autumn 2008 | as at 31 July 2008

INVESTORS' newsletter

The Scottish Investment Trust PLC

SIT Objectives

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.

AIC Category	Global Growth
Total Assets	£754 million
Cum-income NAV with borrowings at market value	500.1p
Ex-income NAV with borrowings at market value	494.7p
Ex-income NAV with borrowings at par	491.0p
Share price	458.0p
Discount to ex-income NAV	7.4%
Effective Gearing	102%

NAV and Share Price Performance

	1 year	5 years	10 years
NAV (with borrowings at par) total return on £100	92	163	139
Share price total return on £100	95	186	154

£100 invested with dividends reinvested, before expenses are deducted.

Performance 31 October 2007 - 31 July 2008

	(%)
Ex-income NAV with borrowings at par	**-16.9**
Share price	**-13.4**
FTSE All-World Index™	-15.1
UK FTSE All-Share Index™	-20.4

Comparative Performance on £1,000 invested 31 July 2008

	1 year	5 years	10 years
The Scottish Investment Trust PLC	**£928**	**£1,816**	**£1,503**
UK Savings £25,000+ Account [1]	£1,028	£1,134	£1,330
Retail Prices Index [2]	£1,050	£1,194	£1,328

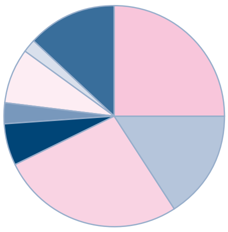
Figures are calculated with net income reinvested, where applicable. The SIT figures are adjusted to allow for all expenses of investing through SIT's STOCKPLAN Investment Trust Savings Scheme.
UK Savings £25,000+ with interest reinvested net of basic rate tax. Please note that with a UK savings deposit account your capital is secure.
Sources: 1 Source and copyright © Standard & Poor's. All rights therein are reserved 2 National Statistics

Top 10 Holdings

as % of total assets

1	Monsanto - US	2.7
2	Gilead Sciences - US	2.5
3	United Utilities - UK	2.5
4	FLIR Systems - US	2.3
5	Rio Tinto - UK	2.1
6	DBS - Singapore	2.0
7	E.On - Germany	1.9
8	HSBC Holdings - UK	1.9
9	BNP Paribas - France	1.8
10	De La Rue - UK	1.8

Geographical Distribution of Total Assets



UK	25%
Europe (ex UK)	16%
North America	27%
Latin America	6%
Japan	3%
Asia Pacific (ex Japan)	8%
Middle East & Africa	2%
Net Current Assets	13%
	100%

Standardised Past Performance

Mid price to mid price net income reinvested year to 31 July	2004 % growth	2005 % growth	2006 % growth	2007 % growth	2008 % growth
The Scottish Investment Trust PLC	**2.0**	**39.3**	**16.0**	**18.3**	**-4.7**

All sources SIT unless otherwise stated.
NAV is net asset value per ordinary stock unit.
Cum-income means includes undistributed current year revenue.
Ex-income means excludes current year revenue.

In line with our reporting policy, the NAVs are calculated taking the valuation of investments at closing bid or last price, as the case may be. The latest NAVs are unaudited. Borrowings at market value is the company's estimate of the fair value of its borrowings.

Borrowings at par is the nominal value of the borrowings less any unamortised issue expenses.
Total assets means total assets (cum-income) less current liabilities.
Gearing is based on ex-income figures with borrowings at par.

Past performance should not be seen as an indication of future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations and investors may not get back the amount originally invested.

EGM

SIT's EGM took place at 11.00am on Thursday 28 August 2008 at SIT's offices – 6 Albyn Place, Edinburgh.

The special resolution to adopt new articles of association for the Company was approved by shareholders. The new articles, which are consistent with the Companies Act 2006 and which reflect current market standards, will take effect from 1 October 2008.

STOCKPLAN, STOCKPLAN: A Flying Start, The SIT ISA Administrator – Change of address

SIT's schemes' administrator, Halifax Share Dealing (HSDL), has changed its address.

HSDL's new address (with immediate effect) is:

SIT Schemes

Halifax Share Dealing Ltd

Lovell Park Road

Leeds

LS1 1NS

The telephone number is unchanged – **0845 850 0181**

Although post sent to HSDL's old address will be forwarded, it would be appreciated if SIT scheme investors could use the new address in any future correspondence with HSDL.

