

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 less current liabilities	£794 million
Discount to NAV with borrowings at market value	9.5%
Effective Gearing with borrowings at par	109%
NAV with borrowings at market value	514.4p
Share price	465.5p

NAV and Share Price Performance

	1 year	5 years	10 years
NAV (with borrowings at par) total return on £100	101	207	159
Share price total return on £100	102	229	175

Source: Fundamental Data Ltd on the behalf of AIC Investment Services Limited. £100 invested on a mid-market to mid-market basis, with dividends reinvested, before expenses are deducted. Unaudited NAV.

Performance (Capital Return) 31 October 2007 - 31 January 2008 (%)	
SIT NAV per ordinary unit with borrowings at par	-12.5
SIT price per ordinary unit	-12.0
FTSE All-World Index™	-9.4
UK FTSE All-Share Index™	-13.1

Comparative Performance on £1,000 invested 31 January 2008

	1 year	5 years	10 years
The Scottish Investment Trust PLC ¹	£995	£2,236	£1,705
UK Savings £25,000+ Account ²	£1,029	£1,130	£1,348
Retail Prices Index ³	£1,041	£1,176	£1,315

Figures are calculated with 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.

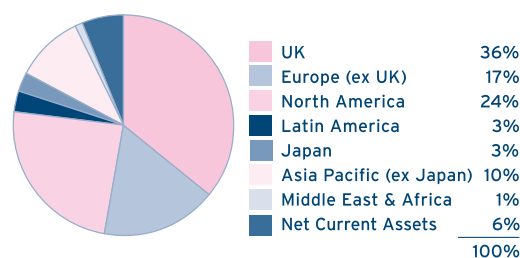
Sources: 1 The Scottish Investment Trust PLC 2 Source and copyright © Standard & Poor's. All rights therein are reserved 3 National Statistics

Top 10 Holdings

as % of total assets

1	BG Group - UK	2.7
2	Petrobras - Brazil	2.3
3	Monsanto - US	2.3
4	China Mobile - Hong Kong	2.2
5	AT&T - US	2.0
6	McKesson - US	1.9
7	De La Rue - UK	1.7
8	Rio Tinto - UK	1.7
9	BT - UK	1.6
10	Scottish & Newcastle - UK	1.6

Geographical Distribution of Total Assets



Standardised Past Performance

Mid price to mid price net income reinvested year to 31 January	2004 % growth	2005 % growth	2006 % growth	2007 % growth	2008 % growth
The Scottish Investment Trust PLC	23.0	21.4	36.4	9.9	2.2

Source: Fundamental Data Ltd on behalf of AIC Investment Services Ltd.

THE SCOTTISH INVE

6 April 2008 - Changes to PEP and ISA investing from the 2008 / 09 Tax Year

From 6 April 2008 the Government is making a number of changes to the way PEPs (Personal Equity Plans) and ISAs (Individual Savings Accounts) work.

Why is this happening?

These changes are designed to deliver certainty, simplicity and flexibility for investors.

What are the key changes?

1. PEPs will cease to exist in their current form and will become ISAs. All PEP accounts will automatically become stocks and shares ISAs on 6 April 2008 and become subject to ISA rules.
2. ISAs are available indefinitely.
3. A new ISA structure and higher contribution limits.
 - The overall ISA annual contribution limit has increased. From 6 April 2008 every adult has an annual ISA investment allowance of £7,200 – of which up to £3,600 can be held in a cash ISA and the balance, or full amount, in a stocks and shares ISA. The SIT ISA is a stocks and shares ISA.
 - The government has abolished the distinction between Mini and Maxi ISAs. ISAs will be re-designated simply as cash ISAs or stocks and shares ISAs.
 - Money saved in cash ISAs can be transferred into stocks and shares ISAs. This applies to previous tax years as well as to the current tax year.
 - Money held in a Child Trust Fund (CTF) account can be rolled over into an ISA once the child reaches 18.

The new contribution limits for tax years 2008/09 and onwards

Stocks and Shares ISA	Cash ISA
Up to £7,200	Up to £3,600
An ISA may consist of: 1. only a stocks and shares ISA up to the limit of £7,200, or 2. a combination of a cash ISA and a stocks and shares ISA up to the limit of £7,200, of which £3,600 can be held in the cash ISA.	

Do I need to do anything?

The SIT PEP / ISA Administrator, Halifax Share Dealing Ltd (HSDL), will handle all the changes.

Will I lose any tax benefits?

The change of PEPs into ISAs will make little difference as the tax benefits received by PEP investors have been similar to those received by ISA investors since 2004.

Please remember if you cash in your PEP or your ISA you will lose any tax benefits on the investment.

I have a SIT PEP and a SIT ISA. Will the annual charge be levied on my PEP as well as my ISA from 6 April 2008?

If you have a SIT PEP and a SIT ISA you will be charged the annual fee as if the total value of your PEP and ISA holdings from 6 April 2008 were in The SIT ISA.

