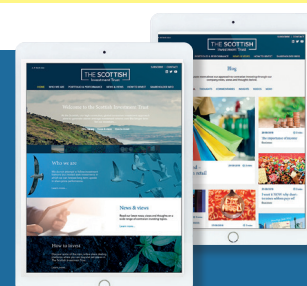
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The Scottish Investment Trust PLC



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 May 2021)

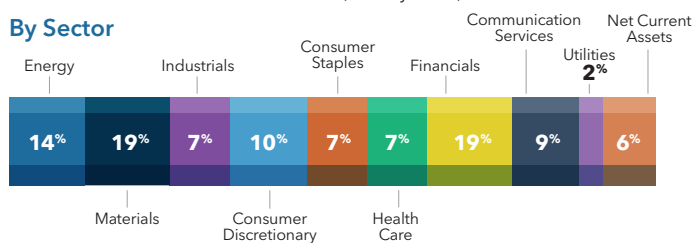
Holding	Sector	Country	£m	% ⁽⁴⁾
Newmont	Materials	US	37.4	5.3
Newcrest Mining	Materials	Australia	33.4	4.7
Barrick Gold	Materials	Canada	32.4	4.6
BT	Communication Services	UK	26.2	3.7
Wells Fargo	Financials	US	23.6	3.3
Banco Santander	Financials	Spain	21.3	3.0
Cheesecake Factory	Consumer Discretionary	US	19.9	2.8
Exxon Mobil	Energy	US	19.6	2.8
East Japan Railway	Industrials	Japan	18.9	2.7
Halliburton	Energy	US	17.9	2.5
Aggregate of top 10 holdings			250.6	35.4

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

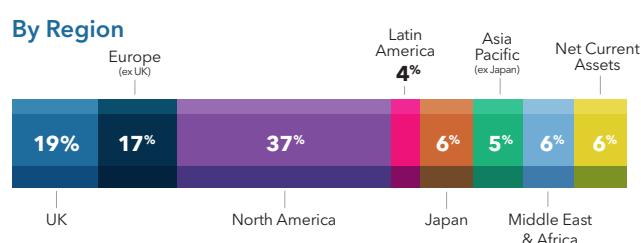
⁽⁴⁾ Percentage of total assets

Distribution of total assets (31 May 2021)

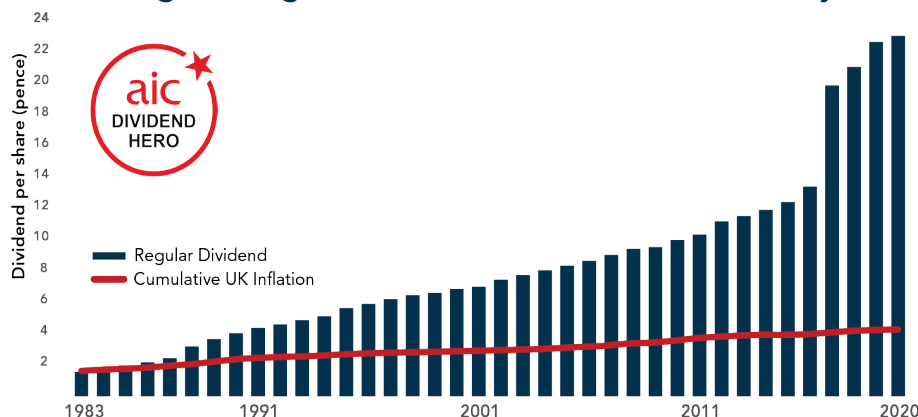
By Sector



By Region



Increasing our regular dividend for 37 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.

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