THE SCOTTISH Investment Trust

Monthly Factsheet
January 2019

ALASDAIR MCKINNON

After a dismal December, global equities began 2019 in much more cheerful mood. Hopes rose for a positive outcome to the Sino-US trade negotiations and the US Federal Reserve (Fed) appeared to take a more market-friendly stance. Jerome Powell, the Fed's chair, indicated that interest rates might not rise as quickly as previously expected. This helped to allay the fears of slowing global growth that drove markets down in late 2018.

Nevertheless, signs of a slowdown continued to mount. Both the World Bank and the International Monetary Fund cut their global growth estimates and Mario Draghi, the European Central Bank's president, said that risks had "moved to the downside". Chinese data made for dismal reading too. Official GDP growth came in at just 6.6% for 2018, the slowest full-year rate since 1990. Exports weakened and car sales fell for the first time in almost two decades. In response, the People's Bank of China cut the banks' reserve requirement to free up cash for lending. Our manager visited China in January and will share his thoughts in upcoming articles on the website.

The UK parliament overwhelmingly rejected Theresa May's proposed Brexit deal. Sterling later strengthened, however, on the prospect that Brexit could be delayed as the prime minister seeks to renegotiate the contentious Irish backstop.

> "Latin America was by far the strongest region"

In the equity markets, Latin America was by far the strongest region, boosted by the Fed's changing tone and hopes of reform in Brazil and Mexico. The Fed's softer stance also helped US equities, despite the longest government shutdown in history. The weakest returns came from Europe, where Brexit uncertainty lingered and Italy, Germany and France reported weak economic data. With the Sino-US trade war hurting its exporters, Japan also lagged behind.

Sector performances reflected investors' increased appetite for risk. Real estate performed best, on the prospect of slower US monetary tightening. Energy – a sector we have long favoured – soared on optimism that the trade war might soon end and as the US imposed sanctions on Venezuela. Despite a warning from Apple about slowing Chinese demand, the IT sector was resilient. Although all sectors rose, traditionally defensive areas were the weakest. These included utilities, consumer staples and healthcare – all sectors that had performed well at the end of 2018.

One of our strongest performers was French supermarket operator Carrefour, the world's second-largest retailer by sales. France is its most important market, but its geographic exposure extends throughout continental Europe, Latin America and Asia. As bloated costs and deteriorating brand perception have weighed on sales and margins, Carrefour's shares have fallen from favour. New CEO Alexandre Bompard has set out an ambitious turnaround programme, involving overhauling cost structures and closing underperforming stores. Savings of €2 billion will be channelled into reinvigorating the business. Meanwhile, new procurement partnerships should boost Carrefour's competitive position. Recent results showed encouraging trends in the French business and cost savings remain on target. We see considerable potential for an earnings rebound. In the meantime, the shares offer a sustainable dividend – so that we are being paid to wait.

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Performance

Total return on £100 to 31 January 2019	6 months	1 year	3 years	5 years	10 years
Share price (1)	89.2	93.6	145.2	153.3	269.7
NAV per share (2)	87.9	95.1	139.6	151.4	270.8
MSCI All Countries World Index	95.0	100.0	150.0	173.0	319.2
MSCI UK All Cap Index	91.6	95.8	129.2	130.1	261.8

Summary balance sheet

	31/01/2019	31/12/2018	Total return
Market capitalisation	£602m	£581m	
Total assets	£764m	£745m	
Borrowings at amortised cost	£84m	£84m	
Net assets (3)	£679m	£660m	
NAV (2) per share	857.9p	833.9p	2.9%
NAV (3) per share	884.8p	857.7p	3.2%
Share price	785.0p	755.0p	4.0%

(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	2.7%
Number of listed holdings	50
Gearing/(net cash) (2)	(1%)
Discount to NAV (2)	8.5%

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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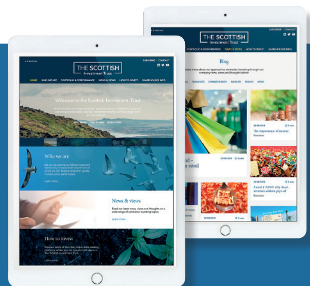


Our Objective

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 January 2019)

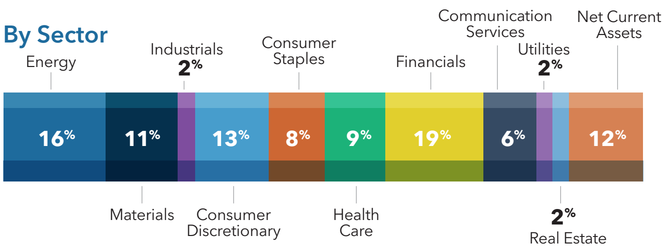
Holding	Sector	Country	£m	%[4]
Tesco	Consumer Staples	UK	33.7	4.4
Newcrest Mining	Materials	Australia	30.6	4.0
GlaxoSmithKline	Health Care	UK	28.4	3.7
Sumitomo Mitsui Financial	Financials	Japan	26.9	3.5
Pfizer	Health Care	US	26.2	3.4
Royal Dutch Shell	Energy	UK	23.9	3.1
BHP	Materials	UK	23.0	3.0
Standard Chartered	Financials	UK	22.7	3.0
Gap	Consumer Discretionary	US	22.7	3.0
Target	Consumer Discretionary	US	22.6	3.0
Aggregate of top 10 holdings			**260.7**	**34.1**

Link to a full list of holdings

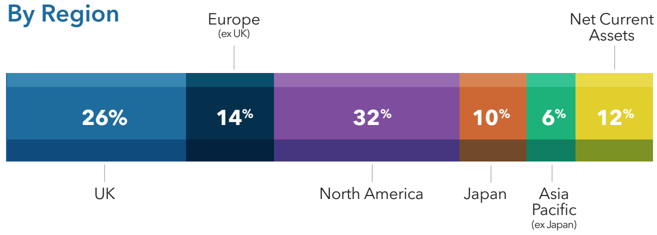
[4] Percentage of total assets

Distribution of total assets (31 January 2019)

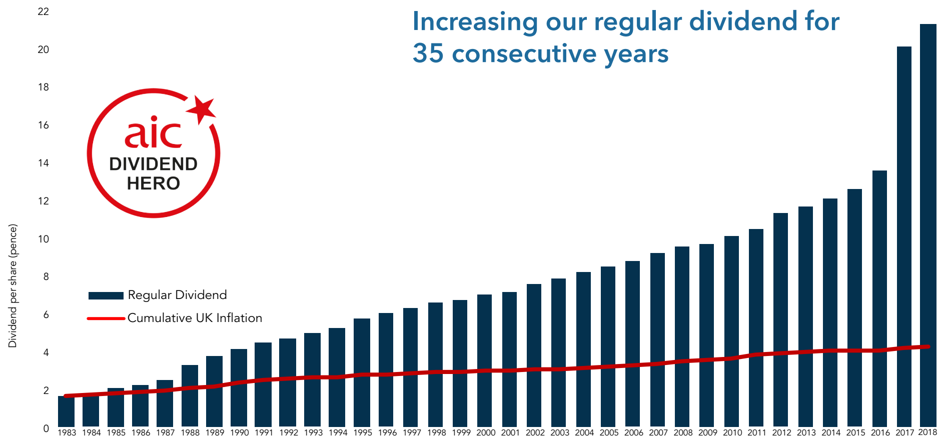
By Sector



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

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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