For example, if you have a SIT PEP with an annual charge of £30 + VAT and a SIT ISA with the capped annual charge of £30 + VAT you would currently be paying £70.50 in annual charges. From 6 April 2008 you will pay £35.25 in annual charges.

Can I have a cash ISA and a stocks and shares ISA in the same tax year?

Yes, you can have both a cash and a stocks and shares ISA in the same tax year, providing that the combined contributions do not exceed £7,200 – and that within this limit the contribution to a cash ISA does not exceed £3,600.

However, please bear in mind that in the same tax year you cannot have more than one cash ISA or more than one stocks and Shares ISA - to do so constitutes a breach of ISA regulations.

Can I transfer a cash ISA into my SIT stocks and shares ISA after 6 April 2008?

Yes you can. The SIT ISA will accept transfers in from cash ISAs.

ISA deadline

Please note that the deadline for the receipt of ISA applications or top ups for the current tax year is

Noon, Friday 4 April 2008

at our ISA administrator, Halifax Share Dealing Ltd (HSDL), at the address below.

SIT ISA investors who have contributed to their ISA in this or the previous tax year and who are not changing their ISA type (for example not changing a Mini ISA into a Maxi, or vice versa) can invest or top up by telephoning HSDL on 0845 850 0181 to make a lump sum investment using their debit card. Alternatively they may do so by writing to HSDL quoting their SIT ISA Account Code and enclosing a personal cheque drawn on their own bank account, made payable to **The SIT ISA**.

If you do not yet have an ISA but wish to start one, or if you haven't contributed to your ISA for a couple of years but would like to do so now, 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, alternatively you can phone our brochure request line on **0800 42 44 22**.

If you're 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,
Trinity Road,
Halifax, HX1 2RG.**

Tel: 0845 850 0181

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. SIT Savings Ltd, a wholly owned subsidiary of The Scottish Investment Trust PLC, is the plan manager of STOCKPLAN, STOCKPLAN: A Flying Start, The SIT ISA and The SIT PEP and is authorised and regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS. 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. This document is for information only and does not constitute investment advice.

Industry Classification Benchmark (ICB): Source and copyright© FTSE International Limited and Dow Jones & Company, Inc. All rights therein reserved.

STATEMENT TRUST PLC

Gearing

What is gearing?

Investment trust companies have the ability to borrow money to make additional investments. Such use of borrowings is referred to as “gearing”.

Why gear?

The objective is to make investors' equity work harder by applying borrowings such that the return on the investments purchased is in excess of the cost of the borrowings thereby boosting the equity return.

How does it work?

By using gearing, stockholders' equity can support a higher amount of total invested assets with the additional balance funded by borrowings. Gearing ratios quantify the leverage effect on the equity base.

The borrowings can be fixed or floating rate and can be taken out in sterling and/or in a foreign currency.

The size and cost of any borrowing are both important factors. The more an investment trust borrows, the higher the risk – but the greater the potential returns. If a company borrows – or “gears up” – and the investments rise ahead of the cost of the borrowings, the overall returns to investors will be greater. But there is a downside to gearing too. If investments fail to match the cost of the borrowings the overall return to investors is reduced by the cost of the borrowings and the additional losses incurred as investments.

The use of gearing can affect both the capital returns and revenue potential of the company. Moreover, many investment trusts buy back and cancel their own shares. All else being equal, this would increase a trust's gearing ratios. Similarly, as investments rise (or fall) in value, gearing ratios diminish (or rise).

Potential gearing

This is the gearing ratio assuming all borrowings were employed and is calculated as: (stockholders' funds + borrowings at par) expressed as a percentage of stockholders' funds.

Effective gearing

This is the net geared position of the investment trust, taking into account only those borrowings which have been invested in say, equities, and is calculated as: (stockholders' funds + borrowings at par – net current assets) expressed as a percentage of stockholders' funds.

An investment trust that is described as having potential gearing of 100% has no borrowings. A trust that is 120% geared has borrowings equivalent to 20% of its stockholders' equity as borrowed money. For example a trust with stockholders' equity of £500m that takes on borrowings of £100m and invests that whole amount would be said to have potential and effective gearing of 120%.

If that same trust used £50m of its gearing to invest in equities and kept the remaining £50m on deposit then it would be said to have effective gearing of 110% (the gearing that is invested in equities) and potential gearing of 120% (the full amount of gearing that could be invested).

Valuation of borrowings

Borrowings can be valued at their book value or the market (or fair) value. The market value of the borrowings factors in the current level of interest rates as opposed to just the coupon at which the bond was issued. Investment trust discounts are usually viewed on the basis of borrowings valued at market in order to give an indication of the true current value of the borrowings. However, gearing ratios tend to be based on borrowings valued at book.

Is SIT geared?

SIT has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for SIT stockholders. The levels of effective and potential gearing are monitored closely by the board and manager.

SIT applies a ceiling on effective gearing of 120%. As at 31 January 2008, SIT's effective gearing was 109% and potential gearing was 116%.

