EDISON

The Scottish Investment Trust

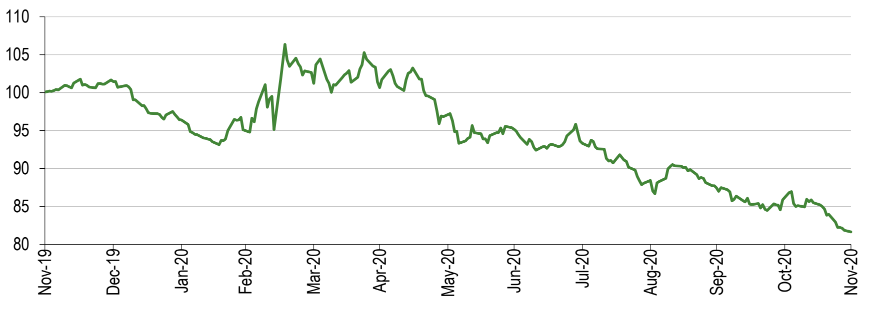
Keeping income flowing in a dividend drought

Investment trusts
Global equities

2 December 2020

The Scottish Investment Trust (SCIN) aims to give investors an accessible, low-cost way to invest in undervalued international companies, while boosting returns through the provision of a growing dividend. The manager, Alasdair McKinnon, adopts a highly differentiated contrarian approach via a portfolio that is diversified across regions and sectors. SCIN has delivered solid long-term performance in absolute terms and consistent outperformance of UK equities. McKinnon believes the global market offers many opportunities ripe for exploitation once the economic outlook improves and political uncertainties abate. SCIN has a long record of regular annual dividend increases and offers a yield of 3.3%.

Relative performance: Waiting for re-ratings of neglected quality stocks



Source: Refinitiv, Edison Investment Research. Shows performance relative to MSCI ACWI.

The market opportunity

Despite the recovery in equity indices, many high-quality companies remain well below pre-pandemic valuations. This means there are attractive opportunities emerging for contrarian investors prepared to look beyond the handful of expensive stocks currently favoured by most market participants.

Why consider investing in The Scottish IT?

- A source of globally diversified dividend income, providing a potentially more reliable income stream from a broader pool of investments than available from the UK market alone.
- Solid absolute gains over the long term and outperformance of UK equities.
- A 36-year track record of regular dividend growth.

FY20 dividend set to increase for 37th year in a row

SCIN pays quarterly dividends and, at the interim stage, the board confirmed that it will increase the regular dividend for FY20. This will be the 37th successive year of regular dividend growth. The trust currently offers a yield of 3.3% (based on FY19 total regular dividends). As at 30 November, SCIN's shares traded at a 10.4% discount to NAV. The board has an active buyback strategy, which aims to limit the discount to 9% under normal market conditions.

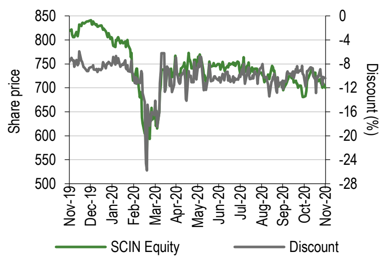
Price	**700.0p**
Market cap	**£507.8m**
AUM	**£566.7m**

NAV*	774.4p
Discount to NAV	9.6%
NAV**	781.1p
Discount to NAV	10.4%

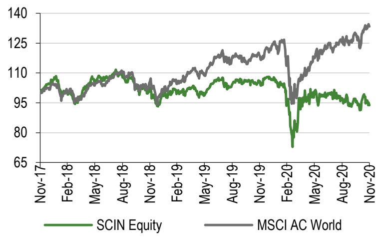
*Excluding income, with debt at fair value. **Including income, with debt at fair value. All figures as at 30 November 2020.

