THE SCOTTISH
Investment Trust

THE SCOTTISH INVESTMENT TRUST PLC
131ST ANNUAL REPORT & ACCOUNTS

31 OCTOBER 2018

Objective of The Scottish Investment Trust PLC

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.

Our High Conviction, Global Contrarian Investment Approach

We are contrarian investors.

We believe markets are driven by cycles of emotion rather than dispassionate calculation. This creates profitable investment opportunities.

We take a different view from the crowd. We seek undervalued, unfashionable companies that are ripe for improvement. We are prepared to be patient.

We back our judgement and run a portfolio of our best ideas, selected on a global basis.

Our portfolio is unlike any benchmark or index and we fully expect to have differentiated performance.

Our approach will not always be in fashion but we believe it delivers above-average returns over the longer term, by which we mean at least five years.

Cover painting:
Looming Skies over West Coast Waters by Linda Park

Contents

Year at a Glance

31 October 2018

1.9% **Share price total return†§** MSCI UK All Cap -1.3% MSCI ACWI 3.4%	**1.1%** **NAV* total return†§** MSCI UK All Cap -1.3% MSCI ACWI 3.4%	**8.3%** **Share price discount to NAV*§ (cum-income)** 31 October 2017: 8.8%
6.0% **Increase in regular dividend per share** CPI 2.4%	**0.8%** **Increase in total dividend per share** CPI 2.4%	**2nd Quartile** **AIC Global peer group (one year share price total return)** 31 October 2017: 4th quartile
3x **Dividend reserves** (regular dividend) 31 October 2017: 3x	**35 years** **of consecutive increase in regular dividend**	**50** **Number of listed holdings** 31 October 2017: 54
18% **Portfolio turnover rate** Year to 31 October 2017: 22%	**0%** **Gearing§** 31 October 2017: 5%	**0.52%** **Ongoing charges figure§** 31 October 2017: 0.49%

† 2017: Share price total return +12.8%; NAV total return +11.0%; MSCI UK All Cap +13.5%; MSCI ACWI +13.3%

§ Alternative Performance Measures (please refer to Glossary on page 72).

* NAV with borrowings at market value.

Chairman's Statement

Performance

I am pleased to report that the Company delivered another year of positive total returns during the twelve months to 31 October 2018. The share price total return was +1.9% and the net asset value per share (NAV) total return (with borrowings at market value) was +1.1%.

The Company does not have a formal benchmark but, by way of comparison, the sterling total return of the international MSCI All Country World Index (ACWI) was +3.4% while the UK based MSCI UK All Cap Index total return was -1.3%.

As noted in previous communications, we do not expect the Company's portfolio to match any particular index return over any defined period due to the contrarian nature of the portfolio's composition. Our contrarian approach aims to achieve above-average returns over the longer term.

Investment approach

The investment management industry continues to undergo rapid change. A clearer distinction is now made between passive and active investment management. Increasingly, investors wish to either track a stockmarket index or, instead, seek a genuinely active and differentiated approach.

Passive products, by design, take no account of valuations or future prospects. We think this creates an opportunity for an active, long-term investor.

The high conviction, global contrarian investment approach adopted by Alasdair McKinnon and his team clearly distinguishes the Company from our global investment trust peers and from passive investment products.

The approach aims to profit by investing in carefully selected, but unfashionable, companies which appear undervalued as they are overlooked by other investors who prefer the comfort of investing with the crowd. As an independent investment trust, The Scottish is able to take this differentiated view in the long-term interest of shareholders.

This contrarian philosophy is reflected in the portfolio which is constructed without reference to any benchmark or stockmarket index. We do not expect the portfolio return to be similar to a particular index return in any given year and we expect that the contrarian style will work differently depending on market conditions. For example, the Manager expects that the Company might not participate fully in more speculative market conditions as the investment team seeks to avoid investments that are sustained by overly enthusiastic sentiment.

Growing our following

The Scottish has made many important changes in recent years, which I have discussed in previous Chairman's Statements. The aim of these changes was to continue to provide an attractive, low cost investment vehicle for our shareholders who are mainly individuals. We aim to grow our loyal following as the merits of our approach are increasingly recognised. In this regard, it is pleasing to note that we were voted Best Investment Trust in the 2018 Shares Awards, received the award for Best PR Campaign from The Association of Investment Companies and were awarded Best Investment Trust for Income at the Online Personal Wealth Awards.

A very visible change has been our reinvigorated approach to marketing and investor communications. By communicating our distinct investment style in an engaging manner, we aim to stimulate additional demand for the Company's shares to seek to ensure that the discount to NAV remains at or below 9% with a reduced recourse to share buybacks. The team has produced a wealth of thought-provoking content which is shared on our website and social media. I would encourage you to follow us on Twitter and LinkedIn. News and articles can be found on our website and you can also subscribe to our monthly email.

Dividend policy

The year to 31 October 2018 was the first year of our higher and more frequent dividend. A full rationale for these changes was outlined in last year's annual report but, as a reminder, the key elements are summarised below.

Chairman's Statement (continued)

Last year there was a step change increase in the regular dividend, lifting it by nearly half, as well as a shift to quarterly dividend payments. The contrarian style does not explicitly target higher yielding investments but is expected to generate a higher than average level of income through an investment cycle. If there are occasions when the portfolio does not generate a sufficient level of income to cover the requirements of the regular dividend, the Board considers that it would be appropriate to utilise the Company's healthy revenue reserve.

Shareholders now have a clearer indication of the income that they can expect to receive from their investment while gaining a more regular income stream. Following this step change increase, the Company has one of the highest stated dividend yields among its global investment trust peers.

Income and dividend

Over the past year, earnings per share rose by 12.8% to 26.0p (2017: 23.1p).

The Board recommends a final dividend of 6.2p which, if approved, will mean that the total regular dividend for the year will increase by 6.0% to 21.2p and will be the 35th consecutive year of regular dividend increase.

The Board's target is to declare three quarterly interim dividends of 5.3p for the year to 31 October 2019 and recommend a final dividend of at least 5.3p for approval by shareholders at the Annual General Meeting in 2020. The final dividend will be reviewed in accordance with the Board's desire to continue the long track record of annual dividend increases and the aim of the Company to provide dividend growth ahead of UK inflation over the longer term.

As outlined in my statement last year, the Company is less likely to pay discretionary special dividends in future years but, as the income generated for the year to 31 October 2018 is substantial, the Board recommends a special dividend of 4.0p.

Amendments to the Articles of Association

As part of the business to be proposed at the Annual General Meeting, the Board is seeking shareholder approval for the adoption of new Articles of Association, primarily to take account of legislative changes and developments in market practice. Certain statutory rules governing investment trusts and companies were amended in 2012. In particular, the rule which prohibited an investment trust from distributing any surplus arising from the realisation of its investments was repealed. In compliance with the previous statutory regime, the Company has a provision in its current Articles which expressly prohibits the distribution of any surplus arising from the realisation of any investment. In the light of the amended statutory rules, the Board no longer considers it appropriate for the Articles to contain such a prohibition and therefore proposes that it is removed. The Board believes that the removal of this restriction will give the Company greater flexibility in the long-term as it will enable the Company to make distributions from any surplus arising from the realisation of any investment. However, the Board has no intention of exercising this authority at the current time.

The Board is also taking the opportunity to propose some additional amendments to the Articles to increase the aggregate limit of Directors' remuneration in each year from £250,000 to £300,000 and to reflect other recent regulatory changes including, for example, in relation to the Company's international tax reporting obligations and the Alternative Investment Fund Managers Directive. The increase in the aggregate limit of Directors' remuneration provides additional flexibility over the number of Directors on the Board and ensures that the Company continues to have the ability to pay Directors' fees in line with the market in the future. Further details in relation to the amendments to the Articles are set out in the Directors' Report.

Discount, share buybacks and ongoing charges

The Company follows a policy that aims, in normal market conditions, to maintain the discount to NAV (with borrowings at market value) at or below 9%. The average discount over the year was 8.6%.

During the year, 2.3m shares were purchased for cancellation at an average discount of 9.3% and a cost of £19.5m. In the previous year, 16.9m shares were purchased, although this included the exit of Aviva from the share register who were generally selling investment trust holdings inherited through its purchase of Friends Life. Excluding the Aviva transaction, 5.5m shares were purchased in the previous year.

The ongoing charges figure (OCF) for the year under review of 0.52% (2017: 0.49%) remains favourable compared with other actively-managed investment vehicles. All else being equal, a lower share count from buying back shares increases the OCF. As a

Chairman's Statement (continued)

self-managed investment trust, the OCF represents the ongoing costs of running the Company as a proportion of net assets. We have substantially reduced our costs in recent years.

Gearing

After a period of strong performance from markets, when combined with a seemingly greater than usual number of potentially destabilising events, the Company reduced gearing to 0% in August. Prior to this, gearing had been maintained at around 5% for a number of years. This proved a timely change in light of the subsequent correction in markets, but we continue to review opportunities to deploy gearing for the long-term benefit of shareholders.

Outlook

Politics has changed in recent years. The consensual politician, driven by focus groups, is a species on the wane. Meanwhile, politicians with a greater tendency to shoot from the hip and to challenge established norms have been in the ascendancy.

The drivers of this trend are complicated but very important must be the fact that, economically, it has been a poor decade for large sections of the population in a number of countries. Politicians now seem to have adopted a mantra that the benefits of economic growth must be spread more equally within their own borders whilst eroding their commitments to balance budgets.

Central banks continue a creep towards the 'normalisation' of monetary policy following a long period of crisis measures. The US Federal Reserve is most advanced in this strategy, but the difficulty of this challenge when debt levels are high is best highlighted by the fact that President Trump has launched hostile tweets criticising its endeavours.

Brexit negotiations remain what best can be described as complex. We expect any perceived progress to be reflected in the value of sterling.

There are a number of other geopolitical issues that could move markets in either direction, depending on how they develop. The most obvious concerns are the apparent slowdown in the Chinese economy, the state of relations between the US and China, a debt crisis in Turkey, the actions of the new Italian government and US relations with Iran.

The larger than usual number of risks, combined with the strong performance of equities in recent years, mean that the Company currently has a cautious view about the short-term outlook for markets.

The Board is pleased with the progress made to transform the investment approach, the increase in the regular dividend and the improvement in the profile of the Company. It believes that the Company is differentiated, cost competitive and an attractive investment vehicle focused on delivering above-average returns and dividend growth over the longer term.

James Will

James Will
Chairman
7 December 2018

Board of Directors

James Will

Appointed to the Board in May 2013 and became Chairman in January 2016. Chair of the Nomination Committee.

He is a former Chairman of law firm Shepherd and Wedderburn LLP where he was a senior corporate partner, heading its financial sector practice. He has experience of working with companies in a wide range of industry sectors including financial services, technology, energy and life sciences.

Other investment company directorships: Herald Investment Trust and Edinburgh Dragon Trust.

Shares held: 8,000* **Fees:** £60,000

* In addition to the 8,000 shares held, Mr Will is a trustee of a trust which holds 11,000 shares in the Company. Mr Will is beneficially or potentially beneficially interested in this holding.

Russell Napier

Appointed to the Board in July 2009.

He runs a course in financial history at the University of Edinburgh Business School and is the author of the book "Anatomy of the Bear: Lessons from Wall Street's Four Great Bottoms". He has been providing investment advice to financial institutions for more than 20 years both as a stockbroker and latterly as an independent analyst.

Other investment company directorship: Mid Wynd International Investment Trust.

Shares held: 14,000 **Fees:** £32,500

Jane Lewis

Appointed to the Board in December 2015. Chair of the Remuneration Committee.

She is an investment trust specialist who, until August 2013, was a director of corporate finance and broking at Winterflood Investment Trusts. Prior to this, she worked at Henderson Global Investors and Gartmore Investment Management Limited in investment trust business development and at WestLB Panmure as an investment trust broker.

Other investment company directorships: BlackRock World Mining Trust, BMO Capital and Income Investment Trust and Invesco Perpetual UK Smaller Companies Investment Trust.

Shares held: 1,000 **Fees:** £32,500

Mick Brewis

Appointed to the Board in December 2015.

He was an investment manager at Baillie Gifford, retiring in April 2014 after 29 years at the firm, 21 of them as a partner. He was a stockpicker throughout his time there, responsible for managing UK equity portfolios before heading the North American equities team from 1995 onwards. His broad investment experience includes managing investment teams and research groups, global asset allocation, working with clients (including investment trusts), marketing, graduate recruitment and investor development.

Other investment company directorships: None.

Shares held: 10,000 **Fees:** £32,500

Karyn Lamont

Appointed to the Board in October 2017. Chair of the Audit Committee.

She is a chartered accountant and former audit partner at PwC. She has over 25 years of experience and provided audit and other services to a range of clients across the UK's financial services sector including a number of investment trusts. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance.

Other investment company directorships: The North American Income Trust and The Scottish American Investment Trust (with effect from April 2019).

Shares held: 2,500 **Fees:** £37,500

Manager's Review

It's too early to tell

In a conversation with US President Richard Nixon in 1972, the Chinese Prime Minister, Zhou Enlai, reputedly quipped that it was 'too early to tell' when asked about the impact of the French Revolution on Western civilisation. After listening to the translated reply, President Nixon was delighted by this profound example of far-sighted wisdom with reference, he presumed, to the seismic events of 1789. Disappointingly, witnesses to the conversation have subsequently insisted that the Prime Minister was, in fact, referring to the Paris student riots of 1968. However, the misunderstanding was allowed to stand, possibly because it suited all concerned.

Whatever actually happened in the above exchange, the episode does suggest two things that have relevance for today. Firstly, it is reasonable to expect major events in human history to cause reverberations for surprisingly long periods of time and, secondly, reality can be distorted to suit the interests of those involved.

The financial world has recently marked the tenth anniversary of the defining moment of the financial crisis of 2008/9, namely the collapse of Lehman Brothers. The occasion prompted more than a dollop of self-satisfied backslapping from the economics profession, politicians and officials about the inspired actions taken to avert a meltdown. The various measures employed were presented as calmly rationalised options that were deployed with known outcomes. The truth, of course, was far less edifying. In reality, increasingly panicked measures were thrown like mud at a wall in the hope that one of them would stick. Major industries were bailed out, toxic asset purchases arranged, sales taxes cut, accounting rules suspended, interest rates slashed to near zero and 'quantitative easing' (a clever way of printing money) was introduced. Eventually the rot was stopped.

Of course, something had to be done. But it is worth bearing in mind that some of the policies employed would have been considered downright heretical by mainstream economists even a few weeks before they were deployed. Further, despite a short history of usage, zero (or even negative) interest rates and quantitative easing are today treated as legitimate and controllable policy options that can be tweaked as required. From this, we can only surmise that, like the conversation in 1972, reality has been 'revised' to suit all concerned.

Despite this desire to paint a picture of certainty and control, the various crisis rescue measures have already introduced a raft of unintended consequences. Perhaps the biggest of these has been the increase in wealth inequality, particularly across generations. There are now fewer people with a meaningful stake in the system and, as they tend to be younger, the full implications of this will take some time to become clear.

If excessive debt was one of the main contributing factors to the financial crisis, the measures taken over the past ten years have not addressed this. In fact, they have arguably made it worse.

It seems unlikely that an entire generation will commit itself to a life of indentured servitude to repay debt that they had no choice but to accumulate. History would instead suggest that the rules of the system will be changed.

It is, of course, 'too early to tell' how the rules will change but the time-tested solution is currency debasement, in other words inflation.

Our Approach

In previous Manager's Reviews, I have outlined the simple philosophy that underpins our contrarian approach to investment. At the core of this philosophy is a recognition that investors are not, in aggregate, dispassionate calculating machines but, instead, make decisions based heavily on emotion.

While this may not seem a surprising observation, it nonetheless conflicts with the conclusions of substantial bodies of research in finance and economics. Conventional theory essentially expounds that 'the wisdom of the crowd' ensures that the irrational decisions of individuals are cancelled out and a rational decision is reached.

There is, of course, a sound logic to this theoretical point of view. Our very civilisation has been created by the ability of the crowd to achieve great things. Living standards are far higher because we work as a group allowing division of labour, specialisation and economies of scale. In short, 'many hands make light work'.

A second trait that we possess is a desire to imitate the successful actions of others as a way to quickly acquire accumulated knowledge. There might be many ways to skin a cat, but it makes sense to replicate the most efficient method while bypassing a period of trial and error.

So, in the 'real' world, sticking with the crowd and copying success are both useful human characteristics.

However, we believe that these useful instincts do not translate well into the 'virtual' world of financial markets.

Manager's Review (continued)

The trouble is that, unlike a physical task, copying others in investment markets does not necessarily yield the same result. There are too many dynamic factors at work and the starting point is not static.

There is an assumption that, if an investment appears well positioned the price will go up, whereas if an investment appears poorly positioned the price will go down. But this is not necessarily the case. If expectations are high, favourable trends can continue but the price can go down if expectations are not met. Likewise, unfavourable trends can continue but if they are better than expected, the price can go up.

Overall, by the time an investment has performed sufficiently well (or badly) for it to become an accepted wisdom, conditions are ripe for the trend to change. It is this momentum mentality which creates the business cycle and the numerous bubbles (and subsequent busts) which have always bedevilled investment markets.

We do not attempt to follow investment fashions and instead seek investments in which we can foresee long term upside. We actively seek unpopular areas because this is where the balance between risk and reward can be most favourable. Rather than perpetual trends, we believe in cycles, and we use this thought process to maximise the odds in our favour.

