

# INVESTORS'

## newsletter



### 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	£616 million
Cum-income NAV with borrowings at par	394.2p
Cum-income NAV with borrowings at market value	392.4p
Ex-income NAV with borrowings at par	392.8p
Ex-income NAV with borrowings at market value	391.0p
Stock price	369.0p
Discount to ex-income NAV with borrowings at market value	5.6%
Effective gearing	103%

### NAV and Stock Price Performance

	1 year	5 years	10 years
NAV (with borrowings at par) total return on £100	78	126	113
Stock price total return on £100	81	151	130

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

### Performance 31 October 2008 - 31 January 2009 (%)

Ex-income NAV with borrowings at par	-1.5
Share price	-0.8
FTSE All-World Index™	-1.3
UK FTSE All-Share Index™	-4.8

### Comparative Performance on £1,000 invested

	1 year	5 years	10 years
The Scottish Investment Trust PLC	£788	£1,473	£1,267
UK Savings £25,000+ Account <sup>1</sup>	£1,023	£1,137	£1,313
Retail Prices Index <sup>2</sup>	£1,001	£1,147	£1,286

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.

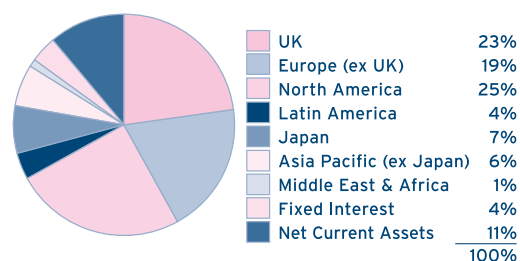
Sources: 1 Source and copyright © Standard & Poor's. All rights therein are reserved 2 National Statistics

### Top 10 Holdings

as % of total assets

1	Gilead Sciences - US	2.8
2	Royal Dutch Shell - UK	2.4
3	Monsanto - US	2.2
4	Vodafone - UK	2.1
5	Nintendo - Japan	2.1
6	Telefónica - Spain	2.0
7	United Utilities - UK	1.9
8	BP - UK	1.9
9	KDDI - Japan	1.8
10	Fresenius Medical Care - Germany	1.8

### Geographical Distribution of Total Assets



### Standardised Past Performance

Last Price to last price net income reinvested year to 31 January	2005 % growth	2006 % growth	2007 % growth	2008 % growth	2009 % growth
The Scottish Investment Trust PLC	21.4	36.4	9.9	2.2	-18.9

NAV is net asset value per ordinary stock unit. 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. All sources SIT unless otherwise stated. Industry Classification Benchmark (ICB): Source and copyright © FTSE International Limited and Dow Jones & Company, Inc. All rights therein reserved.

# THE SCOTTISH INVE

## ISA Deadline 3rd April 2009

This year, the 5th of April falls on a Sunday. This means that the deadline for applying for or investing in a SIT ISA for the current tax year is **noon on Friday 3rd April**.

### An ISA may consist of:

1. only stocks and shares up to the limit of £7,200, or
2. a combination of cash and stocks and shares up to the limit of £7,200. Within this, the cash limit is £3,600.

The SIT ISA is a stocks and shares ISA and can accept the inward transfer of other stocks and shares ISAs. It can also accept the inward transfer of cash ISAs. Once transferred into The SIT ISA, a cash ISA becomes a stocks and shares ISA.

If you have contributed to your SIT ISA in this or the previous tax year, you can invest or top up by telephoning HSDL on **0845 850 0181** to make a lump sum investment using your debit card. Alternatively you can write to HSDL quoting your SIT ISA Account Code and enclose a personal cheque drawn on your own bank account, made payable to **The SIT ISA**.

If you do not yet have an ISA but wish to open one, or if you have not contributed to your ISA for a while but would now like to do so, you will need to fill in an application form to send with your contribution. SIT ISA application forms can be downloaded from our website [www.sit.co.uk](http://www.sit.co.uk) - alternatively you can phone the brochure request line on **0800 42 44 22**.

If you are considering opening a new ISA, please submit your application to HSDL as soon as practically possible to allow time to satisfy any regulatory requirements relating to your account.

**The SIT ISA,  
Halifax Share Dealing Limited,  
Lovell Park Road  
Leeds  
LS1 1NS  
Tel: 0845 850 0181**

## The SIT Annual General Meeting

The 121st AGM of The Scottish Investment Trust PLC (SIT) took place on Friday 30 January 2009 at the Roxeburghe Hotel in Edinburgh. All of the resolutions were carried by an overwhelming majority.

