THE SCOTTISH Investment Trust

Monthly Factsheet
October 2018

ALASDAIR MCKINNON

Equity markets suffered heavy falls in October with several major markets down more than 10% from their previous peaks. The decline was attributed to various factors, including the escalating US-China trade war, rising bond yields, earnings disappointments and concerns about the prospects for global economic growth. The US Federal Reserve signalled that it might pursue rate rises more aggressively, exacerbating worries about bond yields. Across the Atlantic, the Brexit negotiations remained mired in difficulties and the Italian government proposed a budget that put it at odds with the European Union. A fall in the oil price put pressure on energy stocks; gold, however, benefited from its 'safe haven' status. Meanwhile, the alleged murder of the journalist Jamal Khashoggi in Istanbul strained Saudi Arabia's relationship with the US, even as US-Turkish relations improved from their lows with the release of an imprisoned American pastor.

Economically sensitive sectors were the weakest areas of the market, with industrials, materials, information technology, energy and consumer discretionary all declining sharply. Among the poorest performers were the 'FANG' stocks (Facebook, Amazon, Netflix and Google). In particular, Amazon and Netflix lost a substantial chunk of their value as disappointing results caused investors to question the assumptions that had propelled these stocks upwards. We have avoided this area of the market as we believe that its valuations do not reflect the potential risks – and because we see a better balance of risk and reward elsewhere.

While few areas of the market provided much relief from October's falls, the traditionally defensive sectors fared best. Utilities and consumer staples managed to produce positive returns, while healthcare and telecoms held up better than the broader market. The relative resilience of the telecoms sector came after a long period in which it was resolutely out of favour.

> “defensive sectors fared best”

One particularly unloved company in this sector has been BT, whose shares rose by 7% during October. At the end of the month, a new CEO was appointed to replace the outgoing Gavin Patterson. During Patterson's tenure, BT became an integrated telecoms provider, notably acquiring mobile operator EE in 2016. However, it ran into trouble after problems at an Italian subsidiary. Investors' belief in BT's ability to right itself had waned, but they appear to be warming to the company's turnaround strategy, which focuses on cutting costs and investing in network leadership. The new CEO, Philip Jansen, adds fresh impetus. In the meantime, the shares offer a significant dividend yield, which pays us to wait while the company implements its turnaround plan.

As markets experience a more turbulent phase, BT is an example of the sort of company we want to retain an investment in: one that has plenty of potential when so many other stocks have a less promising outlook.

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Performance

Total return on £100 to 31 October 2018	6 months	1 year	3 years	5 years	10 years
Share price [1]	100.2	101.9	149.4	157.1	285.0
NAV per share [2]	99.4	101.2	145.4	152.7	276.4
MSCI All Countries World Index	103.5	103.4	151.2	169.4	320.5
MSCI UK All Cap Index	96.5	98.7	125.8	129.1	253.5

Summary balance sheet

	31/10/2018	28/09/2018	Total return
Market capitalisation	£637m	£672m	
Total assets	£801m	£846m	
Borrowings at amortised cost	£84m	£84m	
Net assets [3]	£716m	£761m	
NAV [2] per share	901.1p	955.1p	-5.1%
NAV [3] per share	927.7p	980.8p	-4.9%
Share price	825.0p	866.0p	-4.2%

[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
Dividend yield	2.4%
Number of listed holdings	50
Gearing [2]	0%
Discount to NAV [2]	8.4%

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

Link to our Annual and Interim Reports

Contact US ...to get in touch and find out more

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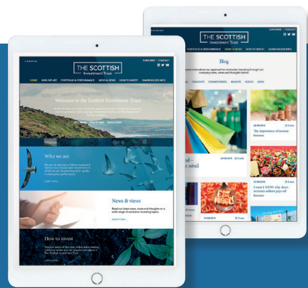


Our Objective

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 October 2018)

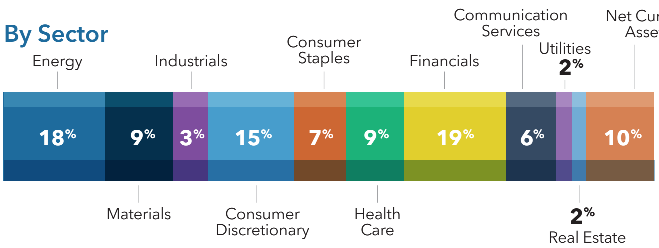
Holding	Sector	Country	£m	%[4]
Tesco	Consumer Staples	UK	32.2	4.0
Sumitomo Mitsui Financial	Financials	Japan	29.1	3.6
GlaxoSmithKline	Health Care	UK	29.1	3.6
Pfizer	Health Care	US	27.3	3.4
Target	Consumer Discretionary	US	26.7	3.3
Royal Dutch Shell	Energy	UK	25.9	3.2
Newcrest Mining	Materials	Australia	25.7	3.2
Macy's	Consumer Discretionary	US	25.1	3.1
Gap	Consumer Discretionary	US	25.1	3.1
Suncor Energy	Energy	Canada	24.2	3.0
Aggregate of top 10 holdings			**270.4**	**33.5**

Link to a full list of holdings

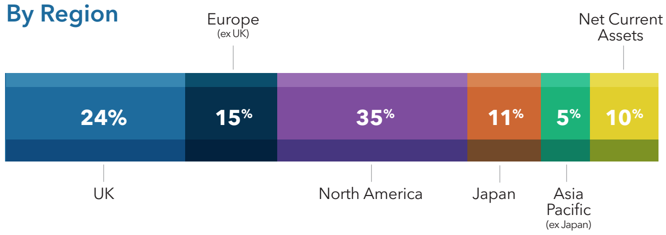
[4] Percentage of total assets

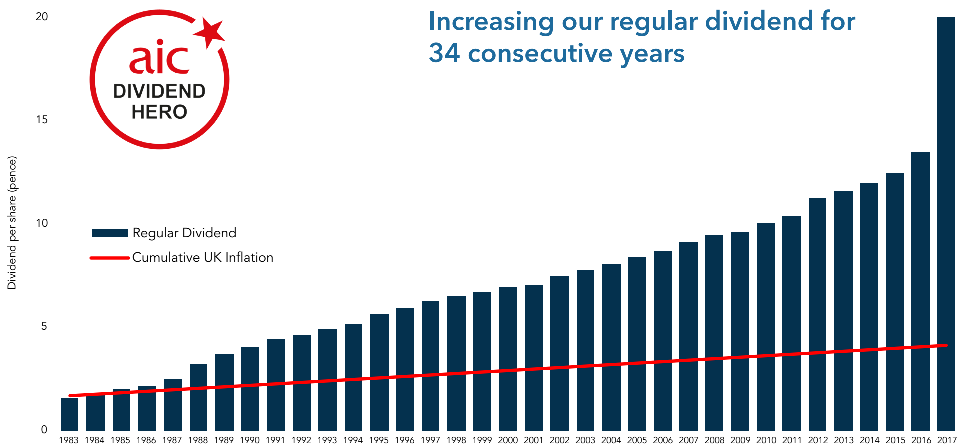
Distribution of total assets (31 October 2018)

By Sector



By Region





Increasing our regular dividend for 34 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.

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