autumn 2010

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	£684 million
Cum-Income NAV with borrowings at par	482.2p
Cum-Income NAV with borrowings at market value	466.4p
Ex-Income NAV with borrowings at par	477.2p
Ex-Income NAV with borrowings at market value	461.4p
Share price	419.0p
Discount/(Premium) to ex-income NAV	9.2%
Effective Equity Gearing	104%

As at 31 August 2010

NAV and Share Price Performance (Total return on £100)

	1 year	5 years	10 years
Ex-Income NAV with borrowings at par	109	128	104
Share price	106	127	111

£100 invested with dividends reinvested, before expenses are deducted. As at 31 August 2010

Performance 31 October 2009 - 31 August 2010

	(%)
Ex-Income NAV with borrowings at market value	**2.5**
Ex-Income NAV with borrowings at par	**3.9**
Share price	**2.2**
FTSE All-World Index™	5.9
UK FTSE All-Share Index™	4.3

Comparative Performance on £1,000 invested

	1 year	5 years	10 years
The Scottish Investment Trust PLC	**£1,106**	**£1,250**	**£1,178**
UK Savings £25,000+ Account [1]	£1,004	£1,103	£1,252
Retail Prices Index [2]	£1,048	£1,163	£1,311

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.
As at 31 July 2010

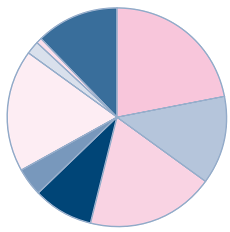
Top 10 Holdings

as % of total assets

1	Apple - US	3.1
2	Serco - UK	2.6
3	Li & Fung - Hong Kong	2.1
4	McDonald's - US	2.0
5	CIMB - Malaysia	1.8
6	BP - UK	1.7
7	Fresenius Medical Care - Germany	1.6
8	Aspen Pharmacare - South Africa	1.6
9	Tencent - Hong Kong	1.4
10	FMC Technologies - US	1.4

As at 31 August 2010

Geographical Distribution of Total Assets



UK	22%
Europe (ex UK)	13%
North America	19%
Latin America	9%
Japan	4%
Asia Pacific (ex Japan)	18%
Middle East & Africa	2%
Fixed interest	1%
Net current assets	12%
	100%

As at 31 August 2010

Standardised Past Performance

Last price to last price net income reinvested % growth year to 31 August	2006	2007	2008	2009	2010
The Scottish Investment Trust	17.5	16.9	-2.3	-10.5	5.8

NAV is net asset value per share. 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 par" is the nominal value of the 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. "Total assets" means total assets (cum-income) less current liabilities. Gearing is based on ex-income figures with borrowings at par.
All sources SIT unless otherwise stated.

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.

Changes to ISA investment limits

It was announced in the June Budget that from 6 April 2011 ISA investment limits will be indexed annually in line with the Retail Prices Index (RPI).

Increased contribution limits will be rounded to a convenient multiple of £120 so that individuals who save monthly will be able to calculate their monthly savings more easily.

We will write to all SIT ISA investors once the new limits are confirmed.

Changes to pension rules

Also announced in the Budget in June was the scrapping of the rule which makes it compulsory to turn a pension pot into an annuity by the age of 75. The aim is to enable individuals to make more flexible use of their pension savings.

The rule change will come into being next April but, in the meantime, the annuity purchase age limit has been raised to 77 so that those reaching their 75th birthday before April 2011 will not be disadvantaged.

Under the current rules, a pension investor reaching 75 has two options; they can either buy an annuity or take an alternatively secured pension (ASP). With the latter incurring a tax of up to 82% on death, many people opt for an annuity.

Annuities are often perceived as poor value for money for a number of reasons. You may be forced to buy an annuity at a time when annuity rates are low (currently annuity rates are at a 20-year low). Once an annuity has been bought, the entire pension fund belongs to the insurance company and you no longer have any control. In many instances, when you die the remainder of the fund is retained by the insurer and cannot be passed on to your spouse or dependents. The benefit of annuities is that should you live far longer than expected, you will continue to receive the guaranteed income.