John Kennedy, the manager, gave a presentation at the AGM. The slides are available on our website [www.sit.co.uk/investor\\_relations/agm/](http://www.sit.co.uk/investor_relations/agm/)

Past performance may not be repeated and is no indicator 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 they originally invested. SIT has a long term policy of borrowing money to invest in equities in the expectation that this will improve returns for stockholders. However, if markets fall, these borrowings will magnify any losses. Investment in SIT is intended as a long term investment. Tax rates and reliefs can change in the future and the value of any tax advantages will depend on personal circumstances. All sources SIT unless otherwise stated.

SIT Savings Ltd, a wholly owned subsidiary of The Scottish Investment Trust PLC, is the plan manager of STOCKPLAN, STOCKPLAN: A Flying Start and The SIT ISA and is authorised and regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

This document is for information only and does not constitute investment advice.

## Pound Cost Averaging

One of the benefits of investing on a regular basis is the effects of pound cost averaging.

Pound cost averaging occurs when you invest a fixed amount of money on a regular basis (eg: monthly). The result is that the average purchase price of a share paid over any given period is lower than the arithmetical average of the market price of that share.

When prices are high your monthly contribution buys fewer shares; when prices are low your investment buys more shares. That much is self evident.

However, this continuous drip-feed method of purchasing your investment means that the average price you pay for your shares will be lower than the average market price over the period. This applies whether you are investing in a rising or a falling market. It is important to note however that if the market is rising over the holding period it is better to have been fully invested from day one, but it is difficult to effectively time investments into the markets.

In the theoretical illustration of pound cost averaging given below, £50 a month is used to buy shares in an investment trust company. For the purposes of this example, charges are ignored and a lot of market volatility in terms of rises and falls is packed into six months.

The example below is for illustration purposes only:

At end:	Share Price (pence per share)	No. of shares bought for £50
Month 1	100	50
Month 2	80	62
Month 3	60	83
Month 4	75	66
Month 5	105	47
Month 6	120	41
	Average price: 90 pence	Total number of shares: 349 Actual cost per share: 85.95 pence (£50 x 6 = £300 / 349 shares)

The share price average over the six months is 90p. The actual average cost of the shares bought on a monthly basis over the period is 85.95p. Thus, in this example, the investor effectively would have paid 4.05p less per share purchased over the period than the average market price of that share.

# STATEMENT TRUST PLC

## Dividends

The Scottish Investment Trust PLC 2008 final dividend of 5.05p was paid on 5 February 2009, bringing the total dividend for the 2008 financial year to 9.50p per ordinary unit. This was an increase of 4.4% year-on-year (2007: 9.10p) which compares with the October UK Retail Prices Index annual inflation rate of 4.2%.

SIT has increased its dividend in each of the last 25 years and it is a stated objective of the company to increase the dividend by more than the UK rate of inflation over the longer term.

With UK interest rates at their lowest level in living memory, investors are finding the search for income increasingly challenging.

Investment trust companies in general have an enviable track record of dividend increases. This feature is particularly relevant in the current climate of falling interest rates where income is much harder to come by. Investment trusts can retain up to 15% of each financial year's income from the underlying investments and transfer this amount to their revenue reserves\*.

\*SIT is approved by HM Revenue & Customs as an investment trust for the purposes of S842, Income and Corporation taxes Act 1988, one requirement of which is that the company does not retain, in respect of any accounting period, more than 15% of its eligible investment income.

## Reinvesting Dividends

Equity market returns come from two components:

1. capital returns - from movement in share prices
2. income returns - from dividends paid.

Inevitably, it is the capital return component which always grabs the headlines. However, informed investors know that over the long term it is the power of reinvested dividends that drives the returns from equity investment. By reinvesting dividends rather than pocketing the cash, the investor is efficiently increasing the size of his or her holding regularly.

More shares tend to be purchased by dividend reinvestment at times of falling or lower share prices. When share prices rise, these extra shares can act as a return accelerator and help increase total returns.

As and when equity markets rise, reinvested dividend income should benefit from compounded growth. The value of this over the long term can be dramatic – as shown by the example below, from Barclays Capital Equity Gilt Study 2009.

According to this report, £100 invested in UK equities (FTSE All-Share Index™) at the end of 1899 would have been worth the following amounts at the end of 2008:

	Nominal money terms £	Real terms (adjusted for inflation) £
With gross dividend income reinvested	1,152,944	17,571
Dividend income not reinvested	9,129	139

(Source: Barclays Capital Equity Gilt Study 2009)

SIT schemes – STOCKPLAN, STOCKPLAN: A Flying Start and The SIT ISA - where dividend reinvestment is the default option, allow investors to reinvest dividends free of charge (other than mandatory stamp duty).