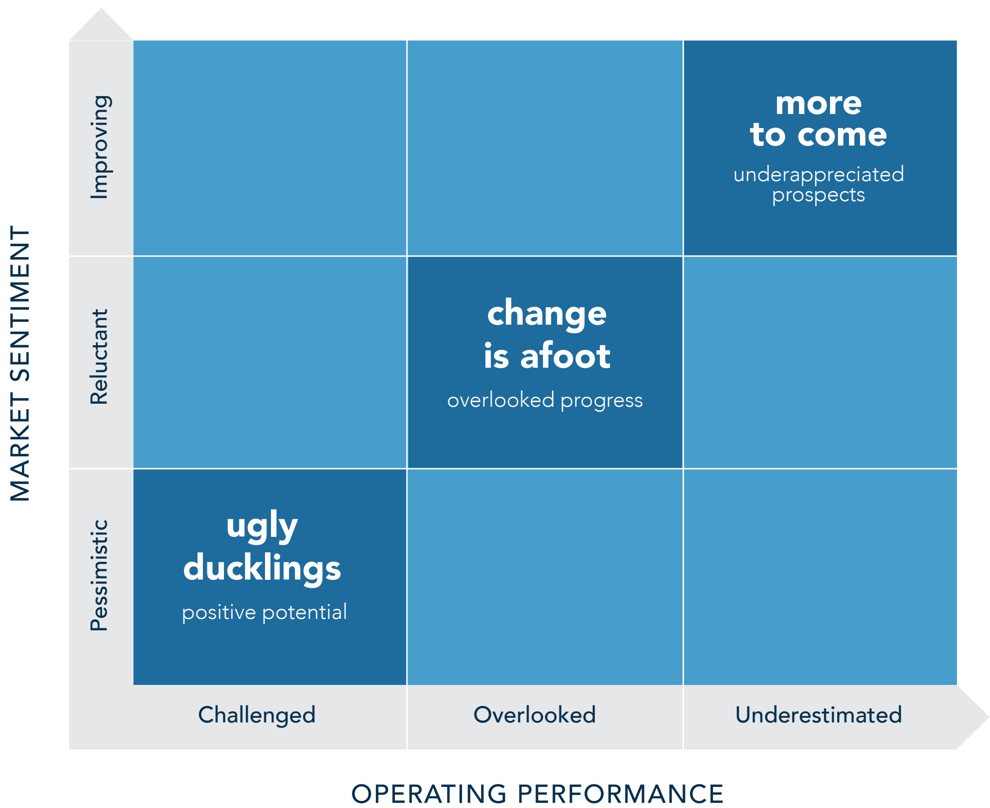
To apply our approach, we divide the stocks in which we invest into three categories.

First, we have those that we describe as **ugly ducklings** – unloved shares that most investors shun. These companies have endured an extended period of poor operating performance and, for the majority, the near-term outlook continues to appear uninspiring. However, we see their out-of-favour status as an opportunity and can foresee the circumstances in which these investments will surprise on the upside.

The second category consists of companies where **change is afoot**. These companies have also endured a long period of poor operating performance but have recently demonstrated that their prospects have significantly improved. However, other investors continue to overlook this change for historical reasons.

In our third category, **more to come**, we have investments that are more generally recognised as good businesses with decent prospects. However, we see an opportunity as we believe there is scope for further improvement that is not yet fully recognised.

Categorisation of Investments



Manager's Review (continued)

The Portfolio

We have a number of holdings in retailers and these produced some of our largest gains during the year. Each was different but, generally, we thought pessimism surrounding long-established retailers had reached a crescendo, creating 'ugly duckling' opportunities. US department store operator **Macy's** (+£12.1m) produced better than expected results, aided by a revitalised approach and an improved consumer environment. US retailer **Target** (+£4.9m) benefited from the same themes and the introduction of a more convenient store format. UK supermarket retailer **Tesco** (+£4.8m) is making good progress towards rebuilding the profitability of its domestic business after well documented problems. The combination with Booker should deliver superior purchasing power. US retailer **GAP** (+£2.2m) has continued to see strong results from the Old Navy and Athleta brands, albeit this has been largely overshadowed by a lack of progress at the namesake brand. UK retailer **Marks & Spencer** (-£2.2m) is undergoing a far-reaching transformation overseen by turnaround expert Chairman Archie Norman. We continue to believe that the company, which remains very profitable, has a great brand which can be revived.

NAV Absolute Performance Attribution
Year to 31 October 2018

	Contribution %
Equity portfolio (ungeared)	+0.6
Gearing	+0.5
Total equities	**+1.1**
Other income and currency	+0.2
Buybacks	+0.2
Expenses	-0.6
Interest charges	-0.5
Change in market value of borrowings	+0.7
Change in pension liability	0.0
NAV with borrowings at market value total return	**+1.1**

Top Ten Gains and Losses
Year to 31 October 2018

	Performance† %	Gains £m
Macy's	99.0	12.1
Pfizer	30.4	6.5
Target	25.7	4.9
Tesco	19.4	4.8
GlaxoSmithKline	17.3	4.3
Sony	46.1	4.3
BHP Billiton	21.3	3.9
Verizon Communications	28.7	2.9
Royal Dutch Shell	12.0	2.9
TGS Nopec Geophysical	56.1	2.7

	Performance† %	Losses £m
ING	-30.0	-8.7
Standard Chartered	-25.4	-7.0
BNP Paribas	-26.5	-4.9
General Electric*	-51.2	-4.0
Cemex*	-27.7	-3.8
Newmont Mining	-17.1	-3.4
Newcrest Mining	-10.8	-3.2
Adecco	-33.7	-3.1
BASF	-24.1	-2.9
Marks & Spencer	-8.5	-2.2

* Sold during the year.

† Total return on investment, taking into account both capital returns and entitlement to dividends declared, for the period the investment was held during the year.

Manager's Review (continued)

US pharmaceutical company **Pfizer** (+£6.5m) gained as the company's lowly valuation was re-evaluated in light of a promising pipeline of new products. UK company **GlaxoSmithKline** (+£4.3m) reassured investors about the sustainability of the dividend after sensibly opting to buy Novartis's share of their consumer healthcare joint venture rather than pursuing a more ambitious acquisition. The new CEO is determined to better commercialise the company's gargantuan R&D efforts.

Energy stocks were volatile but generally performed well over the year as resurgent oil prices and efforts to reduce costs boosted cash flows. Our largest gain in this sector came from UK listed oil major **Royal Dutch Shell** (+£2.9m) which has done an excellent job of transforming its portfolio and managing costs, driving a rebound in cash flow. We also saw gains from **TGS Nopec Geophysical** (+£2.7m), **Hess** (+£2.5m) and **Total** (+£2.1m).

UK listed miner **BHP Billiton** (+£3.9m) gained as the more favourable commodity price environment, alongside productivity improvements, helped drive solid cash flow and dividend growth. Our investments in unloved gold miners, including **Newcrest Mining** (–£3.2m) and **Newmont Mining** (–£3.4m), delivered negative returns. Gold has been out of favour in recent years, but we think it looks well placed for a recovery. We see gold as both a potential safe haven and a potential beneficiary if the inflationary environment picks up.

European banks have recovered well in recent years, benefiting from attractive valuations and a more settled regulatory environment. However, this year was tougher as uncertain European politics and concerns regarding emerging markets weighed on sentiment. We made losses in our holdings in **ING** (–£8.7m) and **BNP Paribas** (–£4.9m). UK listed but emerging market exposed bank **Standard Chartered** (–£7.0m) was impacted by the slowdown in these markets. We increased our holding in **Sumitomo Mitsui Financial Group** (+£1.0m) as we considered it likely to be a beneficiary of any rise in bond yields in Japan.

Mexican cement producer **Cemex** (–£3.8m) was hampered by a combination of headwinds and we sold our holding due to the changing political climate in Mexico. We also sold our holding in US industrial conglomerate **General Electric** (–£4.0m) as a quick succession of leadership changes led to a reset of expectations for earnings and the dividend. **BASF** (–£2.9m) declined as trade tensions weighed on stocks sensitive to economic growth. Swiss based recruiter **Adecco** (–£3.1m) performed poorly as the outlook for European economic growth remained muted.

Japanese electronics and entertainment group **Sony** (+£4.3m) gained as an extensive restructuring delivered growing profits following years of losses. Our investment in US telecommunications provider **Verizon Communications** (+£2.9m) rose as it focused on upgrading its network to win customers in a mature market and its lowly valuation was reconsidered

Honourable mentions must also be made for two stocks we sold completely during the year. **Rentokil Initial**, which was an unloved and underperforming conglomerate and is now a business focused chiefly on pest control, produced a total return for us of +£24m over the period we held the shares. Australian based global wine producer, **Treasury Wine Estates,** which was for a long time our largest holding, has been an exceptional investment, providing a total return of +£39m over the three years we held the shares. These companies have transformed and their progress is now more widely recognised. While their prospects remain promising, we believe they are now reflected in the share prices and consider that the balance of risk and reward is no longer as favourable.

Outlook

In my youth, I read The Ragged Trousered Philanthropists by Robert Tressell. Looking back, the book presented socialist ideas in a more digestible form and the title was meant to illustrate the irony of poverty stricken 'philanthropists' performing gruelling work for inadequate pay on behalf of avaricious masters.

I always considered the title very clever, as it summed up the thrust of the book, and as I look at today's stockmarket, I wonder if the author would have managed a wry smile at the gigantic malinvestment in the ecommerce area. Today, investors are acting as philanthropists as they subsidise unprofitable user growth by 'disruptive' entrants in a variety of areas. Investments connected with internet shopping, food delivery, ride hailing services, scooter rentals, music streaming and video streaming, to name just some, are strongly favoured by investors despite their continued propensity to burn cash. That the consumer appreciates a service sold below the cost of production is not a surprise. The challenge is converting a subsidised, or free service, to a sustainably profitable business model. The lack of scepticism about the difficulty of achieving this is a symptom of ten years of cheap money.

Manager's Review (continued)

In recent reviews, I have noted some concern with regard to investor attitudes to risk driven by a fear of missing out. The mania for cryptocurrency get-rich-quick schemes proved to be brief but was concerning as it represented a proxy for both the ease and speculative nature of financial conditions. The investor infatuation with all things technological was also highlighted as a concern as the area appeared to be awash with both cash and excessive optimism. The premium smartphone boom has peaked, social media is now subject to increasing regulatory pressure and the ecommerce business model will have to evolve further. We have minimal exposure to these areas as we see elevated expectations and thus scope for disappointment.

It is now increasingly popular for politicians to pledge tax cuts and increased spending in anticipation of these actions generating improved future growth (and hence tax revenues). This may well prove correct but, equally, once politicians get a taste for this type of strategy, it is the first step on the road to currency debasement via inflation. That said, this is likely to be a lengthy journey, as a large number of stakeholders favour the status quo.

Generally speaking, the spread of valuations across the market is wide and we continue to identify opportunities that we believe will generate good long-term returns for shareholders.

As I have previously noted, as contrarian investors we actively seek unfashionable and unpopular investments that we believe can recover. This is where we find the best balance between risk (expectations are low) and reward (things can get better). Our investment approach is designed to anticipate and benefit from change and we will continue to seek out opportunities with potential to profit the long-term investor.

Alasdair McKinnon
Manager

7 December 2018

The Investment Team

Alasdair McKinnon
Manager

Alasdair joined the Company in 2003 and became Manager in 2015. He has 19 years of investment experience. He graduated MA with Honours in Economic and Social History from the University of Edinburgh and MSc in Investment Analysis (with distinction) from the University of Stirling. Alasdair is a CFA® charterholder and an Associate of the UK Society of Investment Professionals.

Martin Robertson
Deputy Manager

Martin joined the Company in 2004 and became Deputy Manager in 2015. He has over 30 years of investment experience. He is a graduate of both Dundee and Edinburgh universities gaining a BSc with Honours in Civil Engineering and a Master of Business Administration, respectively. Martin is a member of the CFA Institute and an Associate of the UK Society of Investment Professionals.

Mark Dobbie
Investment Manager

Mark joined the Company in 2000 and became an Investment Manager in 2011. He has 8 years of investment experience. He also has extensive knowledge of the operation of investment trusts, including valuation and performance analytics, from previous roles with the Company. Mark is a CFA® charterholder.

Sarah Monaco
Investment Manager

Sarah joined the Company in 2000 and became an Investment Manager in 2002. She has 16 years of investment experience. She graduated with a Master of Business Administration from the University of Edinburgh and previously gained a BA in Commerce. Sarah also has broader investor relations experience and a Post Graduate CIM Diploma in Marketing. Sarah is a member of the CFA Institute.

Igor Malewicz
Investment Analyst

Igor joined the Company in 2017. He graduated MA with Honours in Economics and Finance and MSc in Petroleum, Energy Economics and Finance, both from the University of Aberdeen.

Strategic Report

Business Model and Status

The Company is a self-managed global growth investment trust and is an investment company within the meaning of the Companies Act 2006. HM Revenue & Customs has approved the Company as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010. The Company continues to satisfy the conditions for such approval. The Company is registered in Scotland and its registered office is 6 Albyn Place, Edinburgh EH2 4NL.

Investment objective and policy

The Company's objective is 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.

In order to achieve this objective, the Company invests in an integrated global portfolio constructed through an investment process whereby assets are primarily allocated on the basis of the investment merits of individual stocks rather than those of regions, sectors or themes.

The Company's portfolio is actively managed and typically will contain 50 to 100 listed international equity investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is compared against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the Company's investment portfolio and performance may deviate from the comparator indices.

Since the Company's assets are invested globally and without regard to the composition of any index, there are no restrictions on maximum or minimum exposures to specific geographic regions, industry sectors or unlisted investments. However, such exposures are reported in detail to, and monitored by, the Board at each Board meeting in order to ensure that adequate diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. In pursuing its investment objective, from time to time the Company will hold certain financial instruments comprising equity and non-equity shares, fixed income securities, interests in limited partnerships, structured products and cash and liquid resources. The Company may use derivatives, other than in relation to the sale of index futures, for hedging or tactical investment purposes. The Company may only sell index futures for efficient portfolio management purposes. For the avoidance of doubt, any derivative instrument may only be used with the prior authorisation of the Board.

The Company has the ability to enter into contracts to hedge against currency risks on both capital and income.

The Company's investment activities are subject to the following limitations and restrictions:

- under the Company's Articles of Association, up to 40% of the Company's total assets on the last audited balance sheet may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made;
- the levels of gearing and gross gearing are monitored closely by the Board and the Manager. The Board currently limits gearing to 20%. While gearing will be employed in a typical range of 0% to 20%, the Company retains the ability to lower equity exposure to a net cash position if deemed appropriate;
- the Company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds; and
- the Company may not make investments in respect of which there is unlimited liability except that the Company may sell index futures for efficient portfolio management purposes.

Investment policy – implementation

During the year under review, the assets of the Company were invested in accordance with the Company's investment policy.

A full list of holdings is disclosed on pages 20 and 21 and detailed analysis of the spread of investments by geographic region and industry sector is shown on page 22. A further analysis of changes in asset distribution by industry sector over the year, including the sources of appreciation/depreciation, is shown on page 23. Attribution of NAV performance is shown on page 10.

At the year end, the number of listed holdings was 50 (2017: 54). The top ten holdings comprised 33.8% of total assets (2017: 35.1%).

Details of the extent to which the Company's objective has been achieved and how the investment policy was implemented are provided in the Chairman's Statement on pages 3 to 5 and the Manager's Review on pages 8 to 12.

Additional limitations on borrowings

Under the Company's Articles of Association, the Directors control the borrowings of the Company and its subsidiaries to ensure that the aggregate amount of borrowings does not, unless approved by an ordinary

Strategic Report (continued)

resolution of shareholders, exceed the aggregate of the reserves excluding unrealised capital profits of the Company and its subsidiaries, as published in the latest accounts. In addition, the Directors are authorised to incur temporary borrowings in the ordinary course of business of up to 10% of the Company's issued share capital. Such temporary borrowings are to be for no longer than six months.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are as follows:

- strategic – the ongoing attractiveness and sustainability of the Company's corporate objective;
- investment portfolio and performance – investment approach, stock selection and overall investment performance;
- financial – covering market risk, liquidity risk and credit risk;
- operational – specific focus on potential failure of the Company's or third party service providers' systems, including vulnerability to cyber attack; and
- tax, legal and regulatory – compliance with existing requirements and the ability to identify and respond to change.

These and other risks facing the Company are reviewed regularly by the Audit Committee and the Board. Further information on risks and their mitigation is detailed in the Corporate Governance Report on page 30 and in note 16 to the accounts on pages 61 to 66 and on internal controls in the Report of the Audit Committee on page 34.

Performance

Management provides the Board with detailed information on the Company's performance at every Board meeting. Performance is measured in comparison with the Company's peers and comparator indices.

Key Performance Indicators are:

- NAV total return;
- NAV total return against comparators;
- NAV and share price total return against peers;
- discount with debt at market value;
- dividend growth against UK inflation; and
- ongoing charges figure.

Future Developments

The main trends and factors likely to affect the future development, performance and position of the Company's business are set out in the Chairman's Statement on pages 3 to 5 and the Manager's Review on pages 8 to 12.

Dividends

The Board may declare dividends, including interim dividends, but no dividend is payable except out of the Company's revenue return and revenue reserves, or in excess of the amount recommended by the Directors. Neither unrealised appreciation of capital assets nor realised profits arising from the sale of capital assets are available for the dividend. The Company is however proposing an amendment to its Articles of Association to allow distribution of its capital profits, as detailed on page 31.

The Directors recommend a final dividend of 6.2p and a special dividend of 4.0p payable on 15 February 2019. With the interim dividends each of 5.00p already paid in May, August and November 2018, this makes a total of 25.2p for the year. Based on 77,184,578 shares in issue at 31 October 2018, the final and special dividend will cost £7.873m. The total dividend for the year will cost £19.590m.

Share capital

General

The Company had 77,184,578 shares of 25p each in issue on 31 October 2018 (2017: 79,468,458). Since the year end, the Company has bought back 110,000 shares for cancellation. The rights attaching to shares in the Company are set out in the Company's Articles of Association which may be amended by the passing of a special resolution of shareholders, that is, by the approval of a majority of not less than 75% of votes cast.

The Financial Conduct Authority rules in relation to non-mainstream investment products do not apply to the Company.