Yield (based on total regular dividends)	3.3%
Ordinary shares in issue	72.5m
Code	SCIN
Primary exchange	LSE
AIC sector	Global

Share price/discount performance



Three-year performance vs index



52-week high/low	841.0p	557.0p
NAV** high/low	924.0p	705.2p

**Including income.

Gearing

Gross*	15.0%
Gearing (net cash)*	0.0%

*As at 31 October 2020.

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Edison profile page

The Scottish Investment Trust is a research client of Edison Investment Research Limited

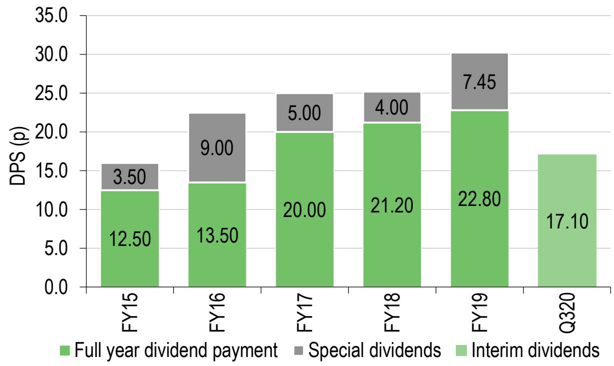
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
The Scottish Investment Trust's objective is, over the longer term, to provide investors with above-average returns through a diversified portfolio of international equities, and to achieve dividend growth ahead of UK inflation. The manager takes a patient approach and seeks to invest in companies that are undervalued, unfashionable and ripe for improvement.	■ 17 September 2020: FY20 third quarterly dividend declaration of 5.7p per share, to be paid on 2 November 2020. ■ 3 August 2020: FY20 second quarterly dividend of 5.7p/share declared paid. ■ 15 June 2020: HY20 interim results TR -4.4% and -5.8% on share price and NAV bases respectively versus TR of -5.3% on MSCI All Country World Index and -17.5% on MSCI UK All Cap Index.

Forthcoming		Capital structure		Fund details	
AGM	February 2021	Ongoing charges	0.58%	Group	SIT Savings Ltd (AIFM)
Final results	December 2020	Net gearing	0%	Manager	Alasdair McKinnon and team
Year end	31 October	Annual mgmt fee	N/A (self-managed)	Address	6 Albyn Place
Dividend paid	Quarterly	Performance fee	N/A (self-managed)		Edinburgh, EH2 4NL
Launch date	July 1887	Trust life	Indefinite	Phone	+44 (0)131 225 7781
Continuation vote	No	Loan facilities	£83.9m long-term debt	Website	www.thescottish.co.uk

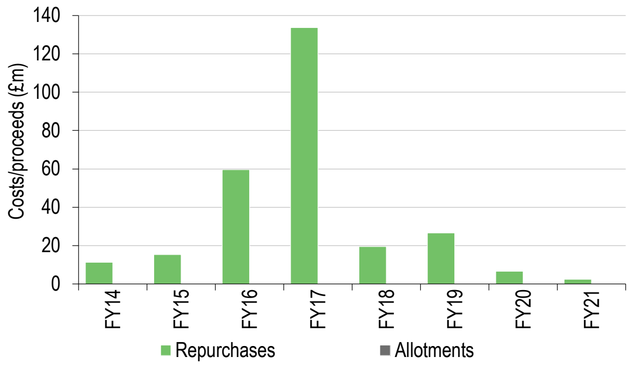
Dividend policy and history (financial years)

Dividends historically paid twice a year in July and February, with special dividends (where applicable) paid alongside the final dividend. From FY18 dividends have been paid quarterly. SCIN has grown its regular dividend every year since 1983.