Once the new rules are in place, pension holders will have the choice of either buying an annuity as before, or continuing to run a drawdown plan past the age of 75. The benefit of income drawdown is that you can continue to invest in and grow your pension, and take an income from it as needed. The income stream can be turned on and off at any time which makes it ideal for people who wish to retire gradually. However, while you can benefit from any increases in the value of the fund, you also run the risk of losing out if the fund value falls.

This rule change should enable individuals to make more flexible use of their pension savings and should increase the opportunity for wealthier savers to pass on surplus assets in their pension fund to the next generation.

Products that are suitably adaptable to enable investors to benefit from the increased flexibility and control over investment in and management of their pension provision will be needed and SIPPs (Self Invested Personal Pensions) may be worth consideration in this light.

Lost investors

Over the year, SIT, its administrator and registrar receive mail originally sent out to investors but returned by the Royal Mail marked as ‘gone away’. Once it has been ascertained that the mail was not returned due to accidental misaddressing or some other mistake, a stop is placed on that investor’s account so that no further mail is sent out – preventing the possibility of it going astray and information contained therein being used for fraudulent purposes.

Periodically, SIT writes to these investors in an attempt to trace them. Surprisingly, approximately a third of investors whose mail has been returned are still at the same address. We then re-unite these investors with their statement or dividend cheque and re-activate mail to them.

However, the remaining, untraceable, investors have in all likelihood moved – without notifying their change of address or setting up a postal re-direct service.

In these days of increasing awareness of, and threat from, identity theft, it is very important for investors to notify the relevant administrator and/or registrar in writing of any change of address. Investors should give their old and new addresses and, wherever possible, their account number / shareholder reference number.

STOCKPLAN/STOCKPLAN: A Flying Start/The SIT ISA

Investors in these schemes should write to the SIT Administrator:

SIT Schemes
Halifax Share Dealing Ltd
Lovell Park Road
Leeds
LS1 1NS

Alternatively, you can telephone Halifax Share Dealing on **0845 850 0181**.

The SIT SIPP

SIPP investors should write to the SIPP Administrator:

The SIT SIPP
Halifax Share Dealing SIPP Administration Team
A J Bell Management Limited
Trafford House
Chester Road
Manchester
M32 0RS

Certificated shareholders

Investors with certificated holdings should write to our registrar:

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Alternatively, you can download and complete the change of address form from Computershare's website www.investorcentre.co.uk and post it to Computershare.

Alternative Investment Fund Managers (AIFM) Directive update

In our Spring newsletter, we drew readers' attention to the EU draft Directive on Alternative Investment Fund Managers (AIFM), which had been created with the intention of extending regulation to financial market participants which potentially posed significant risk to financial stability and market risk - with the focus on hedge funds and private equity. The directive also caught investment trust companies such as SIT and, as a result, potentially heavy regulatory and financial burdens on investment trusts would arise should the directive be passed unamended.

There has been little progress to report as the July deadline for agreement on amendments was missed and further EU action has been postponed until September when the directive should be voted on - providing consensus can be reached between the EU parliament and the European Commission.

SIT will continue to monitor the situation and will keep you updated in future editions of the newsletter.

Gifting shares to charity

Gifting share to charity is a way investors can get rid of small amounts of residual shares which have such low values it means they are not worth selling - bearing in mind the charges that selling would incur.

There are two ways you can donate shares to charity – you can either contact the charity of your choice directly, or you can contact ShareGift at www.sharegift.org

ShareGift, registered charity number 1052686, was set up to provide a charitable solution to the problem of unwanted small holdings of shares. ShareGift can accept any number of shares (from one upwards) and does not charge you or the recipient charities for their service. It can also accept shares held in a nominee account.

A chance to win Amazon vouchers worth £50

We are always looking for ways to improve our website and at the moment are requesting feedback from our online users. If you would like to comment on our website – and by the same token be entered into our prize draw with the chance to win £50 of Amazon vouchers – please log on to our website at www.sit.co.uk.