Rights to the capital of the Company on winding up

Shareholders would be entitled to the assets of the Company in the event of a winding up (after the Company's other liabilities had been satisfied).

Voting

On a show of hands, every shareholder present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for each share.

Transfer

There are no restrictions concerning the holding or transfer of shares in the Company and there are no special rights attaching to any of the shares. The Company is not aware of any agreements between shareholders which might result in any restriction on the transfer of shares or their voting rights.

Deadlines for exercising voting rights

If a shareholder wishes to appoint a proxy to attend, speak and vote at a meeting on their behalf, a valid

Strategic Report (continued)

appointment is made when the form of proxy (together, where relevant, with a notarially certified copy of the power of attorney or other authority under which the form of proxy is signed) is received by the Company's registrar not less than 48 hours before the start of the meeting or the adjourned meeting at which the proxy is appointed to vote (or, in the case of a poll taken more than 48 hours after it is demanded, no later than 24 hours before the time appointed for taking the poll). In calculating these time periods, no account is taken of any day or part thereof that is not a working day.

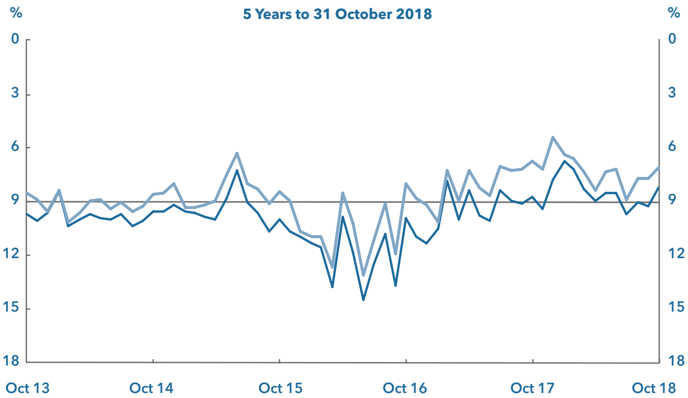
Discount control policy

The Company's policy aims, in normal market conditions, to maintain the discount to cum-income NAV at or below 9%. In calculating the NAV for the purposes of this policy, the Company's borrowings are taken at their market value so as to ensure that future repurchases of shares will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. During the year ended 31 October 2018, the Company bought back for cancellation a total of 2,283,880 shares of 25p each representing 2.9% of shares in issue at 31 October 2017, at a cost of £19,603,000.

At the AGM on 2 February 2018, authority was granted to repurchase up to 14.99% of shares in issue on that date. The number of shares authorised for repurchase was 11,784,849. Share buybacks from the date of the AGM to the Company's year end amounted to 1,433,491 shares or 1.82 percentage points of the 14.99% authority.

Discount to NAV*

5 Years to 31 October 2018



* with borrowings at market value

Source: The Company

Holding in listed closed-ended investment fund

Company holdings include one investment in a listed closed-ended investment fund of £12.5m: 1.6% of total assets (2017: £12.7m: 1.5%). This comprised solely of an investment in British Land, a UK property fund. The Company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds.

Unlisted portfolio

The Company's unlisted holdings were valued at £1.5m (0.2% of shareholders' funds). These comprise the Company's office property and subsidiary.

Viability statement

The Directors have assessed the prospects of the Company for a period of five years. The Board believes this time period is appropriate having consideration for the Company's principal risks and uncertainties (outlined on page 15); its portfolio of liquid listed international equity investments and cash balances; and its ability to achieve the stated dividend policy and to cover interest payments on the Company's debt.

In making this assessment, the Directors have considered detailed information provided at Board meetings which includes the Company's balance sheet, gearing level, share price discount, asset allocation, income and operating expenses.

Based on the above, the Board confirms it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of this assessment.

Investment risk

The investment portfolio is diversified over a range of industries and regions in order to spread risk. The Company has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns but, should stockmarkets fall, such borrowings would magnify losses. The Company can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing. Investment risk is considered in more detail in the Corporate Governance Report on page 30 and in note 16 on page 62.

Performance comparators

The Company does not have a formal benchmark. Performance is reviewed in the context of returns achieved by a broad basket of UK equities through the MSCI UK All Cap Index and of international equities through the MSCI All Country World Index (ACWI). The portfolio is not modelled on any index.

Strategic Report (continued)

Management

The Board has appointed the Company's wholly-owned subsidiary, S.I.T. Savings Limited, as its Alternative Investment Fund Manager (AIFM).

Day-to-day management of the Company is delegated to the Company's executive management which reports directly to the Board.

The Board has appointed Maitland Administration Services (Scotland) Limited to provide company secretarial, administration and accounting services to the Company.

Substantial shareholdings

At 31 October 2018, the Company had been notified of the following holdings in excess of 3% of its shares.

	Shares	% held
Wells Capital Management Inc.	4,924,826	6.4
AXA Investment Managers SA	3,450,050	4.5

There have been no changes notified to the Company in respect of the above holdings, and no new holdings notified, since 31 October 2018.

Analysis of share register at 31 October 2018

Category of holder	Share capital %
Individuals	80.4
Insurance companies	2.0
Investment companies	7.5
Pension funds	6.3
Other	3.8
Total	**100.0**

Company's directors and employees

The table below shows the breakdown of Directors and employees.

	31 October 2018		31 October 2017	
	Male	Female	Male	Female
Directors	3	2	4	2
Senior Manager	1	0	1	0
Employees	5	3	6	2

Environmental, Social and Governance Policy

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on the performance are considered and these may include environmental, social and governance issues.

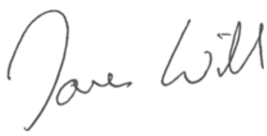
As an investment trust, the Company does not provide goods or services in the normal course of business, nor does it have customers. Accordingly, the Directors consider that the Company does not fall within the scope of the Modern Slavery Act 2015 and that there are no disclosures to be made in respect of human rights or community issues.

Bribery Act 2010

The Company has a zero tolerance policy towards bribery and a commitment to carry out business fairly, honestly and openly.

Criminal Finances Act 2017

The Company has a zero tolerance policy to tax evasion and the facilitation of tax evasion.



James Will
Chairman
7 December 2018

Financial Summary

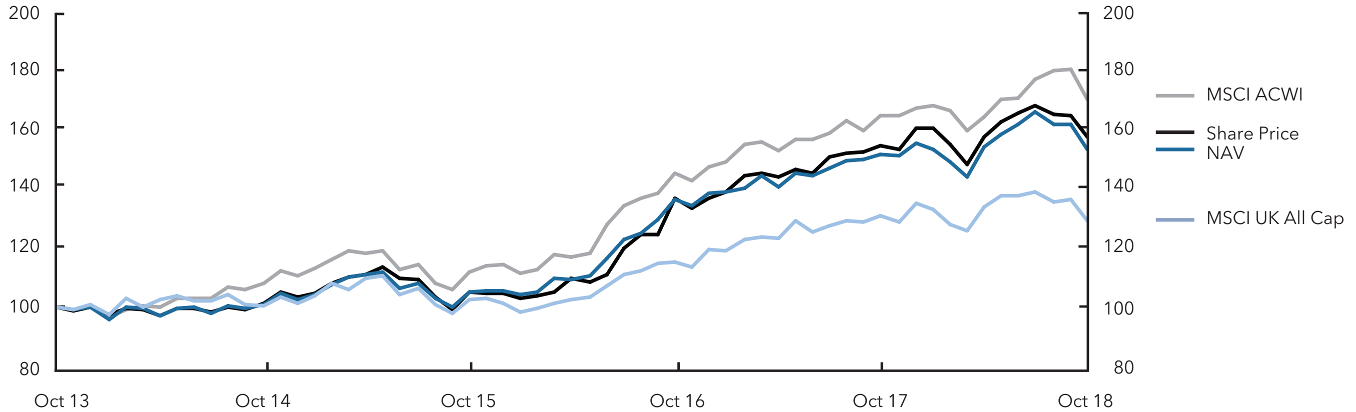
	2018	2017	Change %	Total return %
NAV with borrowings at market value	900.1p	924.4p	(2.6)	+1.1§
NAV with borrowings at amortised cost	926.8p	956.8p	(3.1)	+0.4§
Ex-income NAV with borrowings at market value	888.9p	904.8p	(1.8)	
Ex-income NAV with borrowings at amortised cost	915.5p	937.2p	(2.3)	
Share price	825.0p	843.0p	(2.1)	+1.9
Discount to NAV with borrowings at market value§	8.3%	8.8%		
MSCI ACWI			+1.4	+3.4
MSCI UK All Cap Index			(5.1)	(1.3)
	£'000	**£'000**		
Equity investments	717,547	801,302		
Net current assets	82,931	43,897		
Total assets	800,478	845,199		
Long-term borrowings at amortised cost	(83,829)	(83,737)		
Pension liability	(1,337)	(1,091)		
Shareholders' funds	715,312	**760,371**		
Earnings per share	26.02p	23.06p	+12.8	
Regular dividend per share (2018: proposed final 6.20p)	21.20p	20.00p	+6.0	
Special dividend per share	4.00p	5.00p		
Total dividend per share	25.20p	25.00p	+0.8	
UK Consumer Prices Index – annual inflation			+2.4	

§ Alternative Performance Measures (please refer to Glossary on page 72).

Year's High & Low

	Year to 31 October 2018 High	Year to 31 October 2018 Low	Year to 31 October 2017 High	Year to 31 October 2017 Low
NAV with borrowings at market value	991.8p	844.9p	938.2p	817.1p
Closing share price	902.0p	771.0p	850.0p	739.0p
Discount to NAV with borrowings at market value	10.7%	6.2%	12.2%	7.1%

NAV* and Share Price against Comparator Indices
Total Return – 5 years to 31 October 2018



*with borrowings at market value

Chart data source: Bloomberg and the Company

List of Investments

As at 31 October 2018

Listed Equities

Holding	Country	Market value £'000	Cumulative weight %
Tesco	UK	32,230	
Sumitomo Mitsui Financial	Japan	29,130	
GlaxoSmithKline	UK	29,087	
Pfizer	US	27,325	
Target	US	26,686	
Royal Dutch Shell	UK	25,891	
Newcrest Mining	Australia	25,718	
Macy's	US	25,146	
Gap	US	25,084	
Suncor Energy	Canada	24,212	37.7
Marks & Spencer	UK	21,935	
BHP Billiton	UK	21,248	
Newmont Mining	US	20,497	
Standard Chartered	UK	20,348	
ING	Netherlands	19,795	
Exxon Mobil	US	19,704	
PepsiCo	US	17,327	
Roche	Switzerland	16,143	
Total	France	15,565	
Citigroup	US	15,344	63.9
China Mobile	Hong Kong	15,009	
Mitsubishi UFJ Financial	Japan	14,115	
Chevron	US	13,979	
United Utilities	UK	13,838	
Sony	Japan	13,525	
BNP	France	13,143	
National Oilwell Varco	US	12,987	
Verizon Communications	US	12,752	
British Land	UK	12,497	
Vinci	France	11,668	82.5
Royal Bank of Scotland	UK	9,452	
Hess	US	8,979	
BASF	Germany	8,969	
East Japan Railway	Japan	8,899	
Citizens Financial	US	8,156	
Carrefour	France	8,144	
Bank of Kyoto	Japan	7,730	
Nintendo	Japan	7,645	
TGS Nopec Geophysical	Norway	7,497	
BT	UK	6,926	94.8

List of Investments (continued)

As at 31 October 2018

Listed Equities

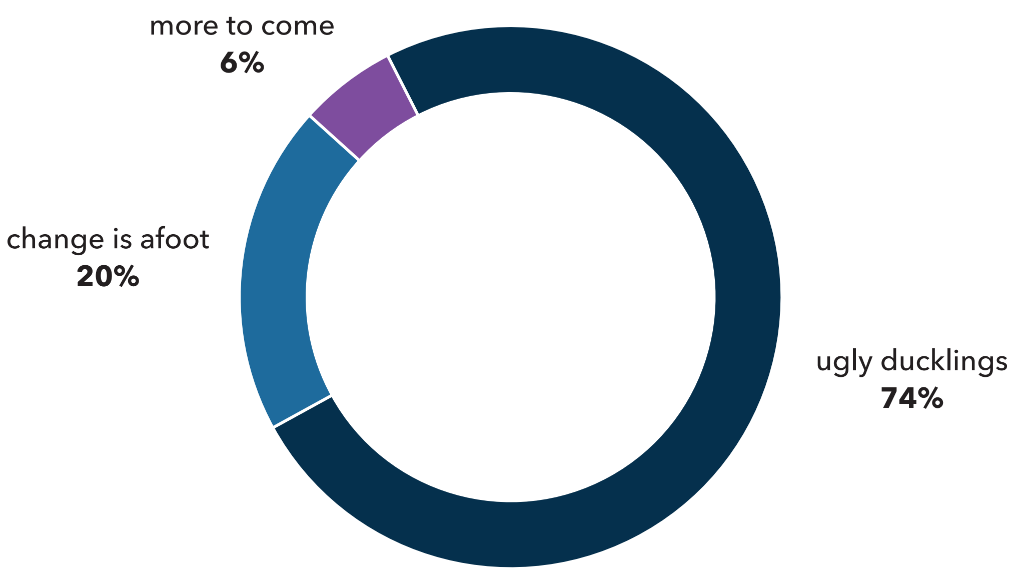
Holding	Country	Market value £'000	Cumulative weight %
Adecco	Switzerland	6,044	
Intesa Sanpaolo	Italy	5,784	
Bank of Ireland	Ireland	5,654	
Baker Hughes	US	5,302	
KDDI	Japan	5,013	
Diamond Offshore Drilling	US	4,769	
BorgWarner	US	3,608	
Tourmaline Oil	Canada	2,563	
Freehold Royalties	Canada	1,871	
Greggs	UK	1,114	
Total listed equities		**716,047**	**99.8**

Unlisted

Holding	Country	Market value £'000	Cumulative weight %
Heritable property and subsidiary	UK	1,500	
Total unlisted		**1,500**	**0.2**
Total equities		**717,547**	**100.0**

The 10 largest holdings have an aggregate market value of £270,509,000.

Listed Equities by Category
(Market Value Weighted)

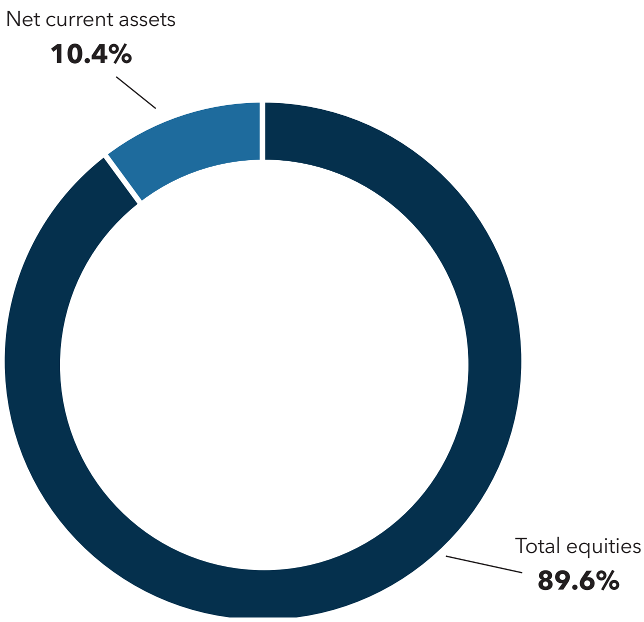


Distribution of Assets

Distribution of Total Assets

by Sector	31 October 2018 %	31 October 2017 %
Energy	17.9	15.2
Materials	9.5	8.4
Industrials	3.3	10.0
Consumer Discretionary	14.6	8.6
Consumer Staples	7.2	11.8
Health Care	9.1	8.5
Financials	18.8	19.2
Information Technology	–	4.5
Communication Services	5.9	5.2
Utilities	1.7	1.9
Real Estate	1.6	1.5
Net current assets	10.4	5.2
Total assets	**100.0**	**100.0**

Allocation of Total Assets



by Region	31 October 2018 %	31 October 2017 %
UK	24.5	28.6
Europe (ex UK)	14.8	17.9
North America	34.5	26.5
Latin America	–	3.0
Japan	10.7	8.2
Asia Pacific (Ex Japan)	5.1	10.6
Net current assets	10.4	5.2
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	%
Total equities	**100.3**
Net current assets	11.6
Borrowings at amortised cost	-11.7
Pension liability	-0.2
Shareholders' funds	**100.0**

Distribution of Assets (continued)

Changes in Asset Distribution

by Sector	31 October 2017 £m	Net purchases (sales) £m	Appreciation (depreciation) £m	31 October 2018 £m
Energy	128.5	8.1	6.7	143.3
Materials	70.9	16.9	(11.4)	76.4
Industrials	84.2	(47.8)	(9.8)	26.6
Consumer Discretionary	73.1	27.0	17.0	117.1
Consumer Staples	99.4	(49.0)	7.3	57.7
Health Care	72.1	(8.9)	9.4	72.6
Financials	162.5	18.1	(30.4)	150.2
Information Technology	37.7	(36.7)	(1.0)	–
Communication Services	44.3	3.1	(0.1)	47.3
Utilities	15.9	–	(2.1)	13.8
Real Estate	12.7	–	(0.2)	12.5
Total equities	**801.3**	**(69.2)**	**(14.6)**	**717.5**

Changes in Shareholders' Funds

	31 October 2017 £m	Net purchases (sales) £m	31 October 2018 £m	Appreciation (depreciation) £m	Dividend income £m	Total return £m
Total equities	**801.3**	**(69.2)**	**717.5**	**(14.6)**	**23.7**	**9.1**
Net current assets	43.9	39.0	82.9			
Total assets	**845.2**	**(30.2)**	**800.4**			
Borrowings at amortised cost	(83.7)	(0.1)	(83.8)			
Pension liability	(1.1)	–	(1.3)			
Shareholders' funds	**760.4**	**(30.3)**	**715.3**			