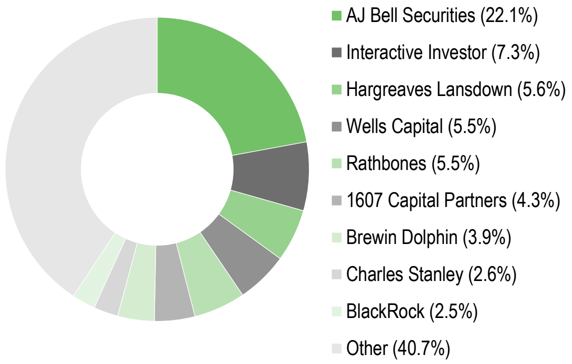


Share buyback policy and history (financial years)

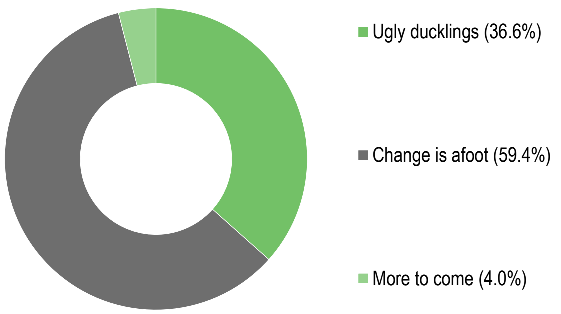
SCIN has the authority to buy back up to 14.99% of shares annually and targets a maximum discount (based on cum-income NAV, with debt at market value) of 9%. Buyback figures for FY17 below include the repurchase of the legacy Aviva shareholding.



Shareholder base (as at 31 October 2020)



Portfolio exposure by category (as at 31 March 2020)



Top 10 holdings (as at 31 October 2020)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 October 2020**	**31 October 2019***
Newmont	US	Materials	7.5	4.1
Barrick Gold	Canada	Materials	7.1	4.0
Newcrest Mining	Australia	Materials	5.4	4.9
Pfizer	US	Healthcare	3.4	3.2
Japan Tobacco	Japan	Consumer staples	3.2	N/A
Roche	Switzerland	Healthcare	3.2	2.6
United Utilities	UK	Utilities	2.7	N/A
Severn Trent	UK	Utilities	2.4	N/A
Duke Energy	US	Utilities	2.4	N/A
Gilead Sciences	US	Healthcare	2.3	N/A
Top 10 (% of portfolio)			**39.6**	**36.9**

Source: The Scottish Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-September 2019 top 10.

Market outlook: Opportunities beyond overvalued tech

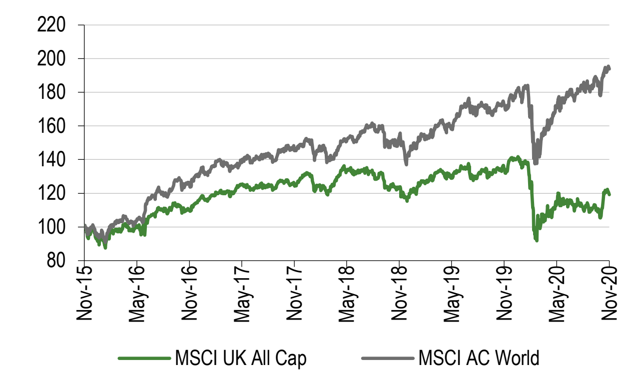
The global economy is experiencing a severe recession due to the disruptions to activity and employment necessitated by the coronavirus crisis. The International Monetary Fund (IMF) forecasts only a partial recovery of global activity in 2021, but notes that even this remains prone to setbacks as the virus's second wave builds. Many governments are reluctantly reimposing full lockdowns, despite the further economic damage these will inflict. At the same time, governments are maintaining and, in some cases, extending, the very aggressive fiscal and monetary stimulus packages implemented early in the pandemic. In the UK, additional support programmes are being initiated as needs emerge, for example new funding for areas hit by local lockdowns, and the Bank of England is readying itself for the possibility of further QE or even negative interest rates. In the US, negotiations on additional fiscal stimulus have been delayed by political posturing, but a further large stimulus package is likely to be finalised by the newly elected leadership. In Europe, the Central Bank is expected to implement more stimulus in December, to complement the European Union's €750bn of fiscal initiatives agreed in July.

