THE SCOTTISH Investment Trust

Monthly Factsheet
December 2018

ALASDAIR MCKINNON

Global equity markets slid by 7% in December to deliver the worst full year return since the financial crisis. As trade tensions persisted and the US Federal Reserve raised interest rates, investors were rattled by fears of a global economic slowdown.

The US rate increase was widely anticipated despite President Trump's vocal disapproval and sparked rumours that Fed chair Jay Powell could be removed from office. Fed officials did, however, pare back their forecast for 2019 increases from three to two. The US Treasury yield curve partially inverted; although yield curve inversion has historically heralded an economic downturn, some questioned this event's significance given the unusual policy environment.

Hopes of a thaw in US-China trade relations initially rose as both sides offered concessions. But optimism evaporated as President Trump's tweets cast doubt on a deal and the chief financial officer of Chinese telecom giant Huawei was arrested in Canada at the request of US authorities. There was some respite later in the month as the US confirmed that it would host trade talks in January.

In Europe, Italy struck a budget deal with EU officials, but the French economy suffered from the disruption caused by the 'yellow vest' protests. In the UK, a Brexit agreement remained elusive as it became increasingly clear that Theresa May's proposed deal would not pass through parliament in its present form. The vote was delayed to the new year as the Prime Minister sought to win further concessions from the EU. Although she survived a party confidence vote, the Brexit turmoil called into question the longevity of her government.

In the equity markets, the weakest region was North America. The Japanese market also performed poorly on worse-than-expected GDP data. Though all regions declined heavily, the UK was one of the least badly hit. Latin America performed best, helped by the revised US rate outlook and the reforms promised by Jair Bolsonaro, Brazil's newly elected president.

All sectors were bruised, but defensive sectors and beneficiaries of a softer rate outlook suffered less. The utilities sector performed best as the prospect of slower rate rises renders its dividend streams more attractive. Conversely, the same prospect led to poor performance from financials. Economically sensitive sectors such as energy performed worst; the oil price plunged on fresh concerns about oversupply.

> "surge in the gold price"

Gold was one of the few asset classes to perform well, gaining almost 5% as worries about global growth increased. The surge in the gold price benefited Newmont Mining, which was among our best performing stocks in December. Newmont is one of the world's largest gold miners by production and reserves. After reducing the debt burden accumulated in the late 2000s, it now has one of the industry's strongest balance sheets. Newmont is using its financial strength to advance new projects and pay larger dividends. Gold has performed poorly in recent years, but current volatility should highlight its 'safe haven' status. Newmont typifies the sort of opportunity we seek out – overlooked assets whose strengths are underappreciated.

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Performance

Total return on £100 to 31 December 2018	6 months	1 year	3 years	5 years	10 years
Share price [1]	87.1	89.9	137.4	143.4	263.7
NAV per share [2]	87.8	91.2	134.0	141.3	243.0
MSCI All Countries World Index	94.3	96.2	140.2	160.2	278.7
MSCI UK All Cap Index	88.6	90.1	119.5	120.3	237.8

Summary balance sheet

	31/12/2018	30/11/2018	Total return
Market capitalisation	£581m	£627m	
Total assets	£745m	£794m	
Borrowings at amortised cost	£84m	£84m	
Net assets [3]	£660m	£709m	
NAV [2] per share	833.9	896.0	-6.9%
NAV [3] per share	857.7	920.3	-6.8%
Share price	755.0	814.0	-7.2%

[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
Ongoing charges figure (OCF)	0.52%
Dividend yield	2.8%
Number of listed holdings	50
Gearing/(net cash) [2]	(2%)
Discount to NAV [2]	9.5%

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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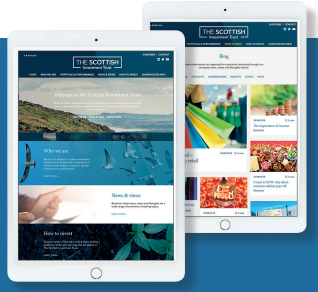


ABOUT THE SCOTTISH

Our Objective

To provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation.