Ten Year Record

Year to 31 October	Earnings per share p	Regular dividend per share p[1]	Total expenses £'000	Ongoing charges figure %	Total assets £'000	Share-holders' funds £'000	Buybacks £'000	NAV (debt at amortised cost) p	Share price p	Discount to NAV[2] cum-income %	Discount to NAV[2] ex-income %	NAV (debt at amortised cost) total return %
2008	11.00	9.50	4,440	0.64	633,521	525,679	22,919	405.5	372.0	9.0	7.5	(30.7)
2009	10.62	9.60	4,139	0.78	696,971	587,675	13,776	465.6	410.0	10.1	8.9	17.6
2010	10.26	10.05	4,284	0.72	740,140	630,367	36,046	533.7	469.3	10.0	9.0	17.0
2011	12.43	10.40	4,443	0.71	708,972	598,870	19,339	524.2	452.0	9.6	8.2	(0.0)
2012	12.01	11.25	4,632	0.79	734,801	628,244	11,121	561.6	479.0	9.8	8.6	9.2
2013	13.41	11.60	5,110	0.75	857,545	750,818	10,139	682.7	603.0	9.8	8.6	23.8
2014	11.51	12.00	4,887	0.68	841,189	734,293	11,308	679.5	598.0	9.6	8.7	1.5
2015	15.91	12.50	4,900	0.52	840,005	733,056	15,426	694.3	608.0	10.1	8.6	3.9
2016	21.62	13.50	4,080	0.49	935,934	849,017	59,944	881.2	769.5	10.0	8.1	29.9
2017	23.06	20.00	3,517	0.49	845,199	760,371	135,188[3]	956.8	843.0	8.8	6.8	11.4
2018	**26.02**	**21.20**	**3,254**	**0.52**	**800,478**	**715,312**	**19,602**	**926.8**	**825.0**	**8.3**	**7.2**	**0.4**

Ten Year Growth Record

Year to 31 October	Earnings per share	Regular dividend per share[1]	Consumer Prices Index	Share price	Share price total return	NAV (debt at amortised cost) total return	NAV (debt at market value) total return	MSCI UK All Cap Index total return	MSCI ACWI[4] total return
2008	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2009	96.5	101.1	101.5	110.2	113.1	117.6	114.3	123.6	120.2
2010	93.3	105.8	104.8	126.2	132.5	137.6	133.4	144.3	141.4
2011	113.0	109.5	110.0	121.5	130.2	137.5	130.3	145.9	140.7
2012	109.2	118.4	112.9	128.8	141.1	150.2	141.2	159.9	153.0
2013	121.9	122.1	115.4	162.1	181.4	186.0	181.0	196.4	189.2
2014	104.6	126.3	116.9	160.8	184.0	188.8	182.8	197.2	204.7
2015	144.6	131.6	116.8	163.4	190.8	196.3	190.2	201.6	212.0
2016	196.5	142.1	117.8	206.9	248.0	254.9	246.2	226.3	273.7
2017	209.6	210.5	121.3	226.6	279.7	283.9	273.3	257.0	310.0
2018	**236.5**	**223.2**	**124.2**	**221.8**	**285.0**	**285.0**	**276.2**	**253.5**	**320.5**
Ten year return per annum	**9.0%**	**8.4%**	**2.2%**	**8.3%**	**11.0%**	**11.0%**	**10.7%**	**9.7%**	**12.4%**
Five year return per annum	**14.2%**	**12.8%**	**1.5%**	**6.5%**	**9.5%**	**8.9%**	**8.8%**	**5.2%**	**11.1%**

1. Excluding special dividends of 1.80p in 2013, 3.50p in 2015, 9.00p in 2016, 5.00p in 2017 and 4.00p in 2018.
2. Discount to NAV with borrowings at market value.
3. Includes Aviva repurchase of £90,255,000.
4. MSCI ACWI is the MSCI All Countries World Index.

Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Board of Directors confirms that to the best of its knowledge:

a) the Financial Statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and return of the Company;

b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties the Company faces; and

c) the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Responsibility Statement was approved by the Board of Directors and signed on its behalf by:

James Will

James Will
Chairman
7 December 2018

Corporate Governance Report

Introduction

The Board is committed to implementing high levels of corporate governance within the Company in order to safeguard the interests of its shareholders, to manage the risks that the Company faces and to ensure the efficient and effective running of the Company. Sound governance is at the heart of the Board's efforts to ensure that the Company continues to meet its investment objective. The following statement reports on how the Board, supported by the committees that it has established, has continued to achieve these aims over the course of the year.

Statement of compliance

The Board has reviewed the principles set out in the UK Corporate Governance Code (revised 2014), which can be found at **www.frc.org.uk** and the Association of Investment Companies Code of Corporate Governance by reference to the AIC Corporate Governance Guide for Investment Companies (published in July 2016), both of which can be found at **www.theaic.co.uk** The Board has not adopted early the revised UK Corporate Governance Code published in July 2018, which first applies to the Company for its financial year commencing 1 November 2019.

The Board believes that the way the Company is governed is consistent with the principles of the UK Corporate Governance Code and that the Company has complied with its provisions, except that:

- there is no senior independent director;
- the Chairman is a member of the Audit Committee; and
- evaluation of the Board has not been externally facilitated.

The Board considers that, as all Directors are independent and non-executive, there is no compelling case for appointing a senior independent director. The Board further considers that the Chairman is independent in character and judgement and, therefore, that there is no reason for James Will not to be a member of the Audit Committee. Although the evaluation of the Board has not been externally facilitated during the current year, the Board intends to engage an external consultant to undertake this process during the year to 31 October 2019.

Directors' independence

The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. The Board believes that each Director is independent in character and judgement and that there are no relationships with the Company or its employees which might compromise this independence. The Board has noted Russell Napier's tenure of over nine years in this context.

Board committees

The Board has established three committees: Audit, Remuneration and Nomination. Each of the committees has written terms of reference which are reviewed at least annually and clearly define their responsibilities and duties. The terms of reference for these committees are available on the Company's website **www.thescottish.co.uk**

Audit Committee

The Audit Committee comprises the whole Board and is chaired by Karyn Lamont. It has reviewed the matters within its terms of reference and reports as follows:

- it has approved the Financial Statements for the year to 31 October 2018;
- it has reviewed the effectiveness of the Company's internal controls and risk management;
- it has reviewed the need for a separate internal audit function;
- it has recommended to the Board that a resolution be proposed at the AGM for the reappointment of the external auditor and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditor and agreed that any non-audit services provided by the auditor must be approved by the Audit Committee in advance;
- it has satisfied itself that the Strategic Report is consistent with the Financial Statements; and
- it has reviewed the Company's procedures for handling allegations from whistleblowers.

Further details are set out in the Report of the Audit Committee on pages 34 and 35.

Remuneration Committee

The Board has appointed a Remuneration Committee to recommend pay and conditions for the Board and employees. The Committee is chaired by Jane Lewis. Further details of Directors' remuneration are included in the Directors' Remuneration Report on pages 36 and 37.

The Company aims to provide levels of employee remuneration which reward responsibility and achievement and are comparable with other fund management organisations operating in Scotland. Remuneration is reviewed annually.

Every employee is entitled to a salary and other benefits including a contributory pension scheme. In addition, there is a discretionary performance-related bonus scheme. For all staff, bonuses payable depend, *inter alia*, on individual performance and the

Corporate Governance Report (continued)

Company's short and medium term performance in both absolute and relative terms. Any other metrics that are considered appropriate may be taken into account.

Nomination Committee

There is a Nomination Committee comprising the whole Board. The Committee is chaired by James Will. The Committee meets at least annually to review the structure, size and composition of the Board.

The Nomination Committee is responsible for nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Committee will evaluate the skills, experience, independence, knowledge and diversity of the Board and, subject to the aforementioned, prepare a description of the role and capabilities required to fulfil the appointment.

When Board positions become available as a result of retirement or resignation, the Committee will ensure that a diverse group of candidates is considered. In order to recruit relevant candidates, the identification of such candidates may be carried out in conjunction with the Board by an independent firm of consultants. If such a process is not used, the Committee will disclose the reasons in the Corporate Governance Report or the Directors' Report in the next Annual Report and Accounts.

The Committee will consider candidates on merit and against objective criteria having regard to the benefits of diversity, including gender.

Hamish Buchan retired from the Board at the AGM held on 2 February 2018. There is no current intention to replace him as the Board considers that its membership will continue to ensure that the appropriate balance of skills, experience, independence and knowledge will be achieved.

Board and committee meetings

The Board has adopted a schedule of matters reserved for the Board which includes investment strategy, accounting and financial controls, dividends and announcements, capital structure (including share buybacks), gearing and major contracts.

The Board has appointed the Company's wholly-owned subsidiary, S.I.T. Savings Limited, as its Alternative Investment Fund Manager (AIFM). Day-to-day management of the Company is delegated to the Company's executive management, which reports directly to the Board.

Prior to each Board meeting, Directors are provided with a comprehensive set of papers giving detailed information on the Company's transactions, financial position and performance.

On an annual basis the Board normally meet five times, the Audit Committee three times, the Remuneration Committee twice and the Nomination Committee at least once. Attendance at the scheduled and additional meetings throughout the year is shown in the table below.

Board and Directors' performance appraisal

The performance of each Director was assessed and appraised by the Nomination Committee during the year. The Chairman's performance was assessed and appraised in his absence by the other Directors. The review and assessment by the Nomination Committee of each Director's performance as well as the performance of the Board as a whole and of its committees followed completion by each of the Directors of a written questionnaire. The appraisals and assessments considered, amongst other criteria, the balance of skills of the Board, training and development requirements, the contribution of individual Directors and the overall effectiveness of the Board and its committees.

Following this process it was concluded that the performance of each Director, the Chairman, the Board and its committees continues to be effective and that each Director and the Chairman remain committed to the Company.

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
James Will	5	5	4	4	2	2	1	1
Russell Napier	5	5	4	4	2	2	1	1
Jane Lewis	5	5	4	4	2	2	1	1
Mick Brewis	5	5	4	4	2	2	1	1
Karyn Lamont	5	5	4	4	2	2	1	1
Hamish Buchan (retired 2 February 2018)	1	1	1	1	1	1	n/a	n/a

In addition to the above meetings, the Board met on three occasions via teleconference. One such meeting was to discuss matters relating to the Company's defined benefit pension scheme. As trustees of the scheme, Russell Napier and Karyn Lamont declared a conflict of interest and absented themselves from the meeting. The other two meetings were ad-hoc, for one of which Jane Lewis tendered apologies. All other Directors attended all three meetings, except Hamish Buchan who had previously retired from the Board.

Corporate Governance Report (continued)

Appointment and re-election of Directors

The Company's policy on the appointment of Directors is shown on the Company's website, **www.thescottish.co.uk**

New Directors receive an induction from the Company's Manager and the Company Secretary on joining the Board, and all Directors will receive other relevant training as necessary.

All Directors are appointed for initial three year terms, renewable every three years, subject to the Company's policy for all Directors to stand for re-election annually. Each of the Directors has made a valuable and effective contribution to the Company and the Board therefore recommends that shareholders vote in favour of their re-election.

Directors' letters of appointment will be available for inspection at the AGM.

The Company's Articles of Association provide that any Director or other officer of the Company may be indemnified out of the assets of the Company against any liability incurred by him or her as a Director or other officer of the Company to the extent permitted by law. The Company entered into deeds of indemnity in favour of each Director (other than Karyn Lamont) on 26 August 2016 and in favour of Karyn Lamont on her appointment. The deeds cover any liabilities that may be incurred by a Director in respect of any act or omission (alleged or otherwise) in the exercise of his or her powers or in respect of his or her duties in relation to the Company (including any liabilities arising from negligence, default or breach of trust or duty). The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him/her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person (pursuant to the Directors' and officers' liability insurance policy which is maintained by the Company or otherwise).

The Board has direct access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable regulations are complied with. The Company Secretary is also responsible for ensuring timely delivery of information and reports to the Board and for compliance with the Company's statutory obligations.

There is a procedure for Directors to seek independent professional advice at the expense of the Company.

Diversity policy

The Company recognises the need to consider the diversity of its staff and its Board of Directors. As a general principle, the Company will show no bias for age, gender, race, sexual orientation, marital status, religion, nationality, ethnic or national origins, or disability in considering the appointment of staff or Board members and will ensure appointments are made on the basis of merit against objective criteria.

The structure, size and composition of the Board of Directors are reviewed at least annually by the Nomination Committee ensuring an appropriate balance of skills, experience, independence and knowledge. In considering new appointments to the Board, the Committee recognises the benefits of diversity on the Board, including gender. The Committee will consider both male and female candidates and ensure appointments are made on the basis of merit against objective criteria. As all appointments will be based on merit and in view of the small size of the Board, the Board does not consider it appropriate to set diversity targets.

The Board currently consists of three male and two female Directors.

Conflicts of interest

The Companies Act 2006 requires that a director of a company must avoid a situation in which he or she has, or might have, an interest that conflicts, or may conflict, with the interests of the company. Each Director submits a list of potential conflicts prior to each meeting. The other Board members consider these and recommend whether or not each potential conflict should be authorised.

Going concern

The accounts of the Company have been prepared on a going concern basis. It is the opinion of the Directors that, as most of the Company's assets are readily realisable and exceed its liabilities, it is expected that the Company will continue in operational existence for the foreseeable future. The viability statement, under which the Directors assess the prospects of the Company over a longer period, is contained on page 16.

Internal controls and risk management

The Directors acknowledge that they are responsible for the Company's systems of internal control and for reviewing their effectiveness on an annual basis. A process has been implemented for identifying, evaluating and managing risks faced by the Company.

Corporate Governance Report (continued)

This process has been in place throughout the year ended 31 October 2018 and up to the date that the Financial Statements were approved.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objective. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material mis-statement or loss.

The Board considers the following as the principal risks and uncertainties faced by the Company:

Principal risks	Mitigation
Strategic Risks in relation to the ongoing attractiveness and sustainability of the Company's investment objective placing pressure on the share price discount to net asset value per share.	The Board considers strategy and the business model on a regular basis, including the discount level and the marketing plans for the business.
Investment portfolio and performance The holding of securities and investing activities involve certain inherent risks, principally in relation to market risk. A contrarian investment approach is a distinctive style that may deviate from comparator indices and peer group performance over discrete periods.	Company performance is monitored at each Board meeting, including investment performance. The Manager seeks to maintain a diversified portfolio. The contrarian investment approach is explained in our shareholder communications and through meetings with media and the investor community.
Financial The Company's normal business activities are exposed to market risk (including market price risk, foreign currency risk and interest rate risk), liquidity risk and credit risk.	The Company holds a portfolio which is well diversified across industrial and geographical areas. Most assets are held in listed securities and are therefore readily realisable. All debenture stocks and secured bonds are at fixed rates. Only approved counterparties are used and within agreed limits.
Operational Failure of the Company's or third party service providers' systems could result in a misappropriation of assets or an inability to report to shareholders. There could be a possible impact on reputation if any such events were to occur. The Company is also exposed to the operational risk that one or more of its service providers may not provide the required level of service. The threat of cyber attack has become more prevalent across all sectors.	The Company monitors the performance of its service providers, whether internal (S.I.T Savings Limited is the Company's AIFM) or external (custody and depositary, company secretarial, administration and accounting services) through regular meetings and review of available internal control reports.
Tax, legal and regulatory The Company is required to comply with a range of legislation and regulation and may be impacted by changes in the external environment.	The Company employs internal and external resource to ensure compliance with relevant legislation and regulation and the Board receives periodic reports on any issues and potential changes.

These and other risks facing the Company, including Brexit, are reviewed regularly by the Audit Committee and the Board. As a global investment trust with a diversified portfolio of international equities, it is unlikely that the Company's business model will be adversely impacted as a direct result of Brexit.

Further information on risks is detailed in note 16 to the accounts on page 62.

Corporate Governance Report (continued)

Relations with shareholders

The Company recognises the value of good communication with its shareholders. Management meets regularly with private client stockbrokers, wealth managers and the Company's major institutional shareholders. The Board receives regular briefings from the Company's broker. Annual and Interim Reports and newsletters are sent to shareholders during the year and are posted on the Company's website.

The Annual General Meeting of the Company is the main forum at which shareholders can ask questions of the Board and management. All shareholders are encouraged to attend the AGM and to vote on the resolutions which are contained in the Notice of Meeting on page 74 and which is posted to shareholders at least 21 days prior to the meeting. Shareholders who cannot attend the AGM are encouraged to vote by proxy on the resolutions. Proxy voting figures are given after each resolution has been voted on and are published after the end of the meeting.

Any shareholder who wishes to ask a question at another time should write to the Chairman at 6 Albyn Place, Edinburgh EH2 4NL.

Corporate governance and stewardship

Management reviews resolutions put to general meetings of the companies in which the Company invests and, wherever practicable, will cast its vote, usually by proxy. In voting on its shareholdings, the Company will normally support management. The Company votes against resolutions which are considered to damage shareholders' rights or economic interests.

Alternative Investment Fund Managers (AIFM) Directive – Leverage

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's exposure to its net asset value and is calculated on a gross and commitment method.

Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

The Company's maximum limits and actual leverage levels are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit (AIFM)	200%	200%
Maximum limit (Board)	20%	20%
Actual at 31 October 2018	0%	12%

Annual General Meeting

The Company's 131st AGM will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ on Thursday 7 February 2019 at 10.30am.

The Board considers that the resolutions to be proposed at the AGM are all in the best interests of the Company and of the shareholders as a whole and recommends that shareholders vote in favour of them.

Resolutions 1 to 10 are self-explanatory.

