autumn 2011 | as at 31 July 2011

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 par	562.8p
Cum-Income NAV with borrowings at market value	548.7p
Ex-Income NAV with borrowings at par	557.9p
Ex-Income NAV with borrowings at market value	543.8p
Share Price	493.0p
Discount to Ex-Income NAV with borrowings at market value	9.3%
Effective Equity Gearing	106%

NAV and Share Price Total Return on £100

	1 year	5 years	10 years
Ex-Income NAV with borrowings at par	118	130	149
Share Price	118	130	156

Net income reinvested and before expenses are deducted.

Performance over the Quarter 30 April 2011 - 31 July 2011

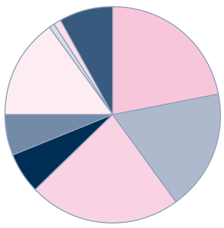
	(%)
NAV Total Return with borrowings at par	-2.7
NAV Total Return with borrowings at market value	-3.4
Share Price Total Return	-3.4
FTSE All-World Index™ Total Return	-3.6
UK FTSE All-Share Index™ Total Return	-3.3

Top 10 Holdings

as % of total assets

1	Apple - US	2.6
2	McDonald's - US	2.0
3	BT - UK	1.6
4	Daito Trust Construction - Japan	1.5
5	Spectris - UK	1.5
6	Kia Motors - South Korea	1.5
7	Sega Sammy - Japan	1.4
8	Chevron - US	1.4
9	Atlas Copco - Sweden	1.4
10	CIMB - Malaysia	1.3

Geographical Distribution of Total Assets



UK	22%
Europe (ex UK)	16%
North America	23%
Latin America	6%
Japan	7%
Asia Pacific (ex Japan)	15%
Middle East & Africa	1%
Fixed interest	1%
Net current assets	9%
	100%

Standardised Past Performance

Last price to last price with net income reinvested and before expenses are deducted. % growth year to 31 July	2007	2008	2009	2010	2011
The Scottish Investment Trust	18.3	-4.7	-13.6	13.5	17.5

Total assets means total assets less current liabilities.
NAV is net asset value per share after deducting borrowings at par or market value, as stated.
Ex-income NAV is the NAV excluding current year revenue.
Borrowings at par is the nominal value of the company's borrowings less any unamortised issue expenses.
Borrowings at market value is the company's estimate of the "fair value" of its borrowings. The current estimated fair value of the company's secured bonds is based on the redemption yield of the reference gilt plus a margin of 100 basis points (1 percentage point). The reference gilt is the 6% Treasury Stock 2028.

Discount is the difference between the market price of a share and the NAV expressed as a percentage of the NAV.
Gearing is the term used to describe the process of borrowing money for investment purposes in the expectation that the returns on the investments purchased will exceed the cost of those borrowings.
Effective equity gearing is the true geared position of the company: shareholders' funds (excluding current year revenue) + borrowings at par – fixed interest investments – net current assets, expressed as a percentage of shareholders' funds.
All sources SIT unless otherwise stated. Industry Classification Benchmark (ICB): Source and

Please note this newsletter is sent to all investors. If you have more than one holding with us, you may receive more than one copy of the newsletter as the cost of de-duplicating is greater than the cost of the additional print and postage.

Past performance is not a guide to 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. You may not get back the amount you invest.

The SIT SIPP

Saving for retirement remains high on many investors' agendas. SIT offers The SIT SIPP for investors seeking to build up their pension investments.

What is a SIPP?

A Self Invested Personal Pension (SIPP) is a flexible way to help you invest for your retirement. Unlike other personal and company pensions which leave investment decisions to fund managers who are generally employed by the pension providers, a SIPP enables you to be personally responsible for where to invest your money. By allowing you to choose the investments you place in your pension and how you draw income from it, subject to HM Revenue & Customs rules, a SIPP puts you in control.

What investments can I hold in a SIT SIPP?

You can choose from a comprehensive range of investments including: UK and selected international shares, investment trusts, unit trusts, OEICs, AIM listed shares, cumulative and convertible preference shares, exchange traded funds, corporate and convertible bonds, gilts and warrants.

Depending on your personal circumstances, The SIT SIPP can be an extremely cost and tax-efficient way for you to hold shares in SIT. There is no transaction charge (other than stamp duty) for investors who wish to invest in SIT shares through a monthly or one-off planned investment.

What are the tax benefits?

Investing in The SIT SIPP allows you to take advantage of the pension tax incentives currently available as SIPPs offer many tax advantages over other types of investment.

The SIT SIPP gives you:

- tax relief on your personal contributions at the highest tax rate you pay,
- freedom from Capital Gains Tax on pension investments
- the option to take up to 25% of your pension fund as a tax-free lump sum, when you take your pension benefits

You can claim tax relief at the basic rate (currently 20%) on your personal contributions up to £3,600 or 100% of your relevant UK earnings, whichever is higher. For every £100 you intend for your SIPP, you just contribute £80 and the SIPP administrator claims back the other £20 from the tax man on your behalf. If you are a higher rate tax payer, the administrator will claim back your basic rate tax allowance and you will be able to claim the remaining tax relief via your self-assessment tax return. Contributions in excess of the annual allowance (currently £50,000) will be subject to the annual allowance tax charge. The tax charge will be based on the marginal rate of tax relief received on the contribution.