SIT's borrowings are in sterling and set at fixed rates. They are made up of 5¾% secured bonds due for repayment in April 2030 and a small amount of perpetual debenture stocks with a combined par value at 31 January 2008 of £107.4m and estimated market (fair) value of £111.6m. Stockholders' equity, with borrowings at par, at the same date was £685.3m.

Indirect gearing

Investment trust companies can also obtain indirect gearing by investing in the shares of other investment companies which are themselves geared. SIT invests in other investment companies from time to time in order to gain exposure to specific asset classes (eg Japanese small companies). Such investments may be geared and it is the board's policy not to invest in such a company if the level of gearing is inappropriate in relation to the underlying asset class in which the company is investing.

The board, in line with recommended practice, has declared a policy not to invest more than 15% of SIT's gross assets in other UK quoted investment companies (3.0% as at 31 January 2008).



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, The SIT ISA and The SIT PEP 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

Review of World Equity Markets - 3 months to 31 January 2008

- The US sub-prime mortgage industry crisis finally took its toll on global stockmarkets over the three month period to end-January 2008. A series of write-downs of mortgage-related assets by major banking groups combined with a stream of weak indicators for the US housing market and broader economy prompted a setback in stockmarkets.
- Over the period, the global FTSE All-World Index™ fell by 9.4% while the UK FTSE All-Share Index™ fell by 13.1%.
- The worst returns came from Asia Pacific (ex Japan) which had been one of the strongest performers in recent years but saw an abrupt sell-off with the Hong Kong-listed Chinese stocks falling over 37% in local terms and smaller but still major setbacks in a number of regional markets. The Chinese government tightened monetary policy as inflation reached a 10 year high and also delayed plans to allow greater access to overseas stockmarkets for mainland Chinese investors.
- The emerging market regions of Latin America and Middle East & Africa (ME&A) proved to be more resilient and provided the best returns in local terms. However, currency movements meant that Latin America fell by only 5.7% in sterling while ME&A fell by 13.9%.
- The best sterling returns came from Japan as a 16.6% decline in yen terms converted to a fall of only 5.6% as the yen soared against sterling.
- UK, Europe (ex UK) and North America were all weak in local terms but again it was currency which had a major role to play with sterling weakness against both euro and dollar limiting the Europe (ex UK) fall to 10.5% and North America fall to 7.1% compared with a decline of 12.5% for the UK.
- Analysis of the 9.4% global index decline in terms of the major industry groups shows that a material rotation occurred over the quarter with marked underperformance from cyclical areas Industrials (-11.0%) and Technology (-14.3%) reflecting fears of a slowdown. Unsurprisingly, they were accompanied by the troubled Financials industry group (-13.3%) as dismal news-flow continued to emerge from this area. Most other industry groups were down between 6% and 9%. The only areas which came close to holding their own were the classically defensive Utilities (-2.8%) and Health Care (-2.1%).
- Oil remained broadly flat over the quarter with Brent priced at around \$91 per barrel whereas gold continued its climb in value with a 17% gain to \$923 per oz. Global bond yields fell sharply in the quarter as the economic news deteriorated and in spite of sporadic signs of inflation pressure. US 10 year government bond yields fell by over 0.8 percentage points to end the period at 3.6%.
- Economic fundamentals continued to deteriorate over the quarter with particularly bad news from the US housing market and broader economy. The knock-on effects are being felt primarily by the banking sector although there are signs of weakness spreading as confidence indicators deteriorate.
- Having reduced official interest rates by 0.25% in December, in January the US Federal Reserve Bank reacted to very weak stockmarkets with an emergency rate cut of 0.75% to 3.5%. This was followed shortly by a further cut of 0.50% to 3.0%. Rates were also cut in Canada but increased in Australia where inflation is still a concern.
- The World Bank and IMF both independently lowered their forecasts for global growth in 2008.
- While the financial markets crisis has interrupted the flow of capital to the private equity industry, there has been steady M&A activity over the quarter with some exceptionally large transactions appearing including BHP Billiton's approach for mining peer Rio Tinto. In beverages, UK brewer Scottish & Newcastle finally accepted an improved offer from European rivals while SAB Miller acquired Dutch brewer Grolsch.
- French bank Société Générale surprised investors with a loss of €4.9bn stemming from unauthorized trading.

MakeContact **phone** **fax** **email** **web**

For literature please:

Telephone us on **0800 42 44 22**

Fax us on **0131 226 3663**

Email us at: **heather@sit.co.uk**

Visit our website at: **www.sit.co.uk**

Or write to:

SIT Savings Ltd, FREEPOST EH882,
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
- PEP/ISA Transfer
- Investing for Children - STOCKPLAN: A Flying Start
- Annual and Interim Reports

 **The Scottish
Investment Trust PLC**

SIT FactFile Established - 1887 • Year end - 31 October • Accounts published: Annual - January, Interim - June
Annual General Meeting - January • Manager - John Kennedy