For those holding SIT stock in a “name on register” form, not through a scheme, SIT operates a dividend reinvestment plan (DRIP) allowing shareholders to opt to reinvest their dividends – again free of charge. The DRIP application form and terms and conditions are available on SIT's website [www.sit.co.uk](http://www.sit.co.uk)

SIT SIPP investors can choose to have dividends reinvested by instructing the SIPP dealing and stockbroking administrator, Halifax Share Dealing Ltd (HSDL), either by telephoning **08457 22 55 25**, or online at [www.halifax-online.co.uk](http://www.halifax-online.co.uk) Please note that whichever dividend reinvestment option you choose for your SIT SIPP, it will apply to all investments in your SIT SIPP, it is not possible to apply the option to selected investments.



## 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 January 2009

- Global equity markets fell for the third consecutive quarter as a barrage of bleak news-flow concerning the global financial crisis and the rapid deterioration in the world economy took its toll. After falling sharply in early November to what proved to be the low for the period, markets rallied before drifting off at the end of the quarter to leave the FTSE All-World Index™ down 11.9% in US dollar terms. However, UK-based investors were sheltered from the worst of the fall in global equities by the weakness of the pound with the All-World Index down by just 1.3% in sterling terms. SIT's ex-income NAV (with borrowings at par) fell by 1.5% while the stock price fell by just 0.8%, leaving the discount to ex-income NAV (with borrowings at market value) at 5.6%.
- Analysing the All-World Index in regional terms, currency movements had a critical role with sterling falling by double-digit percentages against the major currencies. In local currencies, all areas were down except Latin America which rebounded by 3.5% and Middle East & Africa (+0.2%). The UK and Asia Pacific (ex Japan) did comparatively well, falling -5.1% and -3.8% respectively, while Japan (-9.6%), Europe (ex UK) (-13.4%) and North America (-14.3%) all fell heavily. However, viewed in sterling, the 18.5% swing in the sterling/yen exchange rate meant that in sterling terms, Japan rose 10.9% while Europe (ex UK) and North America fell only slightly and outperformed the UK. Over 12 months, the All-World Index was down by 22.5% in sterling.
- Of the ten industry groups, only Financials (-16.3%) and Technology (-1.3%) fell in sterling terms with the rest either flat or in positive territory with the clearest outperformance from defensive areas Utilities (8.4%), Health Care (7.7%) and Telecommunications (7.6%). The 23.4% drop in the Banks sector reflected the worsening solvency crisis afflicting the global banking system.
- Bond markets were strong as investors sought protection from the deteriorating economic outlook. As near-term inflation expectations dissolved, US 10 year government bond yields fell by over 1 percentage point to under 3.0%. Gold also benefitted from safe-haven buying, rallying 23.3% to \$898.3 / ounce while oil retreated further, falling 26.3% to \$43.8 (Brent).
- Economic news from around the world reflected the weakening world economy with falling inflation, slowing growth, falling consumer confidence and industrial output. Forward-looking indicators provided no cause for optimism. UK and US housing markets remained weak. Stimulus packages were announced in the UK, US and Europe as were emergency measures to rescue banks in these regions. Official interest rates fell sharply across the world with UK rates falling by 3.0% points to 1.5%, by 1.75 percentage points in the Eurozone to 2.0%, and to a range of 0-0.25% in the US with an accompanying promise by the US authorities to "...use all available tools..." to support the economy.
- In the US, Barack Obama was elected as the 44th president of the United States and announced policy measures which included a \$787 bn stimulus package. Corporate news-flow was generally very negative as results and outlook statements prompted a slew of earnings forecast downgrades and some dividend cuts, with more in prospect. In the UK and US, several well-known retail names collapsed. The HBOS/Lloyds TSB merger remained controversial with Lloyds' share price coming under pressure as did the RBS price. Resource group BHP Billiton abandoned its proposed merger with Rio Tinto while other M&A features included Fiat's strategic alliance with the struggling US auto group Chrysler and a \$68bn merger between US pharmaceutical groups Pfizer and Wyeth. Other negative developments during the quarter included the attacks in Mumbai, major accounting irregularities at an Indian IT group and the uncovering of an alleged \$50bn fraud at a US hedge fund.

## MakeContact phone fax email web

### 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:

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6 Albyn Place, Edinburgh EH2 OBR

### 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