Resolution 11 - Renewal of authority to purchase shares

This resolution, set out in the Notice of AGM on page 74, seeks to renew the authority to purchase shares until 7 May 2020. The principal reasons for such purchases are to enhance the NAV of the shares by purchasing shares for cancellation at prices which, after allowing for costs, improve the NAV for remaining shareholders and to allow implementation of the Company's discount control policy. The maximum number of shares which may be purchased pursuant to this authority shall be 11,553,479 or, if less, 14.99% of the aggregate issued capital of the Company on the date of passing of the resolution.

Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of the authority must not exceed the higher of (i) 105% of the average market value of a share for the five business days immediately preceding the date of purchase and (ii) the higher price of the last independent trade and the highest current independent bid. The minimum price which may be paid is 25p per share.

Resolution 12 - Adoption of new Articles of Association

This resolution, set out in the Notice of AGM on page 74, seeks to adopt new Articles of Association. The principal changes proposed to be introduced in the new Articles of Association and their effect, are set out below.

Distributions out of capital

The principal change that the Board is proposing to make to the Company's current Articles of Association (the "Existing Articles") relates to the Company's ability to distribute its capital profits. Certain statutory rules governing investment trusts and companies were amended in 2012. In particular, the rule which prohibited an investment trust from distributing any surplus arising from the realisation of its investments was repealed.

Corporate Governance Report (continued)

As noted in the Chairman's statement, in the light of the amended rules, the Board no longer considers it appropriate for the Existing Articles to contain such a prohibition. Accordingly, the Board is seeking authority at the AGM to amend the Existing Articles to allow the Company to distribute capital profits. The proposed Articles therefore reflect this change and remove all references to the prohibition of the distribution of capital profits by way of dividend.

The Board believes that the removal of this restriction will give the Company greater flexibility in the long term as it will enable the Company to make distributions from any surplus arising from the realisation of any investment. However, the Board has no intention of exercising this authority at the current time.

Directors aggregate remuneration limit

The Board is taking the opportunity to increase the aggregate limit of remuneration that the Directors may receive per annum from, in aggregate, £250,000 to £300,000. The increase in the aggregate limit of Directors' remuneration provides additional flexibility over the number of Directors on the Board and ensures that the Company continues to have the ability to pay Directors' fees in line with the market in the future. This reflects the remuneration policy of the Board as set out on page 36.

International tax regimes requiring the exchange of information and the common reporting standards

The Board is also proposing to include provisions in the new Articles to provide the Company with the ability to require shareholders to co-operate in respect of the exchange of information to comply with the Company's international tax reporting obligations.

The Hiring Incentives to Restore Employment Act 2010 of the United States of America commonly known as the Foreign Account Tax Compliance Act and all associated regulations and official guidance ("FATCA") imposes a system of information reporting on certain entities including foreign financial institutions such as the Company following the enactment of the UK International Tax Compliance (United States of America) Regulations 2013 on 1 September 2013. These regulations have now been replaced by the International Tax Compliance Regulations 2015 (the "Regulations").

The Articles provide the Company with the ability to require shareholders to co-operate with it in ensuring that the Company is able to comply with its obligations under the Regulations in order to avoid being deemed to be a "Nonparticipating Financial Institution" for the purposes of FATCA and consequently having to pay withholding tax to the IRS. The Articles also ensure that the Company will not be liable for any monies that become subject to a deduction or withholding relating to FATCA, as such liability would be to the detriment of the Company's shareholders as a whole.

The Regulations also include the automatic exchange of information regimes being brought in under the auspices of the Organisation for Economic Co-operation and Development and the European Union. The Existing Articles have therefore also been amended in order to provide the Company with the ability to require shareholders to co-operate in respect of these broader common reporting obligations.

The Alternative Investment Fund Managers Directive ("AIFMD")

The Board is also proposing to include provisions in the new Articles in relation to the AIFMD. For example the Articles will now specifically provide that the NAV of the Company shall be calculated at least annually and the valuation of the Company's assets shall be performed in accordance with prevailing accounting standards. However, this amendment will have no bearing on current practice and simply articulates the minimum requirements of the AIFMD Regulations.

Minor amendments

The Board is also taking the opportunity to propose some additional minor amendments to the Existing Articles including the removal of the Director's shareholding qualification and the Chairman's casting vote provision as well as the more out-of-date provisions relating to the conversion and transfer of stock and the rights of stockholders.

Resolutions 11 and 12 each will be proposed as a special resolution that requires to be passed by a three-quarters majority of votes cast at the AGM.

Carbon emissions

The Company's carbon emissions result predominantly from its consumption of electricity at its single office. Using Defra/DECC's GHG conversion factors for company reporting 2015, emissions for the year to October 2018 were 27.7 tonnes of CO_2e (2017: 28.1 tonnes CO_2e). This equates to 0.08 tonnes of CO_2e (2017: 0.07 tonnes of CO_2e) per square metre.

The Directors' Report on pages 26 to 37, which includes the Responsibility Statement, the Corporate Governance Report, the Report of the Audit Committee and the Directors' Remuneration Report, and the Going concern statement on page 29, have been approved by the Board.

The Strategic Report on pages 14 to 17 includes information relating to: Dividends, Share capital and Discount control policy (including share buybacks).

There have been no significant post-balance sheet events.

By order of the Board.

Maitland Administration Services (Scotland) Limited
Company Secretary

7 December 2018

Report of the Audit Committee

The Audit Committee has written terms of reference which are shown on the Company's website. Its duties include risk assessment; reviewing internal controls, the Company's accounting policies and Financial Statements prior to their release; and the Company's procedures on whistleblowing. The Committee is also responsible for all aspects of the Company's relationship with its external auditor including:

- reviewing the scope and effectiveness of the annual audit;
- the auditor's remuneration;
- the terms of engagement; and
- the level of non-audit work, if any, carried out by the auditor.

Annual Report

The Audit Committee reviews the Annual Report and Accounts to ensure it is fair, balanced and understandable.

Internal controls

The Company does not have an internal audit function as the Audit Committee believes that the Company's straightforward structure and small number of employees do not warrant such a function. This is reviewed by the Committee annually.

The Committee is responsible for ensuring that the Company has in place an effective system of internal controls designed to maintain the integrity of accounting records and to safeguard the Company's assets. The Committee has applied the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces.

In compliance with the UK Corporate Governance Code, the Committee reviews the effectiveness of the Company's system of internal controls at six-monthly intervals.

The Committee's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied or require more extensive monitoring. During the course of its review of the system of internal controls, the Committee has not identified, nor been advised of, any material failings or weaknesses. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

The Committee and management also monitor the controls and risk management of Maitland and Northern Trust. Maitland provide company secretarial, administration and accounting services to the Company and Northern Trust provide custody and depositary services.

The Committee recognises that such systems can only provide reasonable, but not guaranteed, assurance against material misstatement or loss.

Significant issues

The Committee considers the risks that may have an impact on the Company's Financial Statements.

The valuation and ownership of the Company's investments are risks. Investments are valued in accordance with the accounting policy on page 51. The prices of all investments are agreed by Maitland with an independent source and the ownership of each investment agreed through confirmation received from the Company's independent global custodian, Northern Trust.

The incomplete or inaccurate recognition of income in the Financial Statements are also risks. Internal control systems are in place to ensure income is fully accounted for. The Board is provided with information on the Company's income account at each meeting.

Auditor

Assessment

The Company's auditor, Deloitte LLP, was appointed in 2002. The Committee reviews annually the appointment of the auditor, the services provided and the related fees. The Committee is aware that EU regulations in relation to statutory audits of EU listed companies will require the Company to change its audit firm by 2023. The corporate governance provisions relating to audit tenure have been reviewed and the Committee is of the opinion there is no need to conduct a competitive tender at the present time. The Board is however considering a competitive tender for the audit of the financial year commencing 1 November 2019. This is due to the aforementioned requirement to change audit firm by 2023 and also the audit partner rotation requirements meaning the next

Report of the Audit Committee (continued)

financial year will be the final year the current audit partner will be leading the audit.

The fees for audit and non-audit services were £31,500 (2017: £34,000) and £16,200 (2017: £21,950), respectively. Non-audit services include: tax compliance £10,500 and assurance services £5,700.

All costs for non-audit services are considered to be appropriate relative to fees paid for audit services. An engagement letter is issued for all non-audit work and subsequently reviewed by the Audit Committee to ensure that the independence and objectivity of the auditor is not compromised by the provision of non-audit services.

The Company has complied with the provisions of the Statutory Audit Services for Larger Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilites) Order 2014.

The Audit Committee reviews and approves any non-audit services provided by the auditor and assesses the impact of any non-audit work on the ability of the auditor to remain independent.

Partner rotation

The audit partner responsible for the audit is rotated every five years. Andrew Partridge, the current audit partner, was appointed in 2015.

Independence

The Committee has satisfied itself of the continuing independence of Deloitte LLP. The Committee confirms the level of non-audit work undertaken does not compromise independence.

Re-appointment of auditor

A resolution to re-appoint Deloitte LLP as the Company's auditor, and to authorise the Directors to fix its remuneration, will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to auditor

It is the Company's policy to allow the auditor unlimited access to its records. The Directors confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's auditor is unaware and they have taken all the steps which they should have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Karyn Lamont
Chair of the Audit Committee
7 December 2018

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of section 421 of the Companies Act 2006 incorporating The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders at the AGM on 7 February 2019.

Remuneration Committee

The Company has a Remuneration Committee, the terms of reference of which include setting the fees of the Directors. The full terms of reference are posted on the Company's website. The Committee is chaired by Jane Lewis and the other members are Mick Brewis, Russell Napier, James Will and Karyn Lamont.

Policy on Directors' fees

On 31 October 2018, the Board consisted of 5 Directors, all of whom are non-executive. Directors' fees are set by the Remuneration Committee with a view to attracting and retaining individuals, taking into account the skills and experience necessary for the effective stewarding of the Company and the expected contribution of the Board as a whole in continuing to achieve the Company's investment objective. It aims to be fair and reasonable in relation to similar investment trusts and other similar sized financial companies. Fees recommended by the Remuneration Committee are subject to approval by the Board. The Company's Articles of Association provide for a maximum level of total remuneration of £250,000 in aggregate payable to Directors in any financial year. The Company is proposing an amendment to its Articles of Association to increase the maximum level of remuneration to £300,000, as detailed further on page 32.

The policy on Directors' fees was approved at the AGM held in February 2018 and this policy applied for the period up to 31 October 2018. This approval is valid for three years and it is therefore intended that this policy will apply for the period to 31 October 2020. Any views expressed by shareholders on Directors' fees are taken into consideration by the Board when reviewing the policy.

The Remuneration Committee recommended an increase in Directors' fees, with effect from 1 November 2017, to £60,000 per annum for the Chairman, £37,500 per annum for the Chair of the Audit Committee and £32,500 per annum for other Directors. Directors' fees were previously last increased in 2013.

Since 2013 there had been a significant increase in the level of work required of both the Board in general and the Chairman and the Audit Committee Chair in particular. The Remuneration Committee therefore believed it appropriate to review the level of fees paid to Directors taking account of their expected workload and to recognise the additional responsibilities undertaken by the Chairman and the Chair of the Audit Committee.

The Board may amend the level of remuneration paid to Directors within the parameters of the Directors' remuneration policy.

Directors are remunerated exclusively by fixed fees in cash and do not receive bonuses, share options, long-term incentives, pension or other benefits. Directors do not receive exit payments and are not provided with any compensation for loss of office.

	Proposed fees for the year to 31 October 2019 £	Actual fees for the year to 31 October 2018 £
Chairman	60,000	60,000
Audit Committee Chair	37,500	37,500
Non-executive Director	32,500	32,500

Annual statement

The level of Directors' fees was increased at the beginning of the financial year, as explained above.

Directors' emoluments (audited)

	Year to 31 October 2018 £	Year to 31 October 2017 £
James Will [1]	60,000	50,000
Hamish Buchan (retired 2 February 2018)	8,375	30,000
Russell Napier	32,500	30,000
Ian Hunter [2]	–	27,500
Jane Lewis	32,500	30,000
Mick Brewis	32,500	30,000
Karyn Lamont [3]	37,500	2,500
	203,375	200,000

[1] Chairman
[2] Audit Committee Chair (resigned 30 September 2017)
[3] Audit Committee Chair (with effect from 1 October 2017)

Directors' Remuneration Report (continued)

As all the Directors are non-executive and their fees are payable quarterly with no performance-based element, there is no correlation between the Directors' fees and the employees' remuneration. The Company is of the view, therefore, that it is not necessary to consult with employees when drawing up the Remuneration Report.

Service contracts

The Directors do not have service contracts. All Directors retire and seek re-election annually.

Directors' interests

The interests of the Directors and their families in the Company's capital are as follows:

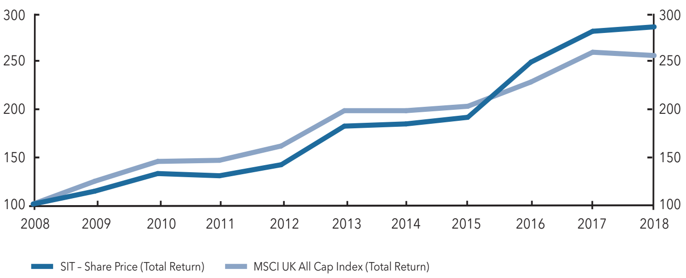
	Shares of 25p 31 October 2018	31 October 2017
James Will	8,000*	8,000
Russell Napier	14,000	14,000
Jane Lewis	1,000	1,000
Mick Brewis	10,000	10,000
Karyn Lamont	2,500	2,500

* In addition to the 8,000 shares held, Mr Will is a trustee of a trust which holds 11,000 shares in the Company. Mr Will is beneficially or potentially beneficially interested in this holding.

There were no changes in the Directors' interests between 31 October and 7 December 2018.

Company performance

The graph below shows the Company's share price total return compared to the notional total return of the MSCI UK All Cap Index (assuming all dividends were reinvested for both the Company and the Index) over a 10 year period.



This index has been chosen as it is a common performance comparator for companies such as The Scottish Investment Trust.

Relative importance of Directors' fees

	2018 £'000	2017 £'000	% Change
Directors' fees	203	200	1.5
Expenses	3,254	3,517	(7.5)
Staff costs	1,690	1,612	1.5
Dividends paid and proposed	19,590	19,873	(1.4)

Directors' fees as a percentage of:	2018 %	2017 %
Expenses	6.2	5.7
Staff costs	12.0	12.4
Dividends paid and proposed	1.0	1.0

Excluding discretionary performance-related bonuses and the refund of previously paid expenses, expenses increased by 2.2% and staff costs decreased by 9.4%.

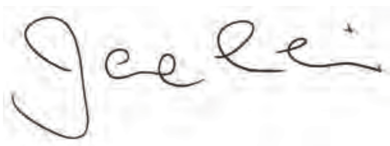
Further details of the Company's expenses and staff costs can be found in notes 2 and 3, respectively, on page 53 and of dividends paid and proposed on page 47.

Approval

Voting on the resolution to approve the Directors' Remuneration Report 2017, at the Company's AGM on 2 February 2018, was as follows:

	% For	% Against	% Withheld
Approve Directors' Remuneration Report	99.2	0.5	0.3

The Directors' Remuneration Report was approved by the Board on 7 December 2018 and signed on its behalf by:



Jane Lewis
Chair of the Remuneration Committee
7 December 2018

Independent Auditor's Report

Opinion

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice issued by the Association of Investment Companies in November 2014 and updated in February 2018 "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Scottish Investment Trust PLC (the 'Company') which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Cash Flow Statement; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation and existence of listed investments • Recognition of investment income The key audit matters in this report are consistent with those reported in the prior year.
Materiality	The materiality that we used in the current year was £7.1m which was determined on the basis of 1% of net assets at 31 October 2018.
Scoping	Our audit was scoped by obtaining an understanding of the entity and its environment including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There were no significant changes in our approach from the prior year.

Independent Auditor's Report (continued)

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed the Directors' statement on page 29 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of their approval.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 30 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 16 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of listed investments	
Key audit matter description	Listed investments of £716.0m (2017: £799.9m) represent the most significant number on the balance sheet and is the main driver of the Company's performance. Listed investments represented 89.4% (2017: 94.6%) of total assets of the Company at 31 October 2018 (see accounting policy (b) and note 8). There is a risk that the prices quoted in respect of the listed investments held by the Company may not be reflective of fair value. There is a risk over the recording and custody of listed investments, and whether listed investments recorded are the property of the Company. We have also identified this key audit matter as a potential fraud risk. The description of the key audit matter above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 34.

Independent Auditor's Report (continued)

Valuation and existence of listed investments

How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of the controls over valuation and ownership of investments; • confirmed 100% of the bid prices of quoted investments on the investment ledger at year-end to closing bid prices published by an independent pricing source; and • confirmed 100% of the Company's investment portfolio at the year-end to confirmations received directly from the custodian and depositary.
Key observations	Based on the audit procedures performed, we concluded that the valuation and existence of listed investments are appropriate.

Recognition of investment income

Key audit matter description	Dividend income of £25.4m (2017: £25.7m) represented 98.2% (2017: 99.2% of the total income of the Company (see note 1). Dividends from equity shares are accounted for on an ex-dividend basis. Overseas dividends are accounted for on an ex-dividend basis and included gross of withholding tax. There is a risk that investment income is incomplete which could have a material impact on the Company's net asset value. We also identified this key audit matter as a potential fraud risk. The description of the key audit matter above should be read in conjunction with the significant issues considered by the Audit Committee as discussed on page 34.
How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of the controls over revenue recognition including management's monitoring of the accuracy and completeness of revenue; • for a sample of investments held, agreed the ex-dividend dates and rates for dividends declared during the year and agreed the amounts recorded within the general ledger to confirm that the recognition policy has been applied consistently; and • agreed a sample of dividend income receipts to bank statements.
Key observations	Based on the audit procedures performed, we concluded that recognition of investment income is appropriate.