Please note that taxation laws and the levels of, and relief from, taxation may change and the favourable tax treatment of SIPPs may not continue in the future.

Can I have a SIT SIPP?

SIPPS are open to everyone resident in the UK whether they are:

- employed
- self employed
- unemployed
- in full time education
- a carer
- a pensioner

You can apply for a SIPP even if you are already an active member of an employer's pension scheme or are contributing to other pension plans as a SIPP can be held alongside any other pensions you might have. Alternatively, you can transfer your existing pension into a SIPP.

Please note that if you are unsure as to whether a SIPP is a suitable pension product for you, you should get advice from an appropriate independent adviser.

What about SIPPs for children?

A SIPP can be opened and managed for someone under the age of 18 by their parent or guardian. Contributions can be paid into the SIPP on behalf of the child by, for example, the parent, guardian or grandparent.

Where can I find out more about The SIT SIPP?

For more information on The SIT SIPP, please telephone us on 0131 225 7781. For an application pack, please visit our website **www.sit.co.uk** or telephone our freephone brochure request line 0800 42 44 22.

Investing in Brazilian Equities

Brazil, a constituent of the so-called "BRIC" (Brazil, Russia, India and China) set of emerging economies, offers considerable potential but recently its stockmarket struggled to perform well.

Background

Significant economic and political progress over the last decade has brought Brazil into sharp contrast with the world's struggling developed economies. Whilst the US and Europe have faced economic stagnation, Brazil has enjoyed robust capital inflows, record commodity prices, Chinese demand growth and a significant expansion in domestic credit. Nonetheless, despite all of this, the Brazilian stockmarket has been one of the weakest performers this year.

Brazil's economy has grown on average 4.5% per year since 2004, roughly three times faster than the 1.6% average recorded between 1998 and 2003. Somewhere in the region of 50 million Brazilians have been raised into the middle or upper classes, unemployment is at a record low and wages are accelerating. Brazil is also now a creditor to the US with foreign exchange reserves having grown to almost $336bn.

However, a key issue has been how to manage this growth and apply the necessary controls to avoid overheating and asset bubble creation. Inflation in Brazil has risen to 6.5%, largely as a result of higher food and energy prices. There is also concern that capacity constraints and tight labour markets are heightening the risk of food inflation spilling over into wages and other prices.

Interest rates

In the interests of reining in high inflation, the central bank raised Brazil's benchmark interest rate to 12.5%, a total increase of 3.75% since April 2010. This was coupled with measures aimed at slowing the country's rapid credit growth. Subsequently, at the beginning of September, given a perceived improvement in the balance of inflationary risks and deteriorating global economic outlook, the central bank made an interest rate cut of 0.5% to 12.0%.

Economy

The amount of outstanding credit in the Brazilian economy has almost doubled, from 25% of GDP in 2003 to 48% in early 2011. Earlier this year, the Government imposed a tax rise on all consumer loans to 3% per annum from 1.5% previously. Despite this, credit growth has been slow to decline and is still above the Central Bank's 15% target.

Currency

Brazil's economic success in recent years has also attracted a wave of foreign investor funds, driving up the exchange rate of Brazil's currency, the Real, against the US Dollar and threatening the competitiveness of local industry. The Brazilian government responded with a series of capital and currency controls aimed at curbing this appreciation and dissuading currency speculation.

Political

Whilst there is an ongoing need for investment in infrastructure, not only to service a growing economy but also ahead of global events such as the World Cup in 2014 and the Olympics in 2016, there is also the immediate need to economise after the spending binge during the Federal elections of last year. Newly elected President, Dilma Rousseff, successor to Luiz Inacio Lula da Silva, consequently undertook to reduce the size of this year's budget.

Stockmarket

Brazil's vast natural resources and progressive export policies have led to substantial exposure within the Brazilian stockmarket to commodity prices and global growth trends. Around 41% of the Brazlian Bovespa index is accounted for by the energy and materials sectors and two thirds of this index weight is held by just two companies, Petrobras and Vale.

After almost regaining its previous long-term peak at the end of October last year, the Bovespa has fallen by 24% in local terms and 27% in sterling terms since the beginning of the year.

Although more defensive domestic sectors have fared reasonably well, interest rate-sensitive sectors have seen volatility and weakness. As fears over global growth trends have intensified, energy and materials sectors have borne concerns over government interference in corporate strategy and the rolling over of commodity prices.

Outlook

Despite all of the economic and political progress that has been made, Brazil continues to warrant a significant risk premium for many investors, particularly in these times of global economic upheaval.