Our High Conviction, Global Contrarian Investment Approach

- We are contrarian investors.
- We believe markets are driven by cycles of emotion rather than dispassionate calculation. This creates profitable investment opportunities.
- We take a different view from the crowd.
- We seek undervalued, unfashionable companies that are ripe for improvement.
- We are prepared to be patient.
- We back our judgement and run a portfolio of our best ideas, selected on a global basis.
- Our portfolio is unlike any benchmark or index and we fully expect to have differentiated performance.
- Our approach will not always be in fashion but we believe it delivers above-average returns over the longer term, by which we mean at least five years.

Link to more about our philosophy, approach and process

Top 10 holdings (31 December 2018)

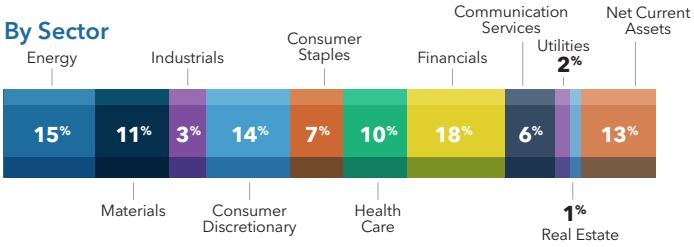
Holding	Sector	Country	£m	%[4]
Tesco	Consumer Staples	UK	28.7	3.9
GlaxoSmithKline	Health Care	UK	28.7	3.9
Pfizer	Health Care	US	27.8	3.7
Newcrest Mining	Materials	Australia	27.1	3.6
Sumitomo Mitsui Financial	Financials	Japan	24.8	3.3
Gap	Consumer Discretionary	US	23.7	3.2
Royal Dutch Shell	Energy	UK	23.6	3.2
Newmont Mining	Materials	US	23.0	3.1
Standard Chartered	Financials	UK	22.6	3.0
BHP	Materials	UK	22.4	3.0
Aggregate of top 10 holdings			**252.4**	**33.9**

Link to a full list of holdings

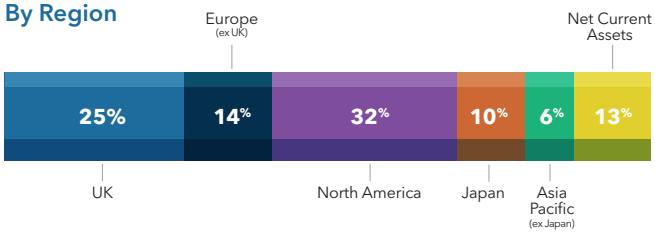
[4] Percentage of total assets

Distribution of total assets (31 December 2018)

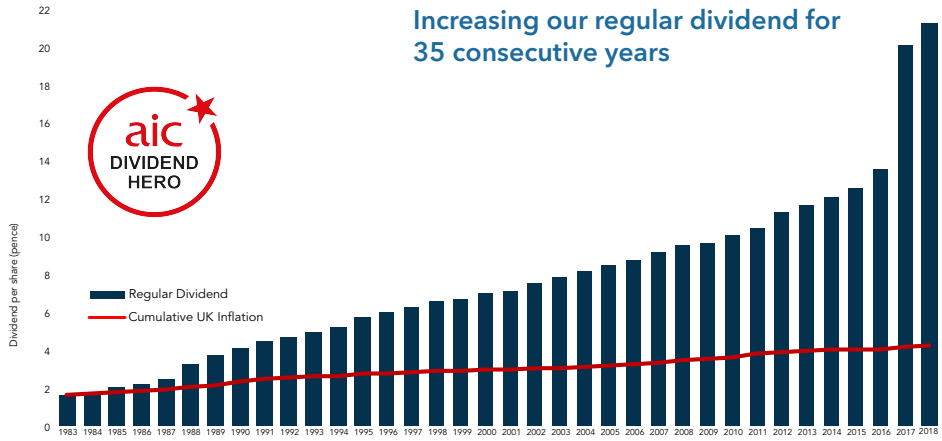
By Sector



By Region



Increasing our regular dividend for 35 consecutive years



QUARTERLY DIVIDEND PAYMENT

FIRST INTERIM	May
SECOND INTERIM	August
THIRD INTERIM	November
FINAL	February

IMPORTANT INFORMATION

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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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