Independent Auditor's Report (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£7.1m (2017: £7.5m)
Basis for determining materiality	1% (2017: 1%) of net assets.
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is the key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £143,000 (2017: £150,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatements was performed directly by the audit engagement team.

As part of our risk assessment, we assessed the control environment in place at the administrator to the extent relevant to our audit.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent Auditor's Report (continued)

Other information

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

As explained more fully in the Directors' Responsibility Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Independent Auditor's Report (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, the administrator and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
  - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - o other internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: Valuation of investments as an incorrect investment price could result in a material misstatement in the net asset value of the Company; and recognition of investment income as there is a potential risk that if investment income is manipulated so it is incomplete it could have a material impact on the Company's net asset value; and
- obtaining an understanding of the legal and regulatory framework that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations we considered in this context included Companies Act 2006 and UK Listing Rules, as well as the Company qualification as an Investment Trust under UK tax legislation

Audit response to risks identified

As a result of performing the above, we identified the valuation of investments and recognition of investment income as the key audit matters where there is a potential fraud risk. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to the risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's Report (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent Auditor's Report (continued)

Other matters

Auditor tenure

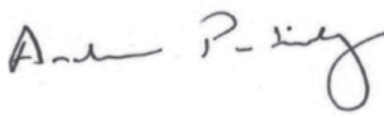
Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 1 August 2002 to audit the financial statements for the year ending 31 October 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 October 2002 to 31 October 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Partridge CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

7 December 2018

Income Statement

For the year to 31 October 2018

	Notes	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Net (losses)/gains on investments held at fair value through profit and loss	8	–	(14,566)	(14,566)	–	50,816	50,816
Net gains/(losses) on currencies		–	819	819	–	(1,185)	(1,185)
Income	1	25,854	–	25,854	25,898	–	25,898
Expenses	2	(2,045)	(1,209)	(3,254)†	(2,075)	(1,442)	(3,517)
Net Return before Finance Costs and Taxation		23,809	(14,956)	8,853	23,823	48,189	72,012
Interest payable	5	(1,732)	(3,217)	(4,949)	(2,474)	(2,475)	(4,949)
Return on Ordinary Activities before Tax		22,077	(18,173)	3,904	21,349	45,714	67,063
Tax on ordinary activities	6	(1,697)	–	(1,697)	(1,252)	–	(1,252)
Return attributable to Shareholders		**20,380**	**(18,173)**	**2,207**	**20,097**	**45,714**	**65,811**

Return per share (basic and fully diluted)	**26.02p**	**(23.20)p**	**2.82p**	**23.06p**	**52.46p**	**75.52p**
Weighted average number of shares in issue during the year		**78,338,201**			**87,144,760**	

	Notes	2018 £'000	2017 £'000
Dividends paid and proposed	7		
First interim 2018: 5.0p (2017: 5.5p)		3,931	4,543
Second interim 2018: 5.0p (2017: Nil)		3,906	–
Third interim 2018: 5.0p (2017: Nil)		3,880	–
Final 2018: 6.2p (2017: 14.5p)		4,786	11,400
Special 2018: 4.0p (2017: 5.0p)		3,087	3,930
Total 2018: 25.2p (2017: 25.0p)		**19,590**	**19,873**

† Includes a refund of previously paid expenses.

All revenue and capital items in the above statement derive from continuing operations.

The total column of this statement is the profit and loss account of the Company.

The accompanying notes are an integral part of this statement.

Balance Sheet

As at 31 October 2018

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed Assets					
Investments	8		717,547		801,302
Current Assets					
Debtors	10	12,733		2,113	
Cash and cash equivalents	8	83,236		42,936	
		95,969		45,049	
Creditors: liabilities falling due within one year	11	(13,038)		(1,152)	
Net Current Assets			**82,931**		**43,897**
Total Assets less Current Liabilities			**800,478**		**845,199**
Creditors: liabilities falling due after more than one year					
Long-term borrowings at amortised cost	12		(83,829)		(83,737)
Provisions for Liabilities					
Pension liability	4		(1,337)		(1,091)
Net Assets			**715,312**		**760,371**
Capital and Reserves					
Called-up share capital	13		19,296		19,867
Share premium account	14		39,922		39,922
Other reserves:					
Capital redemption reserve	14		51,565		50,994
Capital reserve	14		555,308		593,484
Revenue reserve	14		49,221		56,104
Shareholders' Funds			**715,312**		**760,371**
Net Asset Value per share with borrowings at amortised cost (basic and fully diluted)			**926.8p**		**956.8p**
Number of shares in issue at year end			**77,184,578**		**79,468,458**

The Financial Statements on pages 47 to 66 were approved by the Board of Directors and were signed on its behalf by:

James Will
Chairman
7 December 2018

The accompanying notes are an integral part of this statement.

Statement of Comprehensive Income

For the year to 31 October 2018

	Notes	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Return attributable to shareholders		20,380	(18,173)	2,207	20,097	45,714	65,811
Actuarial (losses)/gains relating to pension scheme	4	(216)	(400)	(616)	1,077	749	1,826
Total comprehensive income for the year		20,164	(18,573)	1,591	21,174	46,463	67,637
Total comprehensive income per share		25.74p	(23.71)p	2.03p	24.30p	53.31p	77.61p

Statement of Changes in Equity

For the year to 31 October 2018

	Notes	2018 £'000	2017 £'000
Opening balance		760,371	849,017
Total comprehensive income		1,591	67,637
Dividend payments	7	(27,047)	(21,095)
Aviva share buyback		–	(90,255)
Regular share buybacks		(19,603)	(44,933)
Closing balance		715,312	760,371

The accompanying notes are an integral part of this statement.

Cash Flow Statement

For the year to 31 October 2018

	2018 £'000	2017 £'000
Operating activities		
Net revenue before finance costs and taxation	23,809	23,823
Expenses charged to capital	(1,209)	(1,442)
(Decrease)/increase in accrued income	(72)	226
Increase in other payables	264	47
Increase/(decrease) in other receivables	9	(3)
Adjustment for pension funding	(370)	(355)
Tax on investment income	(1,809)	(1,327)
Cash flows from operating activities	**20,622**	**20,969**
Investing activites		
Purchases of investments	**(105,183)**	**(131,714)**
Disposals of investments	**175,216**	**273,474**
Cash flows from investing activities	**70,033**	**141,760**
Cash flows before financing activities	**90,655**	**162,729**
Financing activities		
Dividends paid	(27,047)	(21,095)
Aviva share buyback	–	(90,255)
Regular share buybacks	(18,451)	(44,490)
Interest paid	(4,857)	(4,857)
Cash flows from financing activities	**(50,355)**	**(160,697)**
Net movement in cash and cash equivalents	**40,300**	**2,032**
Cash and cash equivalents at the beginning of year	**42,936**	**40,904**
Cash and cash equivalents at the end of year*	**83,236**	**42,936**

*Cash and cash equivalents represent cash at bank and short-term money market deposits repayable on demand.

The accompanying notes are an integral part of this statement.

Accounting Policies

A summary of the principal accounting policies is set out in paragraphs (a) to (j) below. All have been applied consistently throughout the current and the preceding year, with the exception of those covered in notes (e) and (f).

(a) Basis of accounting

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 and with the AIC 's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP). They are also prepared on a going concern basis (see page 29) under the historical cost convention, modified to include the revaluation of investments at fair value. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates.

(b) Valuation of investments

Listed investments and current asset investments are valued at fair value through profit and loss. Fair value is the closing bid or last traded price according to the recognised convention of the markets on which they are quoted. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

Where appropriate, the Directors have adopted the guidelines issued by the International Private Equity and Venture Capital Association for the valuation of unlisted investments. Heritable property is included at a professional valuation. Depreciation is not charged on heritable property as it is not material.

Realised surpluses or deficits on the disposal of investments, permanent impairments in the value of investments and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve as explained in note (i) below.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

(c) Valuation of debt

The Company's secured bonds and debentures are held at amortised cost being the nominal value of the bonds in issue less the unamortised costs of issue.

(d) Income

Dividends receivable on quoted shares are brought into account on the ex-dividend date. Dividends receivable on shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

Interest and other income from non-equity securities, including debt securities, are recognised on a time apportionment basis so as to reflect the effective yield on the securities.

Where the Company elects to receive dividends in the form of additional shares (scrip dividends) rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash is recognised in capital reserves.

(e) Expenses

All expenses are accounted for on an accruals basis.

Eligible expenses are allocated 65% to capital and 35% to revenue in line with the Directors' expectations of the long-term future returns from the Company's investments. Expenses not eligible to be charged to capital are wholly charged to revenue (2017: all expenses allocated equally between revenue and capital reserve (after allocating 18% to revenue)).

Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost, or deducted from the sales proceeds, of the investment.

(f) Finance costs

Interest payable is charged 65% to capital and 35% to revenue in line with the Directors' expectations of the long-term future returns from the Company's investments (2017: one-half to revenue reserve and one-half to capital reserve).

The discount on, and expenses of issue of, the secured bonds due 2030 are included in the financing costs of the issue which are being written off over the life of the bonds.

(g) Taxation

Current tax is provided at amounts expected to be paid (or recovered).

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The Company has no deferred tax asset or liability.

Accounting Policies (continued)

(h) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction. Assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature.

(i) Reserves

(i) Share Premium Account – the surplus of net proceeds received from the issue of new ordinary shares over the nominal value of such shares is credited to this account. The nominal value of the shares issued is recognised in share capital. This reserve is non-distributable.

(ii) Capital Redemption Reserve – the nominal value of the ordinary shares bought back for cancellation was added to this reserve. This reserve is non-distributable.

(iii) Capital Reserve – the following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised and unrealised exchange differences of a capital nature;
- realised and unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature;
- the funding of share and secured bond buybacks;
- expenses and interest charged to capital;
- increases and decreases in the valuation of investments held at the year end; and
- increases and decreases in the valuation of the pension fund surplus or deficit.

(iv) Revenue Reserve – the net profit/loss arising in the revenue column of the Statement of Comprehensive Income is added to this reserve. Dividends paid during the year may be deducted from this reserve.

(j) Pensions

Employer contributions for the defined benefit scheme are calculated by reference to the triennial actuarial valuation. Employer contributions for the defined contribution scheme are a predetermined percentage of the employee's salary.

Actuarial gains and losses are recognised in the Statement of Comprehensive Income.

Further information on the Company's pension scheme is contained in note 4 to the Financial Statements on pages 54 to 56.

Critical accounting estimates and judgements

The preparation of the Financial Statements necessarily requires the exercise of judgement, both in application of accounting policies, which are set out above, and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates.

The Directors do not believe any accounting judgements or estimates have been applied to this set of Financial Statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Notes to the Financial Statements

For the year to 31 October 2018

1. Income

	2018 £'000	2017 £'000
UK dividends including special dividends of £nil (2017: £nil)	6,435	8,337
Overseas dividends including special dividends of £nil (2017: £429,000)	18,957	17,368
Deposit interest	462	193
	25,854	**25,898**

2. Expenses

	2018 £'000	2017 £'000
Staff costs (note 3)	1,690	1,612
Auditor's remuneration for audit services	32	34
Auditor's remuneration for pension scheme audit	–	7
Auditor's remuneration for tax compliance services	10	10
Auditor's remuneration for other assurance services	6	5
Investment and accounting services	170	290
Professional fees, marketing and scheme administration	475	392
Company secretarial and administration fee	185	182
Office expenses	239	336
Depositary, custody and bank charges	182	180
Refund of previously paid expenses	(535)	–
Other expenses	800	469
	3,254	**3,517**

As previously announced, the Board has reviewed the allocation of both eligible expenses and interest between capital and revenue, in large part due to the very different cost structure in place since the recent reorganisation and the adoption of the new investment approach.

It was decided that, with effect from the financial year to 31 October 2018, the Company would allocate 65% of both eligible expenses and interest to capital, with the remaining 35% of each allocated to revenue. This compares with the previous 50%/50%. Expenses not eligible to be charged to capital would be wholly charged to revenue.

If this new allocation policy had been in place in the financial year to 31 October 2017, the net effect would have resulted in a small increase to net income per share of 0.7p to 23.7p.

3. Staff costs

	2018 £'000	2017 £'000
Remuneration	1,432	1,127
Social security costs	135	144
Pensions and post-retirement benefits	123	341
	1,690	**1,612**

The average monthly number of persons employed during the year was:	2018 Number	2017 Number
Investment	5	5
Administration	4	4
	9	**9**

Details of the Directors' remuneration are noted on pages 36 and 37.

Notes to the Financial Statements (continued)

4. Pension scheme

The Company's defined benefit pension scheme, based on final salary, closed to future accrual on 30 September 2015. Members of the defined benefit pension scheme were enrolled in the Company's defined contribution scheme on 1 October 2015. The assets of the scheme are held separately from those of the Company. The scheme is under the control of trustees and is administered by XPS Pensions Group, consulting actuaries.

Actuarial valuations are obtained triennially and are updated at each balance sheet date. A full actuarial valuation was carried out as at 31 July 2016 by XPS Pensions Group which disclosed a scheme deficit of £6,942,000. The Company agreed to meet this deficit over fifteen years and seven months. It should be noted that this deficit differs from that disclosed by Financial Reporting Standard 102 (FRS102) which is set out below and which is the liability required to be shown in the Financial Statements. The main reason for the difference is that FRS102 requires future liabilities to be calculated actuarially using a rate of return based on the yield from investment grade corporate bonds which is lower than the expected rate of return on the equities in which the scheme is invested. The FRS102 liability is separately disclosed in the balance sheet.

For the defined benefit scheme, the amounts charged against revenue, as part of staff costs, are the actuarial estimation of 'current service costs' (that is, the increase in scheme liabilities arising from employee service) for the current accounting period and gains and losses from settlements (whereby the Company is relieved of a pension obligation) and from curtailments (whereby the estimated years of future service are reduced) in the period. The cost of past service benefits which have vested are charged against revenue as they arise. Where such benefits have not vested, costs are accrued until vesting occurs.

The Company operates a defined contribution scheme under which the Company has agreed to pay contributions as a percentage of salary, but has no obligation to pay further contributions. For this scheme, the amount charged to revenue is the contributions payable for the year.

The amount charged during the year was £76,000. There was no outstanding payment due at 31 October 2018.

Notes to the Financial Statements (continued)

4. Pension scheme (continued)

The major assumptions used for the actuarial valuation of the final salary scheme were:	2018 %	2017 %	2016 %	2015 %	2014 %
Rate of increase in salaries	3.2	3.2	3.2	3.2	3.2
Rate of increase in pensions in payment	3.6	3.5	3.7	3.8	3.8
Discount rate	3.3	3.2	3.3	4.3	4.3
Inflation – RPI	3.4	3.2	3.5	3.6	3.6
– CPI	2.4	2.2	2.5	2.8	2.8
Life expectancies on retirement at age 60 are:					
Retiring today – males	26.5	26.7	27.2	28.1	27.9
– females	28.6	28.6	29.4	30.8	30.7
Retiring in 20 years' time – males	28.1	28.2	29.5	30.2	30.1
– females	30.2	30.3	31.8	32.9	32.8

The fair value of the scheme assets and the present value of the scheme liabilities were:	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Equities	8,072	7,913	7,401	6,224	4,996
Bonds	3,437	4,992	6,181	5,717	5,922
With-profit policies	301	288	264	251	149
Cash	265	1,180	1,976	2,343	2,243
Total fair value of assets	12,075	14,373	15,822	14,535	13,310
Present value of scheme liabilities	(13,412)	(15,464)	(19,094)	(17,085)	(15,923)
Net pension liability	**(1,337)**	**(1,091)**	**(3,272)**	**(2,550)**	**(2,613)**

Reconciliation of the opening and closing balances of the present value of the scheme assets	2018 £'000	2017 £'000
Fair value of scheme assets at beginning of year	14,373	15,822
Interest income on scheme assets	428	476
Returns on assets, excluding interest income	(733)	906
Contributions by employer	399	455
Benefits paid	(2,392)	(3,286)
Fair value of scheme assets at end of year	**12,075**	**14,373**

Reconciliation of the opening and closing balances of the present value of the scheme liabilities	2018 £'000	2017 £'000
Liabilities at beginning of year	15,464	19,094
Interest cost	457	576
Actuarial gains	(117)	(920)
Benefits paid	(2,392)	(3,286)
Liabilities at end of year	**13,412**	**15,464**

Notes to the Financial Statements (continued)

4. Pension scheme (continued)

Analysis of amount chargeable to operating profit during the year	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Current service cost	–	–	–	358	423
Past service cost	–	–	–	–	–
Total operating charge	–	–	–	358	423
Employee contribution to be set off	–	–	–	(31)	(38)
Analysis of amount credited to other finance income:					
Interest income return on assets	428	476	605	685	643
Interest on liabilities	(457)	(576)	(706)	(687)	(636)
Net return	(29)	(100)	(101)	(2)	7
Movement in deficit during year: Deficit at beginning of year	(1,091)	(3,272)	(2,550)	(2,613)	(2,560)
Movement in year:					
Current service cost	–	–	–	(358)	(423)
Past service cost	–	–	–	–	–
Contributions for year	399	455	389	850	858
Net return from other finance income	(29)	(100)	(101)	(2)	7
Actuarial (losses)/gains in Statement of Comprehensive Income	(616)	1,826	(1,010)	(427)	(495)
Deficit at end of year	**(1,337)**	**(1,091)**	**(3,272)**	**(2,550)**	**(2,613)**

Notes to the Financial Statements (continued)

5. Interest payable

	2018 £'000	2017 £'000
On secured bonds and debentures	4,857	4,857
Amortisation of secured bonds issue expenses	92	92
	4,949	**4,949**

6. Tax on ordinary activities

	2018 £'000	2017 £'000
Taxation		
UK corporation tax at 19.00% (2017: 19.41%)	–	–
Overseas tax	1,697	1,252
Current tax	**1,697**	**1,252**

The tax charge for the year is lower than that resulting from applying the standard rate of corporation tax in the UK.