Investment trust discounts

An investment trust is a "closed end" fund in that there is a fixed number of shares or stock units in issue. The market price of these shares or stock units is affected by the principles of supply and demand and may not represent the value of the underlying investments held by the investment trust company - the net asset value or NAV.

The difference between the share price and the NAV is usually expressed as a percentage discount or premium. It is more common for an investment company to stand at a discount than a premium.

What is Net Asset Value (NAV) per share?

The NAV per share is the shareholders' funds divided by the number of shares in issue.

Discount

If the share price of an investment trust company is lower than the NAV per share, the company is said to be standing at a discount. For example, if the NAV is 100p and the share price is 90p then the discount is 10%.

If the discount narrows then the share price return will exceed the NAV return. The discount may also widen during the period of your investment, although this will not necessarily lead to a loss on the investment when you come to sell.

Premium

If the share price of an investment trust company is higher than the NAV per share, the company is said to be standing at a premium. For example, if the share price is 110p and the NAV is 100p then the premium is 10%.

Why does an investment trust company stand at a discount or a premium?

There are various reasons why investment trust companies stand at a premium or discount to NAV. These include: market sentiment towards a particular type of investment or market the company invests in; past performance under a particular manager; the market not understanding the true value of the company; or an imbalance between supply and demand.

In order to limit the volatility of the discount, since January 2006 SIT has had a policy of actively buying back stock with the aim, in normal market conditions, of maintaining a discount to net asset value of 9% or less.

Visit to Singapore

Julie Tay is an investment manager on the SIT Asia Pacific region desk. In July, she visited her home country, Singapore, where she met Asia Pacific region companies including SIT's then holdings, China Mobile and DBS.

The recent months have been challenging for Asia Pacific economies with several countries in the region seeing record inflation. The Asia Pacific (ex Japan) stockmarket index has fallen by a fifth in sterling terms in 2008, with Chinese `A' and Hong Kong-listed Chinese names registering some of the biggest drops.

Measures taken by the Chinese authorities to combat inflation and to spread wealth more equally among the population have hurt profits in some industries. The government has implemented new regulations in the real estate, paper and more recently in the telecoms industries with the introduction of changes to competitive measures against the incumbent wireless operator, China Mobile.

That is one of the reasons for the sale of our stake in China Mobile, one of our most profitable holdings in 2007.

Policy changes by the government have reduced the level of earnings visibility and, consequently, the risk premium that investors are demanding for Chinese stocks has increased.

That said, the Asia Pacific region remains a focal area for the longer term, with the region being one of the leading contributors to global growth. Moreover, with Asia Pacific (ex Japan) no longer valued at a premium to global equity markets on PE ratio valuation measures, we see this setback as an opportunity to re-invest in the region, having lowered our exposure over the last 12 months in anticipation of a slowdown.

Japan has performed better than Asia Pacific (ex Japan) this year as investors deemed the impact of inflation as being relatively benign for an economy that has been in a deflationary environment for more than a decade.

We are seeing encouraging signs that Japanese companies are paying more attention to increasing shareholder value and improving corporate governance. For possibly the first time in Japanese corporate history, the management of a company was ousted by a foreign fund in May this year.

The Japanese stock market is valued at a relatively low PE by historical standards, with many companies standing below book value. We saw some quality names during the conference which warrant further analysis and consideration for the SIT global portfolio.

SIT raises funds for Alzheimer's

The 2008 Edinburgh Marathon took place on 25 May this year in surprisingly good weather.

SIT entered a relay team consisting of John Kennedy (manager), Hugh Duff (senior investment manager, UK), James Kinghorn (senior investment manager, Americas), and Stewart Howie (investment data analyst). The team trainer and bus driver was Martin Robertson (senior investment manager, Europe).

The team successfully completed the marathon in a time of 3 hours and 29 minutes.

Friends, family and work colleagues supported the SIT team and over £1,000 was raised for Alzheimer Scotland.