Despite the gloomy near-term economic prognosis, during the spring and early summer, global equity markets recovered most or all the ground they lost during the Q120 sell-off. Markets were supported by aggressive government stimulus and some better than expected Q220 earnings results. However, this rebound is deceptive, as the market in aggregate is being driven higher by a handful of mainly US mega-cap growth stocks, which were arguably expensive even before the onset of the pandemic. Many other stocks are significantly below their pre-pandemic levels, especially those closely correlated to the state of the economy. Market sentiment faltered in the autumn due to the rapid rise in infection rates and fears of market instability if the US election result is delayed by court challenges. Political uncertainty has also weighed on UK stocks, as Brexit negotiations are still ongoing only weeks before the exit deadline. UK equities lagged their global counterparts during the market rebound, extending the trend of underperformance that has dogged this market since the EU referendum in 2016.

The current market environment may suit investors with a contrarian bias, who aim to avoid the bubbles created by a herd mentality. With so much market attention focused on a few mega-cap growth stocks, and many other stocks overlooked and underappreciated, contrarian investors such as SCIN's manager, Alasdair McKinnon, see many potential opportunities to invest in unloved but fundamentally solid companies at attractive valuations. Investors with a long-term perspective who see the merit in this approach may be rewarded for their patience as and when market sentiment towards the mega-caps sours, and investors once again come to appreciate the value in the many other high-quality companies presently languishing well below pre-pandemic prices.

Exhibit 2: Market performance and valuation

UK and global index performance



12m forward P/E multiples for selected Datastream indices

	Last	High	Low	10-year average	Last as % of average
World	15.8	16.3	9.8	13.7	115
UK	12.7	15.7	8.5	12.6	101
US	19.3	19.6	11.2	15.6	124
Europe	14.2	15.5	7.3	12.2	116
Japan	13.6	17.5	10.5	13.6	100
Asia	12.8	14.2	10.3	12.3	104

Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 23 November 2020.

Fund profile: Active contrarian with a unique approach

SCIN employs a global contrarian investment approach. Manager Alasdair McKinnon and his five-person investment team aim to provide long-term capital appreciation and annual dividend growth higher than UK inflation. The trust has realised its regular dividend goal over the last 36 consecutive years, and it is on track to do so again for FY20. It currently offers a yield of 3.3% (based on FY19 total regular dividends).

The trust has been based in Edinburgh since its launch in 1887 and comprises a portfolio of 50-100 stocks. Holdings are selected on the basis that they are undervalued by the market but are deemed by the manager to possess the potential to re-rate over the longer term as a result of operational or cyclical improvements. The trust does not have a formal benchmark, as the portfolio does not resemble any index, although the manager uses the MSCI AC World and the MSCI UK All Cap indices as broad comparators of performance. The portfolio's unique composition means that its performance is likely to differ markedly from the performance of these indices at any given time.

SCIN has scope to use gearing up to 20% of net assets. The board actively manages the trust's discount to NAV, using share buybacks with the aim of capping the discount at 9%. The trust is one of the lowest-cost funds in its AIC peer group, and its ongoing charge of 0.58% is low relative to other actively managed investment vehicles.

The fund manager: Alasdair McKinnon

The manager's view: Maintaining dividend rises in tough times

For those investors reliant on equity income, the pandemic has been a particular challenge as many companies, including about half of the 100 largest UK-listed companies, have cut or suspended their dividend payments since the onset of the coronavirus crisis. However, McKinnon remains focused on maintaining and increasing dividend payments to shareholders, despite the current dividend drought. SCIN's board has recently confirmed that it will increase the regular dividend for the year ended 31 October 2020 – the 37th consecutive year of dividend increases.

McKinnon explains that although his contrarian approach does not actively target companies that pay high dividends, the out-of-favour stocks that he is attracted to tend to pay more in dividends over the course of the economic cycle. Accordingly, SCIN's portfolio was not overly exposed to the recent spate of dividend cuts and, in McKinnon's view, the trust has done better than the market in this respect. In addition, SCIN has a substantial revenue reserve, accumulated over many years in anticipation of leaner times such as these. As at 30 April 2020, the trust held revenue reserves of £44.5m, equal to 2.5x the previous year's regular dividend, ensuring that it has the capacity to keep paying dividends even when its portfolio income is temporarily reduced.

