

# Chairman's Statement

## Performance and Commentary

In the twelve months to 31 October 2014, the net asset value per share (NAV) total return was 1.0%.<sup>1</sup> The share price total return over the same period was 1.4%.

The portfolio is not modelled on any index and, to reflect this, the company does not have a formal benchmark. Performance is instead reviewed in the context of returns from broad baskets of UK and international equities. Over the same period, the FTSE All-World Index sterling total return was 8.8% and the FTSE All-Share Index total return was 1.0%.

The outlook for global economic growth slowed over the year as China and emerging markets proved a source of disappointment and Japanese reflationary measures known as 'Abenomics' were thwarted by a sales tax increase. The eurozone economy again flirted with a recession with further banking problems in the periphery and new, Russian sanctions-related, problems in the core countries.

The US economy endured a particularly harsh winter but the subsequent rapid recovery in economic activity was a source of positive surprise. The UK, although less important in a global context, was seen as the most dynamic economy although this view faded as the booming London housing market moderated late in the financial year.

Investors paid greatest heed to the machinations of the US Federal Reserve, which reduced and eventually ceased asset purchases (more commonly known as quantitative easing). The larger market corrections over the year were triggered by a realisation that the US Federal Reserve intended to persist with this policy of 'tapering' and was examining the prospects for an interest rate rise during 2015.

The disparity in growth prospects, and thus for stimulatory measures between the major economic regions, was a defining characteristic of the year. Investors anticipated interest rate increases in the US, which served to strengthen the US dollar late in the year and generally increased the attractiveness of US assets. In contrast, the eurozone, China and Japan were expected to enact further, currency-weakening, stimulatory measures. Sterling initially strengthened on suggestions of an interest rate rise but fell back against the US dollar as this prospect receded.

## Gearing

Having started the year at a net cash position of 1%, gearing was gradually deployed to finish the year at 4%, with benefit to the income account.

## Income and Dividends

Earnings per share were lower at 11.51p (2013: 13.41p), owing to a lower level of investment during the first part of the year and a higher contribution from special dividends in the preceding year.

The board recommends a final dividend of 7.20p per share (2013: 6.80p) which, if approved and combined with the interim dividend of 4.80p, will mean that total regular dividend for the year will increase by 3.4% to 12.00p, ahead of the main measures of UK inflation.

This proposed dividend will entail the utilisation of 0.4p per share from revenue reserves; the board considers these reserves can be used in less buoyant years, however the revenue reserves remain robust at 44p per share.

## Discount and Share Buybacks

The discount at which the share price trades to the NAV was again broadly stable and finished the year at 8.7% (2013: 8.6%).<sup>2</sup>

The company has for a number of years followed a policy that aims to maintain the discount at or below 9%. During the year, 1.9m (2013: 1.9m) shares were repurchased for cancellation at

an average discount of 9.7% (2013: 9.7%) and a cost of £11.3m (2013: £10.1m).

## Change of Manager

During the year, the company announced that John Kennedy had left The Scottish Investment Trust PLC after ten years of service as SIT's Manager. The board thanks him for his substantial contribution and wishes him well for the future.

Alasdair McKinnon, previously Assistant Manager, has become Acting Manager. Alasdair has been with the company since 2003. He graduated MA with honours in Economic and Social History from the University of Edinburgh in 1997 and MSc in Investment Analysis (with distinction) from the University of Stirling in 2001.

Alasdair is a Chartered Financial Analyst (CFA<sup>TM</sup>) and an Associate of the UK Society of Investment Professionals.

## Board Composition

James MacLeod has decided not to stand for re-election at the AGM having served on the board since 2005. The company has benefited greatly from his knowledge and experience. On behalf of the board, I should like to thank James for his outstanding contribution.

## EU Alternative Investment Fund Managers Directive (AIFMD)

As explained in previous reports, the company is now subject to the requirements of the AIFMD. The company has entered into an investment management agreement with SIT Savings Limited, a wholly-owned subsidiary, which will perform the role of Alternative Investment Fund Manager (AIFM). Northern Trust Global Services Limited has been appointed to fulfil the required depository function.

## Outlook

Although more than half a decade has elapsed since the nadir of the financial crisis, interest rates remain extraordinarily low and major areas of the global economy continue to struggle. In the US, which has fared better than other regions over the past year, the US Federal Reserve has recently ceased to purchase financial assets and is now contemplating an interest rate rise in 2015.

An increase in US interest rates has the potential to have a destabilising impact on global markets as the stimulatory measures employed since the financial crisis have relied upon the creation of additional debt. Investment markets are therefore likely to remain in thrall to the deliberations of the US Federal Reserve and other central banks.

More positively, the recent sharp fall in the oil price is likely to have a stimulatory impact on economic activity and, if maintained, should filter through into an increase in consumer disposable income.

The company has deployed a proportion of the long-term borrowings into higher-yielding equities and retains more than £60m in cash which could be utilised should attractive opportunities arise.



Douglas McDougall  
Chairman  
12 December 2014

1. NAV (with borrowings at market value). Total return is the combination of capital and income.
2. This is referenced to the ex-income NAV (with borrowings at market value).