The Scottish Investment Trust PLC

Key Contact Numbers

- Administrative and pension enquiries for The SIT SIPP 08457 22 55 25
- Administrative queries for STOCKPLAN / STOCKPLAN: A Flying Start and The SIT ISA investors: 0845 850 0181
- Administrative queries for all other SIT investors: 0870 703 0195
- General queries to the managers: 0131 225 7781
- SIT email: heather@sit.co.uk
- SIT web site: www.sit.co.uk
- To order further information on SIT products and services, please call our brochure request line on Freephone: 0800 42 44 22

A classic case of "Sell in May and go away".

- The three months to end-July 2008 proved to be a torrid quarter for global stockmarkets as investor sentiment was rocked by rising inflationary forces and a deteriorating economic outlook. Taken together with the dire news flow emanating from the US housing market and financial system, it is clear why global equity markets fell over the quarter and also explains a sharp swing in stockmarket leadership in favour of more defensive industries.
- Over the quarter, the FTSE All-World Index™ fell by 9.9% in sterling terms taking the 12 month return to -9.6% (-7.2% total return). The All-World declined virtually in a straight line by around 18% during a 2 month spell between mid-May and mid-July before managing a small rally at the end of the quarter. Regional local returns over the quarter fell into two broad groups. Outperformers were Japan (-4.7%), Middle East & Africa (-8.0%), and, ironically, North America (-7.7%) while there were larger declines from UK (-11.4%) which has a large proportion of struggling Financials, Europe (-11.8%), as well as recent leaders Latin America (-13.0%) and Asia Pacific (ex Japan) (-14.0%). As is often the case, the US stock market is relatively resilient in downturns compared with other regions despite being the source of the problems afflicting the global banking industry.
- Analysing the 9.9% fall in world markets by industrial group, there was a marked change in leadership both within the period and compared with previous quarters as more defensive sectors came to the fore and commodity-related industries (Oil & Gas and Basic Materials) slipped back. Strongest returns by far came from the classically defensive Health Care industry which actually rose over the period (+2.6%) and Utilities (-4.9%). Basic Materials fell 7.4% while Oil & Gas fell by 9.5% as the oil price came off in July from intra-quarter and all-time highs of over $140 per barrel. Consumer-linked sectors fell in line with global markets while the weakest returns came from Telecommunications (-11.1%), echoing fears of a slowdown in demand and a profits-warning from Vodafone, and the troubled Financials industry (-16.4%) despite a small rebound in July.
- This was no quiet summer in stockmarkets as there was much economic, political and stockmarket news to digest. The US housing market continued to deteriorate with new-build and house price indicators marking the extent of the decline. US consumer sentiment also deteriorated, hitting multi-year lows, while unemployment increased. UK and other overheated European housing markets also declined. The broader European economy had been resilient early in the quarter but showed sharp signs of a slowdown with the German *Ifo* index setting the tone. Japan too was weakening from modest activity levels. While China's growth remained around 10%, inflation continued to be problematic and prompted cooling measures from the authorities. Inflation was also a problem in many developed markets, despite the slowdown evident, and thereby gave central banks a policy dilemma – prop up growth or attack inflation? Of the major G7 central banks, only the ECB increased rates (by 0.25% to 4.25% in July). However, several fast growing emerging economies, including India, Brazil and Indonesia, increased interest rates in an attempt to cool inflation.
- Financial industry problems revolved around the US housing market with much fund raising and asset write-downs from the world's leading banks. Some capital raisings were only achieved after resorting to underwriters and there were widespread dividend cuts effected by prominent institutions, including large British banks. Key to resolving the US sub-prime issue will be the continued solvency of the large government sponsored mortgage enterprises (GSEs) Fannie Mae and Freddie Mac. There were US government policy initiatives aimed at easing conditions for US mortgage borrowers and also for propping up the two GSEs.
- Corporate activity was frenetic during the period as companies either sought to offset weakness by merging or to capitalise on low share prices by acquiring. The list of M&A features is too long to set out in detail, but major actions included Belgian brewer InBev's bid for US rival Anheuser-Busch and Hewlett-Packard's takeover of US technology group EDS. Telecommunications, banking and energy also saw major M&A activity, not all of which was successful.

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Please contact us for information on the following:

- The SIT SIPP
- STOCKPLAN Investment Trust Savings Scheme
- The SIT ISA
- ISA Transfer
- Investing for Children - STOCKPLAN: A Flying Start
- Annual and Interim Reports

The Scottish Investment Trust PLC

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Annual General Meeting - January • Manager - John Kennedy