And, finally.......

Congratulations to Martin Robertson, Senior Investment Manager, European Equities, who successfully completed the Ironman challenge in Switzerland in June. This impressive feat consisted of a 1.2 mile swim, 56 mile cycle ride and 13 mile run. Martin raised well over £5,000 for Marie Curie Cancer Care.

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: info@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

Review of World Equity Markets - 3 months to 31 July 2010

- Global stockmarkets were weak in May and June reflecting European credit worries and signs of renewed economic weakness in the US. The global FTSE All-World Index fell by 6.0% in local terms and by 7.8% in sterling.
- The regional markets comprising the global index all fell to varying degrees. The best performer, Latin America, fell by just 0.1% in local terms and the worst, Japan, fell by 14.2% in yen terms as the strength in the yen hit sentiment.
- By industry sector, all ten constituent industry sector groups fell over the quarter but with quite marked divergences. Generally, it was the more defensive sectors which performed best – Telecoms (-1.0%) and Utilities (-5.1%) – although Consumer Goods (-3.8%) also outperformed helped by strength in both tobacco and beverage stocks. Health Care did not prove to be a defensive area (-9.2%) while the main laggards were Technology (-10.5%) and Oil & Gas (-12.3%). The latter was held back by the sharp drop in the BP share price following the fatal explosion and subsequent oil leak in the Gulf of Mexico.
- While equities were weak, bonds and soft commodities rallied sharply. Government bond yields fell over the quarter as bond markets reacted to signs of slowing growth. The decline in yields was most marked in the US where 10 year yields fell to just 2.9%. Agricultural commodities were extremely strong with the wheat price up by 43%, sugar by 20% and coffee by 26%. Gold was almost unchanged while oil fell 10.4% to $77.3 (Brent).
- In the UK, the general election result culminated in the formation of a Conservative / Liberal Democrat coalition which immediately forged plans to improve the UK budget deficit position. These were well received in currency markets and sent the pound higher. Q1 GDP was higher than expected at 1.1% (Q/Q) and, despite inflation remaining well above target levels, the base interest rate was held at 0.5%. The new Office for Budget Responsibility lowered its UK growth forecast to 1.2% for 2010.
- In the Euro-zone, investor attention was primarily focused on the bank stress tests announced and austerity measures planned by governments. The IMF boosted an assistance package for the most stretched Euro-zone countries. Despite Euro-zone unemployment edging over 10%, Germany's economy showed signs of a strong recovery aided by a weak euro. Spain's banking system remained under pressure.
- US economic data and leading indicators continued to deteriorate with particular weakness seen in housing data following the expiry of housing-related tax credits. Q2 GDP of 2.4% (Q/Q annualised) was subsequently lowered to 1.6%. Q2 corporate results were generally well ahead of expectations although company forward-looking guidance on profit trends was relatively weak. Canada continued to post stronger growth (Q1 GDP +6.1%) and raised interest rates, as did Brazil.
- Key events in Japan included the resignation of another prime minister and a 9% strengthening in the trade-weighted yen exchange rate. Elsewhere in the Pacific region, China's economic growth rate slipped back to 10.3% in Q2. With strong growth recorded across Asia, interest rates were increased in India, South Korea, Malaysia and Taiwan. A spate of worker suicides and employee unrest at a number of foreign company plants in China culminated in some extremely large wage increases. The Chinese central bank also announced a change to its exchange rate policy signalling a move to allow more flexibility in the exchange rate.

MakeContactphonefaxemailweb

For literature please:

Telephone us on	0800 42 44 22
Fax us on	0131 226 3663
Email us at:	info@sit.co.uk
Visit our website at:	www.sit.co.uk

Or write to:

SIT Savings Ltd, FREEPOST EH882,
6 Albyn Place, Edinburgh EH2 0BR

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
- Share Exchange
- Annual and Interim Reports

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