	2018 £'000	2017 £'000
Return on ordinary activities before tax	3,904	67,063
Corporation tax at 19.00% (2017: 19.41%)	742	13,017
Effects of:		
Non-taxable capital returns	2,612	(9,633)
Finance costs and expenses charged to capital	(841)	(760)
Non-taxable dividends	(4,876)	(4,989)
Unutilised expenses	2,363	2,365
Overseas tax	1,697	1,252
	1,697	**1,252**

7. Dividends

	2018 £'000	2017 £'000
Dividends paid on shares recognised in the year:		
Previous year final of 14.50p per share (2016: 8.25p)	11,400	7,916
Previous year special of 5.00p per share (2016: 9.00p)	3,930	8,636
Three interims each of 5.00p per share (2017: single interim of 5.50p)	11,717	4,543
	27,047	**21,095**

Notes to the Financial Statements (continued)

8. Investments

	2018 £'000	2017 £'000
Investments listed on a recognised investment exchange	716,047	799,867
Unlisted investments	1,150	1,085
Subsidiary undertaking (note 9)	350	350
	717,547	**801,302**

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	210,556	439,329	358	650,243
Opening unrealised appreciation	29,774	120,208	1,077	151,059
Opening valuation	**240,330**	**559,537**	**1,435**	**801,302**
Movements in the year:				
Purchases at cost	17,672	98,391	–	116,063
Sales – proceeds	(57,054)	(128,159)	(39)	(185,252)
– realised gains on sales	24,360	43,692	39	68,091
(Decrease)/increase in unrealised appreciation	(30,741)	(51,981)	65	(82,657)
Closing valuation	**194,567**	**521,480**	**1,500**	**717,547**
Closing book cost	195,534	453,253	358	649,145
Closing unrealised appreciation	(967)	68,227	1,142	68,402
Closing valuation	**194,567**	**521,480**	**1,500**	**717,547**

Total purchases of equities amounted to £116,063,000 (2017: £131,120,000) and sales were £185,252,000 (2017: £274,066,000). The purchases at cost and sales proceeds figures include transaction costs of £287,000 (2017: £937,000), comprising commissions, government stamp duty and other fees.

Unlisted investments include heritable property valued at £1,150,000 (2017: £1,050,000). The property was valued on an open market basis by Allied Surveyors Scotland PLC, chartered surveyors, on 18 September 2018.

	2018 £'000	2017 £'000
Realised gains on sales	68,091	92,886
Decrease in unrealised appreciation	(82,657)	(42,070)
Net gains on investments	**(14,566)**	**50,816**

Financial assets – cash and deposits	2018 Fixed £'000	2018 Floating £'000	2018 Total £'000	2017 Fixed £'000	2017 Floating £'000	2017 Total £'000
Sterling	25,000	17,955	42,955	20,000	3,034	23,034
US dollar	34,046	6,235	40,281	17,696	2,206	19,902
	59,046	**24,190**	**83,236**	**37,696**	**5,240**	**42,936**

The maximum maturity period for fixed rate deposits outstanding at the year end was 7 days (2017: 3 days). The weighted average fixed interest rate at the year end was 1.48% (2017: 0.55%). Floating interest rates vary in relation to short-term rates in the currencies in which deposits are held.

Notes to the Financial Statements (continued)

9. Subsidiary undertaking

The Company has an investment in the following subsidiary:

Name of undertaking	Principal activities	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
S.I.T. Savings Limited	AIFM	UK	Ordinary	100%

The accounts of this subsidiary have not been consolidated with those of the parent company as, in the opinion of the Directors, the amounts involved are not material. The Directors are satisfied that the valuation of the subsidiary reflects and does not exceed the value of the underlying assets.

The registered office of the subsidiary is 6 Albyn Place, Edinburgh, EH2 4NL.

10. Debtors

	2018 £'000	2017 £'000
Amounts due from brokers	10,445	–
Overseas tax recoverable	922	809
Prepayments and accrued income	1,366	1,304
	12,733	**2,113**

11. Creditors: liabilities falling due within one year

	2018 £'000	2017 £'000
Amounts due to brokers	12,235	613
Other creditors	803	539
	13,038	**1,152**

12. Creditors: liabilities falling due after more than one year

	2018		2017	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% Perpetual Debenture Stock	350	374	350	426
4¼% Perpetual Debenture Stock	700	795	700	906
5% Perpetual Debenture Stock	1,009	1,348	1,009	1,538
5¾% Secured Bonds due 17 April 2030	81,770	101,855	81,678	106,652
	83,829	**104,372**	**83,737**	**109,522**

The secured bonds are secured by a floating charge over the assets of the Company and have a redemption value in 2030 of £82,827,000.

The debenture stocks and secured bonds are stated in the balance sheet at amortised cost. Restating them at market value of £104.4m (2017: £109.5m) has the effect of decreasing the year end NAV per share from 926.8p to 900.1p (2017: decreasing from 956.8p to 924.4p).

Market value is the estimated fair value of the Company's secured bonds and debenture stocks. The current estimated fair value of the Company's borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of BBB UK corporate bond yields (15 years+) over UK gilt yields (15 years+). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest-dated UK Treasury stock listed in the Financial Times.

Notes to the Financial Statements (continued)

13. Called-up share capital

	2018	2017
Shares of 25p	£19,296,000	£19,867,000
Number of shares in issue	77,184,578	79,468,458

2,283,880 shares were repurchased in the stockmarket during the year to 31 October 2018 (2017: 16,874,225).

110,000 shares were repurchased from 1 November to 7 December 2018.

14. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 October 2017	39,922	50,994	593,484	56,104
Net gains on currencies	–	–	819	–
Net gains on realisation of investments	–	–	68,091	–
Decrease in unrealised appreciation	–	–	(82,657)	–
Share buybacks	–	571	(19,603)	–
Actuarial losses relating to pension scheme	–	–	(400)	(216)
Expenses and interest charged to capital	–	–	(4,426)	–
Return attributable to shareholders	–	–	–	20,380
Dividends paid	–	–	–	(27,047)
At 31 October 2018	**39,922**	**51,565**	**555,308**	**49,221**

15. Analysis of changes in net debt during the year

	31 October 2017 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2018 £'000
Cash	5,240	18,950	–	24,190
Short-term deposits	37,696	21,350	–	59,046
Long-term borrowings at amortised cost	(83,737)	–	(92)	(83,829)
	(40,801)	**40,300**	**(92)**	**(593)**

Notes to the Financial Statements (continued)

16. Financial instruments

Summary of financial assets and financial liabilities by category

The Company's financial assets and financial liabilities at the balance sheet date are as follows. The Accounting Policies on page 51 explain how the various categories of financial instrument are measured.

	2018 £'000	2017 £'000
Financial assets		
Financial assets at fair value through profit and loss:		
Fixed asset investments – designated as such on initial recognition	717,547	801,302
Current assets:		
Debtors	12,733	2,113
Cash and short-term deposits	83,236	42,936
	95,969	45,049
	813,516	**846,351**
Financial liabilities		
Creditors: liabilities falling due within one year		
Amounts due to brokers	(12,235)	(613)
Other creditors	(803)	(539)
	(13,038)	(1,152)
Creditors: liabilities falling due after more than one year		
Long-term borrowings at amortised cost	(83,829)	(83,737)
Provisions for liabilities		
Pension liability	(1,337)	(1,091)
	(85,166)	(84,828)
	(98,204)	**(85,980)**

Notes to the Financial Statements (continued)

16. Financial instruments (continued)

Risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective stated on the inside front cover. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets and a reduction in the profits available for dividend.

The main risks include investment and market price risk (comprising foreign currency risk and interest rate risk), liquidity risk and credit risk. The Directors' approach to the management of these risks is set out below. The Directors of the Company and of S.I.T. Savings Limited coordinate the Company's risk management.

The Company's policies and processes for managing the risks, and the methods used to measure the risks, which are set out below, have not changed from those applied in the previous year.

a. Investment and market price risk

The holding of securities and investing activities involve certain inherent risks, principally in relation to market risk. A contrarian investment approach is a distinctive style that may deviate from comparator indices and peer group performance over discrete periods. Whilst performance is compared against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the Company's investment portfolio and performance may deviate from the comparator indices. Events may occur which affect the value of investments. From time to time, the Company may wish to use derivatives in order to protect against a specific risk or to facilitate a change in investment strategy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the Board.

Management of the risk

Company performance is monitored at each Board meeting, including investment performance. The Company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. The contrarian investment approach is explained in our shareholder communications and through meetings with media and the investor community. The levels of gearing and gross gearing are monitored closely by the Board and the Manager. The Board currently limits gearing to 20%. While gearing will be employed in a typical range of 0% to 20%, the Company retains the ability to lower equity exposure to a net cash position if deemed appropriate.

b. Foreign currency risk

Approximately 73% of the Company's assets are invested overseas which gives rise to a currency risk. From time to time, specific hedging transactions may be undertaken. The Company's overseas income is subject to currency movements. The currency profile of the Company's monetary assets and liabilities is set out below.

Management of the risk

Management monitors the Company's exposure to foreign currencies on a daily basis, and reports to the Board at regular intervals. Management measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed.

Foreign currency borrowings and forward currency contracts may be used to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments or the income received from them. These borrowings and contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is receivable and its receipt.

Notes to the Financial Statements (continued)

16. Financial instruments (continued)

Foreign currency exposure

The fair values of the Company's monetary items denominated in foreign currencies at 31 October 2018 and 31 October 2017 are shown below.

2018	US $ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	10,638	185	1,414
Creditors (amounts due to brokers)	–	(307)	(10,163)
Cash	40,281	–	–
Foreign currency exposure on net monetary items	50,919	(122)	(8,749)
Equity investments at fair value through profit and loss	247,645	88,723	185,114
Total net foreign currency exposure	**298,564**	**88,601**	**176,365**

2017	US $ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	165	238	1,331
Creditors (amounts due to brokers)	–	–	–
Cash	19,902	–	–
Foreign currency exposure on net monetary items	20,067	238	1,331
Equity investments at fair value through profit and loss	219,670	122,660	217,244
Total net foreign currency exposure	**239,737**	**122,898**	**218,575**

The above year end amounts are not representative of the exposure to risk during the year, because the levels of foreign currency exposure may change significantly throughout the year. The maximum and minimum net monetary assets/(liabilities) amounts for each currency were as follows.

Year to 31 October 2018	US $ £'000	Euro £'000	Other £'000
Maximum	40,281	–	–
Minimum	13,028	–	–
Year to 31 October 2017			
Maximum	28,381	–	–
Minimum	10,788	–	–

Notes to the Financial Statements (continued)

16. Financial instruments (continued)

Foreign currency sensitivity

The following table illustrates the sensitivity of the total return for the year and the shareholders' funds in regard to the Company's financial assets and financial liabilities. It assumes a 10% depreciation of sterling against both the US dollar and the euro at 31 October 2018. These percentages have been determined based on the average market volatility in exchange rates in the previous twelve months. The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date.

	2018		2017	
	US $ £'000	Euro £'000	US $ £'000	Euro £'000
If sterling had weakened by 10% against the currencies shown, this would have had the following effect:				
Income statement – return on ordinary activities after taxation:				
Revenue return	984	462	604	417
Capital return	29,856	8,861	23,957	12,266
Return attributable to shareholders	**30,840**	**9,323**	**24,561**	**12,683**

A 10% strengthening of sterling against the above currencies would result in an equal and opposite effect on the above amounts.

In the opinion of the Directors, the above sensitivity analyses are broadly representative of the whole of the current and comparative years.

c. Interest rate risk

The Company finances its operations through a combination of investment realisations, retained revenue reserves, debenture stocks and secured bonds. All debenture stocks and secured bonds are at fixed rates. Details of interest rates on financial assets are included in note 8 on page 58. Details of interest rates on financial liabilities are included in note 12 on page 59.

Management of the risk

The Company finances part of its activities through borrowings at levels which have been approved and are monitored by the Board.

Interest rate exposure

The exposure, at the year end, of financial assets and financial liabilities to interest rate risk is shown below.

	2018			2017		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates						
Cash	24,190	–	24,190	5,240	–	5,240
Exposure to fixed interest rates						
Short-term deposits	59,046	–	59,046	37,696	–	37,696
Long-term borrowings	–	(83,829)	(83,829)	–	(83,737)	(83,737)
Total exposure	**83,236**	**(83,829)**	**(593)**	**42,936**	**(83,737)**	**(40,801)**

Notes to the Financial Statements (continued)

16. Financial instruments (continued)

Interest rate sensitivity

If interest rates had decreased by 5%, with all other variables held constant, the return attributable to shareholders as shown on the Income Statement would have decreased by the amounts shown in the table below:

	2018 £'000	2017 £'000
Return attributable to shareholders	**(23)**	**(10)**

A 5% increase in interest rates would result in an equal and opposite effect on the above amounts.

d. Liquidity risk

Almost all of the Company's assets comprise listed securities which represent a ready source of funds. The maturity profile of the Company's borrowings is included in note 12 on page 59.

Management of the risk

Liquidity risk is not as significant as the other risks as most of the Company's assets are investments in quoted equities and are readily realisable. Management reviews the liquidity of the portfolio when making investment decisions.

e. Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Credit risk exposure

The amounts shown in the balance sheet under debtors and cash and deposits represent the maximum exposure to credit risk at the current and comparative year ends.

Cash comprises balances held by banks with a satisfactory credit rating (2017: same).

Management of the risk

This risk is managed as follows:

- by dealing only with brokers and banks which have been approved by the Audit Committee and which have credit ratings assigned by international credit rating agencies; and
- by setting limits on the maximum exposure to any one counterparty at any time, which are reviewed semi-annually at meetings of the Audit Committee.

f. Capital management policies and procedures

The Company carries on its business as a global growth investment trust. Its objective is 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.

The levels of gearing and gross gearing are monitored closely by the Board and management. The Board currently limits gearing to 20%. While gearing will be employed in a typical range of 0% to 20%, the Company retains the ability to lower equity exposure to a net cash position if deemed appropriate.

The Board, with the assistance of management, monitors and reviews the structure of the Company's capital on an ongoing basis. This review includes the planned level of gearing which will take into account management's view on the market, the need to buy back shares for cancellation and the level of dividends.

The Company's policies and processes for managing capital are unchanged from the previous year.

Notes to the Financial Statements (continued)

16. Financial instruments (continued)

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from information other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques not based on observable market data. Further details on the valuation techniques used for level 3 investments are included in the Company's accounting policies on page 51.

	2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	**716,047**	**–**	**1,500**	**717,547**

	2017			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	**799,867**	**–**	**1,435**	**801,302**

There were no transfers between Level 1 & 2 during the year (2017: same).

Reconciliation of Level 3 fair value measurements of financial assets	Fair value through profit and loss 2018 £'000
Balance at 31 October 2017	1,435
Purchase costs	–
Sales proceeds	(39)
Total profit: in profit and loss	104
Balance at 31 October 2018	**1,500**

The table above only includes financial assets. There were no financial liabilities measured at fair value on Level 3 fair value measurement bases.

17. Related party transactions

Directors' fees are detailed in the Directors' Remuneration Report on pages 36 and 37. There were no matters requiring disclosure under section 412 of the Companies Act 2006.

18. Subsequent events

Since the year end the Board has declared a final dividend of 6.2p per share and a special dividend of 4.0p per share in respect of the year ended 31 October 2018.

Details of shares repurchased since the year end are disclosed in note 13 on page 60.

Investor Information

How to invest

You can buy the Company's shares directly on the stockmarket through a stockbroker or a share dealing platform. Your bank, lawyer, accountant or other professional adviser may also be able to help with this. The Company's registrar, Computershare Investor Services PLC, provides a share dealing service which can be accessed on its website, **www.investorcentre.co.uk** or by telephoning **0370 703 0195**.

Dividends paid

The following dividends have been paid during 2017/18:

Dividends	Amount	XD date	Record date	Payment date
Third Interim 2018	5.00p	4 October 2018	5 October 2018	2 November 2018
Second Interim 2018	5.00p	5 July 2018	6 July 2018	3 August 2018
First Interim 2018	5.00p	12 April 2018	13 April 2018	11 May 2018
Final 2017	14.50p	11 January 2018	12 January 2018	9 February 2018
Special 2017	5.00p	11 January 2018	12 January 2018	9 February 2018

Dividend reinvestment

Shareholders who hold share certificates

For shareholders who hold share certificates (investors whose names are on the Company's share register), dividends are automatically paid as income. However, it is easy to arrange to have these dividends reinvested by joining the Company's Dividend Reinvestment Plan (DRIP). Details are available from Computershare Investor Services, the Company's registrar, on **0370 703 0195**, or from the shareholder info section on the Company's website, **www.thescottish.co.uk**.

Other Shareholders

If your shares are held elsewhere, you should refer to your broker or share dealing platform provider for details of their dividend reinvestment facilities.

Most brokers and platform providers offer a dividend reinvestment service which allows you to have dividend cash automatically reinvested to buy more shares.

Please note that most of these services charge for each dividend reinvested and you should establish the cost of any such facility with your provider.

Identifiers

ISIN:	GB0007826091
SEDOL:	0782609
Ticker:	SCIN

Monitoring your investment

The Company's share price, together with performance information can be found on the Company's website, **www.thescottish.co.uk** and on a number of financial websites.

The Company publishes a daily NAV, a monthly factsheet, an Interim Report and an Annual Report.

Shareholders who hold share certificates

Investors who hold share certificates can check their holdings by registering on the registrar's website, **www.investorcentre.co.uk**.

Please note that to access this facility, investors will need to quote the shareholder reference number shown on their share certificate.

By registering for the Investor Centre facility on Computershare's website, investors can also view details of all their holdings for which Computershare is registrar, as well as access additional facilities and documentation.

Please see **www.investorcentre.co.uk** for further information.

Other shareholders

Investors who hold shares through a third party, such as a broker or share dealing platform, should refer to their provider. Most brokers and platforms provide online access to their clients.