Current SIT Brazilian holdings

- Ambev (brewing)
- Banco do Brasil (financials)
- Companhia de Concessoes Rodoviarias (support services)
- CPFL Energia (utilities)
- Petrobras (oil & gas)
- Vale (mining & metals)

Our largest holding in Brazil is in Companhia de Concessões Rodoviárias (CCR), the dominant toll road operator and beneficiary of the strong trend in transportation infrastructure investment.

SIT Management Appointments

SIT recently appointed investment managers Alasdair McKinnon and Howard Kippax to the role of Assistant Manager. Alasdair and Howard will join Hugh Duff and Martin Robertson in supporting the manager, John Kennedy.

Alasdair's primary responsibility is for investment strategy and asset allocation. He joined SIT in 2003, initially working on the Americas team then moving to the UK team where he also had special responsibility for research in Australia, New Zealand and South Africa. Alasdair is a CFA® charterholder and an Associate of the UK Society of Investment Professionals

Howard has responsibility for Pacific and Japanese investments. He joined SIT in 1998, initially assisting in the coverage of the UK market, followed by a short spell on the Europe team. In 2003 he was given responsibility for Asian equities with the role expanding to include Japan in 2006. Howard is an Associate of the UK Society of Investment Professionals and a member of the CFA Institute.

The CFA marks are the property of CFA Institute.

The Scottish Investment Trust PLC

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- 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

Review of World Equity Markets - 3 months to 31 July 2011

- Global stockmarkets were weak over the quarter as long-standing concerns regarding excessive sovereign debt were exacerbated by weaker than expected economic data in several important economies. Investors were particularly unsettled by deteriorating prospects for heavily indebted countries within the eurozone and a politically charged debate within the US regarding an upward revision to the federal debt ceiling.
- The FTSE All-World Index™ (capital) fell by 6.0% in local terms and by 4.4% in sterling terms. SIT's NAV with borrowings at par fell by 3.5%, while the share price fell by 4.3%.
- In local terms, all regional markets fell over the period. As a focus of concern, Europe (ex UK) (-10.2%) was the worst performing region, followed by Latin America (-7.7%), North America (-5.5%), the Middle East & Africa (-5.4%), Asia Pacific (ex Japan) (-4.8%), UK (-4.3%) and Japan (-1.7%) which fell the least. Sterling was flat in trade-weighted terms, although it was noticeably weak against the yen. Reflecting this, regional performance in sterling terms was similar although Japan (+5.0%) was significantly superior.
- Sector performance reflected a weak period in the stockmarket as investors sought to avoid economically-sensitive sectors. Consumer Goods (+1.1%) and Health Care (+0.6%) produced modestly positive returns, in contrast to Financials (-8.0%), Industrials (-7.1%) and Oil & Gas (-6.1%) which performed especially poorly.
- In major developed markets, 10 year government bond yields fell heavily (bond values rose) over the period, however the yields on peripheral European debt rose substantially. Although index-linked bond yields continued to suggest muted inflation expectations, inflation-sensitive gold rose by 6% to $1,624 per troy ounce.
- Industrial commodity price performance was mixed over the quarter. Oil fell by 7% to $118 per barrel (Brent), although industrial metals, such as copper (+6%) rose. Agricultural commodity price performance was generally weak, although sugar (+21%) rose strongly.
- In the UK, economic data was generally weak, most notably Q2 GDP increased by just 0.2% (Q/Q) although the royal wedding and the supply chain impact of the Japanese disaster were possible distorting factors. June CPI inflation moderated slightly from the previous month but, at 4.2%, was more than twice the official target. Interest rates were held at 0.5% as the Bank of England continued to believe inflationary pressures were transient.
- In the eurozone, economic data was overshadowed by a loss of confidence in the government finances of heavily indebted nations. Rising bond yields forced Greece and Portugal to accept a bailout package, while Italy and Spain also saw a sharp rise in their borrowing costs. Late in the period, a tentative political agreement allowed the European Central Bank (ECB) to purchase market traded sovereign debt. Separately, the ECB signalled a concern with regard to the prospects for inflation and raised interest rates by 0.25% to 1.5%.
- In the US, politics also took precedence over economic data as the rival parties conducted protracted negotiations over an increase in the federal debt ceiling before reaching an agreement at the last opportunity. This brinkmanship unsettled investors as it implied a lesser political appetite for stimulus measures. The debate also caused Moody's, a credit rating agency, to place US government debt on 'negative watch', a precursor to a possible downgrade. Economic data showed signs of moderation, as Q2 GDP rose a less than expected 1.3% (Q/Q annualised) and June unemployment rose to 9.2%.
- In Asia Pacific (ex Japan), growth remained strong but increased inflation drew a further response from policy makers. However, comments from the Chinese premier suggested that inflationary pressures may be close to a peak, which could allow a hiatus in monetary tightening. China, India, Malaysia and Taiwan raised interest rates during the quarter.
- In Japan, following the devastating earthquake, tsunami and nuclear accident, industrial production figures suggested a recovery that would be quicker than initial estimates, helped by the important automotive sector. Second quarter real GDP at -1.3% (Y/Y annualised) was also better than expected.

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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
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