Investor Disclosure Document

In accordance with the Financial Conduct Authority rules implementing the EU Alternative Investment Fund Managers Directive (AIFMD), certain information must be made available to investors before they invest. The Company's Investor Disclosure Document can be found on the Company's website **www.thescottish.co.uk**.

Key Information Document

In accordance with the EU Packaged Retail and Insurance-based Investment Products (PRIIP) Regulation, the Company's Key Information Document is available on the Company's website.

Personal taxation

Capital Gains Tax (CGT)

For investors who acquired shares prior to 31 March 1982, the cost for CGT purposes may be based on the price on that date of 41.472p.

Investors who are in any doubt as to their liability for CGT should seek professional advice.

Investor Information (continued)

Shareholders' meetings

All investors are welcome to attend the Annual General Meeting and other general meetings.

Investors who hold share certificates are entitled to attend and vote at the AGM and other general meetings. Notices of meetings and proxy cards, which include attendance and voting instructions, are sent to their registered address.

Investors who hold shares through a third party, such as a broker or share dealing platform, should contact their provider to arrange their voting and attendance. Alternatively, if they have been provided with a Form of Direction, they can indicate their voting, or intention to attend, on the form and return it as directed.

If you would like to attend any meeting as a guest please email us at **info@thescottish.co.uk** to arrange.

The AGM will be held at the Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ, on Thursday 7 February 2019 at 10.30am.

Electronic voting

Shareholders who hold share certificates can submit proxy votes electronically by following the instructions on the proxy card.

Electronic communications

Investors who hold share certificates may choose to receive the Company's Interim and Annual Reports and other shareholder communications electronically instead of by post.

To register, visit the link in the shareholder information section on the Company's website, **www.thescottish.co.uk** and follow the instructions. Investors will then be advised by email when an electronic communication is available.

Other publications

If you would like to receive a monthly email which contains our newsletter, factsheet and other useful insights please register your email address at **www.thescottish.co.uk/subscribe**. More ways of how to keep in touch with The Scottish can be found overleaf.

The Common Reporting Standard

All new shareholders outside of CREST will be sent a certification form for the collection of information required for compliance with The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information (The Common Reporting Standard).

Further information can be found on HMRC's website; **www.gov.uk/government/publications/exchange-of-information-account-holders**.

Retail investors advised by IFAs

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisors (IFAs) to retail private investors in accordance with the Financial Conduct Authority's (FCA) rules in relation to non-mainstream pooled investment producers.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in a UK listed investment trust.

Risk warning

Past performance may not be repeated and 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 Company has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns but should stockmarkets fall, such borrowings would magnify losses on these investments.

The Company can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing.

Investment in the Company 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.

Please remember that we are unable to offer individual investment or tax advice. If you require such advice, you should consult your professional adviser.

S.I.T. Savings Limited is authorised and regulated by the Financial Conduct Authority.

The Scottish Investment Trust PLC is a UK public limited company and complies with the requirements of the UK Listing Authority. It is not authorised or regulated by the Financial Conduct Authority.

Keeping in touch with The Scottish...

...newsletter

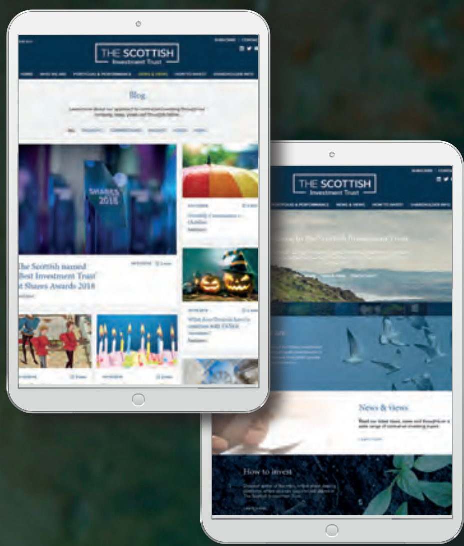
Together with our Annual Report & Accounts you also received 'The Contrarian', a quarterly newsletter to investors with our latest thinking on a variety of investment related subjects and other key highlights.

If you would like to hear from us more frequently – there are a number of ways to stay in touch.

...by email

Sign-up for our monthly email and receive our factsheet with the latest commentary on markets and trends, our contrarian thoughts and insights on a range of investment subjects – directly to your inbox.

www.thescottish.co.uk/subscribe



...on our website

Visit www.thescottish.co.uk to keep up-to-date on performance and portfolio statistics, browse through our annual and interim reports and access other key shareholder information.

In our blog, you will find thought provoking articles from our investment team, weekly thoughts, commentaries, videos and more.

www.thescottish.co.uk/blog

...on social media

Follow us on social media – be notified about any new content, highlights from events we are attending, coverage in the press and other activities. You can find our social profiles using the information below.

Twitter: **@ScotInvTrust**

LinkedIn: **The Scottish Investment Trust PLC**

YouTube: **The Scottish Investment Trust PLC**

Financial Calendar 2019

Dividend and interest payments

Final and special for the financial year to 31 October 2018	15 February 2019
First Interim	May 2019
Second Interim	August 2019
Third Interim	November 2019
Final	February 2020
Secured bonds	17 April, 17 October
Perpetual debenture stock	30 April, 31 October

Announcement of results

NAV	Daily
Interim figures	June
Final figures	December
Annual Report & Accounts	December
Annual General Meeting (AGM)	7 February 2019

Useful Addresses

Registered Office

6 Albyn Place
Edinburgh EH2 4NL
Telephone: **0131 225 7781**
Website: **www.thescottish.co.uk**
Email: **info@thescottish.co.uk**
Company Registration Number: **SC001651**
Legal Entity Identifier: **549300ZL6XSHQ48U8H53**

Company Secretary

Maitland Administration Services (Scotland) Limited
20 Forth Street
Edinburgh EH1 3LH

Depositary

Northern Trust Global Services SE
50 Bank Street
Canary Wharf
London E14 5NT

Custodian

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Auditor

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Actuaries

XPS Pensions Group
40 Torphichen Street
Edinburgh EH3 8JB

The Association of Investment Companies

The Company is a member of The Association of Investment Companies (AIC) which publishes a number of useful consumer guides and email updates for investors interested in investment trust companies.

The AIC
9th Floor
24 Chiswell Street
London EC1Y 4YY
Telephone: **0207 282 5555**
Website: **www.theaic.co.uk**

Shareholders who hold share certificates

For valuations and other details of your investment or to notify a change of address please contact the Company's Registrar:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Helpline: **0370 703 0195**
Website: **www.investorcentre.co.uk**

Glossary

Borrowings at amortised cost 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 borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of BBB UK corporate bond yields (15 years+) over UK gilt yields (15 years+). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest-dated UK Treasury stock listed in the Financial Times.

Discount§ is the difference between the market price of a share and the NAV, expressed as a percentage of the NAV.

Ex-income NAV is the NAV excluding current year revenue.

Gearing§ is the true geared position of the Company: borrowings less cash and equivalents expressed as a percentage of shareholders' funds.

The stated gearing figure of 0% at 31 October 2018 reflects the fact that almost all of the Company's borrowings are not invested in equities but held in cash.

Gross gearing is the geared position if all the borrowings were invested in equities: borrowings expressed as a percentage of shareholders' funds.

NAV† is net asset value per share after deducting borrowings at amortised cost or market value, as stated.

NAV total return§ is the measure of how the Company's NAV has performed over a period of time, taking into account both capital returns and entitlement to dividends declared by the Company.

	2018	2017
NAV at start of year	**924.4p**	854.9p
NAV at end of year	**900.1p**	924.4p
Effect of dividends*	**34.5p**	24.5p
NAV at end of year including effect of dividends	**934.6p**	948.9p
NAV total return	**1.1%**	11.0%

*Assumed reinvested at the time of dividend going ex-dividend.

Ongoing charges figure§ is the measure of the regular, recurring costs of the Company expressed as a percentage of the average daily shareholders' funds with borrowings at market value.

Portfolio turnover rate is the average of investment purchases and sales expressed as a percentage of opening total assets.

Share price total return§ is the measure of how the Company's share price has performed over a period of time, taking into account both capital returns and entitlement to dividends declared by the Company.

	2018	2017
Share price at start of year	**843.0p**	769.5p
Share price at end of year	**825.0p**	843.0p
Effect of dividends*	**34.0p**	25.0p
Share price at end of year including effect of dividends	**859.0p**	868.0p
Share price total return	**1.9%**	12.8%

*Assumed reinvested at the time of dividend going ex-dividend.

Total assets means total assets less current liabilities.

† UK GAAP Measure
§ Alternative Performance Measures ("APMs") are measures not defined in FRS 102. The Company believes that APMs provide shareholders with important information on the Company and are appropriate for an investment trust.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirty-first Annual General Meeting (AGM) of The Scottish Investment Trust PLC will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ, on Thursday 7 February 2019 at 10.30am, for the purpose of transacting the following:

1. To receive and consider the Annual Report and Accounts for the year to 31 October 2018.

2. To approve the Directors' Remuneration Report for the year to 31 October 2018.

3. To declare a final dividend of 6.20p per share.

4. To declare a special dividend of 4.00p per share.

5. To re-elect James Will as a Director.

6. To re-elect Russell Napier as a Director.

7. To re-elect Jane Lewis as a Director.

8. To re-elect Mick Brewis as a Director.

9. To re-elect Karyn Lamont as a Director.

10. To re-appoint Deloitte LLP as auditor and to authorise the Directors to fix their remuneration.

11. To authorise the Company, in accordance with section 701 of the Companies Act 2006 (the 'Act') and in substitution for any pre-existing such authority, to make market purchases (within the meaning of section 693 of the Act) of shares of 25p each for cancellation, provided that:

    a) the maximum number of shares hereby authorised to be purchased shall be 11,553,479 or, if less, 14.99% of the aggregate issued shares on the date this resolution is passed;

    b) the minimum price which may be paid for a share shall be 25p;

    c) the maximum price (exclusive of expenses) which may be paid for a share shall be the higher of:

        (i) 105% of the average of market value of a share for the five business days immediately preceding the date of purchase; and

        (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;

    d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 7 May 2020, save that the Company may, prior to such expiry, enter into a contract to purchase shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

12. That the Articles of Association (the "Articles") produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the new Articles of the Company in the substitution for, and to the exclusion of, the existing Articles of Association with effect from the conclusion of the meeting.

    All resolutions are ordinary resolutions except numbers 11 and 12 which are special resolutions.

Maitland Administration Services (Scotland) Limited
Company Secretary
7 December 2018

Map showing location of AGM venue

Notice of Annual General Meeting (continued)

Notes

1. A member entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote on his or her behalf. If a shareholder wishes to appoint more than one proxy, each proxy must be appointed to exercise rights attaching to a different share (or shares) held by the shareholder. A proxy need not be a member of the Company but must attend the AGM to represent the relevant shareholder. Shareholders may not use any electronic address provided either in this notice or any related documents, including the proxy form, to communicate with the Company for any purpose other than those expressly stated.
2. A proxy may only be appointed using the procedure set out in these notes and the notes to the proxy form. Proxy forms and the original or duly certified copy of the power of attorney or other authority, if any, under which it is signed or authenticated, must be lodged with the Company's Registrars at Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol, BS99 6ZY or **www.eproxyappointment.com**, not less than 48 hours (excluding non-working days) before the meeting or, in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours, excluding non-working days, before the time appointed for the taking of the poll. Completion of the proxy form will not prevent a member from attending the meeting and voting in person.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website **www.euroclear.com/CREST**. CREST personal members or other CREST-sponsored members and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider who will be able to take the appropriate action on their behalf.
4. For a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (Computershare Investor Services PLC) (CREST ID number 3RA50) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee by other means.
5. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK and Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. The return of a completed proxy form or other instrument of proxy will not prevent members attending the AGM and voting in person if they wish.
7. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 360B of the Companies Act 2006, the Company specifies that only registered shareholders whose names appear on the Company's Register of Members no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting shall be entitled to attend, speak and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
8. Any person to whom this notice is sent who is a person nominated under S146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated,

Notice of Annual General Meeting (continued)

have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

9. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.

10. Any person holding 3% or more of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party comply with their respective disclosure obligations under the Disclosure and Transparency Rules.

11. On 6 December 2018 (being the last practicable date prior to the publication of this notice), the Company's issued share capital comprised 77,074,578. shares (none of which is held in treasury). Each share carries the right to one vote at a general meeting of the Company. Accordingly, as at 6 December 2018, the total number of voting rights exercisable at the AGM was 77,074,578.

12. Shareholders may require the Company to publish, on its website, without payment, a statement, which is also passed to the auditor, setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit, which they intend to raise at the meeting. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have rights to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to the Company's registered office at 6 Albyn Place, Edinburgh, EH2 4NL. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006.

13. Further information regarding the AGM, including the information required by section 311A of the Companies Act 2006 is available from **www.thescottish.co.uk**

14. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:

a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

b) the answer has already been given on a website in the form of an answer to a question; or

c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

15. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

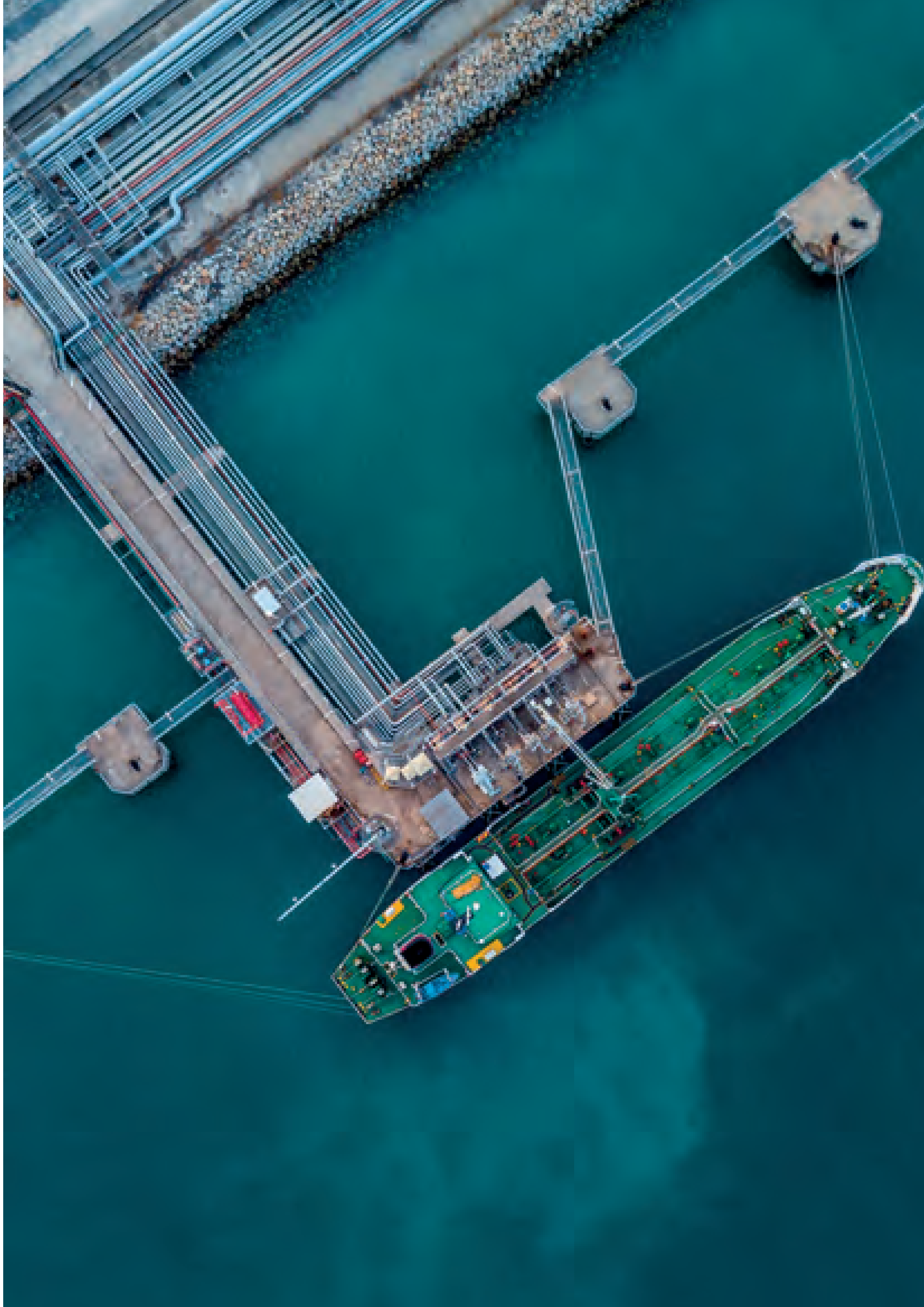
16. The Directors' letters of appointment are available for inspection at the registered office of the Company during normal business hours on any weekday. The register of Directors' interests maintained by the Company together with copies of Directors' appointment letters will be available at the place of the AGM from 15 minutes prior to the commencement of the AGM until the conclusion thereof. No Director has any service contract with the Company.

17. A copy of the current Articles of Association (the "Existing Articles") of the Company and the proposed new Articles of the Company (the "Articles") will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at 6 Albyn Place, Edinburgh EH2 4NL and at the offices of Dickson Minto, Broadgate Tower, 20 Primrose Street, London EC2A 2EW from the date of the Annual Report in which this notice is included up until the close of the Annual General Meeting. Copies will also be available on the Company's website at www.thescottish.co.uk and at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ, being the place of the Annual General Meeting, for 15 minutes prior to, and during, the meeting.

18. Investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 31 January 2019.

19. The final and special dividends, if approved, will be paid on 15 February 2019 to shareholders registered at the close of business on 18 January 2019.

20. This report was sent to the address at present registered for communications. Any change of address should be notified to the Company's registrar.



THE SCOTTISH
Investment Trust

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