McKinnon is also keen to stress the benefits to UK investors of investing in a portfolio of global equities diversified across multiple regions and sectors. As well as reducing risk, this approach provides a potentially more reliable income stream from a much broader pool of investments than that available from UK stocks alone. The manager views this income as a reward for the trust's shareholders, while they wait for the prospects of SCIN's holdings to improve in line with his expectations.

Looking further ahead, McKinnon believes that the defining issue for financial markets over the next decade will be how the global economy copes with the inevitable inflationary effects of this year's unprecedented fiscal and monetary stimulus. 'Governments seem determined to create growth and will show increasingly greater tolerance for inflation', he says, adding: 'Infinite money creation is a concern, but also an opportunity for contrarian investors'. McKinnon has favoured gold for some time as a store of value and an inflation hedge, and he believes that the medium-term inflation risks now building around the world make an even more compelling case for the precious metal. SCIN holds positions in five gold mining companies (comprising 23.2% of the portfolio at end-September 2020), as the manager views mining companies as a cost-effective way to gain gold exposure, with the added advantage of regular dividend income. McKinnon's longstanding positive view on gold is currently being vindicated: the price of gold rose to an all-time high in July, briefly touching $2,000 per troy ounce, and SCIN's gold holdings have performed well accordingly.

Asset allocation

Investment process: Seeking stocks with the potential to re-rate

SCIN's manager, Alasdair McKinnon, heads an investment team comprising deputy manager Martin Robertson, investment managers Sarah Monaco, Mark Dobbie and James Webb, and analyst Igor Malewicz. The team employs an active but patient, bottom-up contrarian investment approach, seeking out unpopular, undervalued stocks with the potential to re-rate over time. Rooted in the principles of behavioural finance, the approach rejects the tendencies of most investors to follow the crowd, pursuing returns from companies that have already performed well. Instead, SCIN uses fundamental analysis to identify value in overlooked parts of the market.

The trust's investment process is clearly defined. Team members meet regularly to discuss ideas generated from fundamental analysis and various internal and external sources. Companies are allocated to one of three categories:

Ugly ducklings – operationally challenged companies that the market shuns, but which the management team believes will exceed market expectations. The out-of-favour status of these companies provides an opportunity to purchase them at a relatively low cost. They comprise about 37% of the portfolio. Current examples include Halliburton, JPMorgan Chase and Deutsche Telekom.

Change is afoot – companies that have also endured a long period of poor operational performance, but whose prospects have recently improved significantly, without attracting more favourable assessments from the market. Comprising around 59% of the portfolio, stocks in this category include Newmont, Barrick Gold, Pfizer and Target.

More to come – companies that have graduated from other categories and are now generally recognised as good businesses with solid prospects. However, the team sees scope for further upside in performance and price, not yet fully recognised by the market. Such stocks comprise 4% of the portfolio and include PepsiCo.

New additions to the portfolio are usually sized at between 0.5% and 3.0% of NAV, depending on the strength of the team's conviction. Stocks are sold once the forecast improvement in performance is fully realised. Positions may also be closed if there is a deterioration in a holding's fundamentals. Because of the long-term nature of this strategy, turnover tends to be low.

This approach delivers a global equity portfolio of between 50 and 100 stocks, spread across multiple regions and sectors, providing diversification of both risk and income sources. While the team acknowledges that its approach will not always be in fashion, it believes it is capable of generating above-average investment returns and rising dividends over the longer term, defined as at least five years.

Current portfolio positioning

McKinnon realised early in 2020 that the virus that triggered a lockdown across China would inevitably make its way around the world, forcing western economies to adopt the same extreme measures to control infection rates. In early February, he reduced SCIN's exposure to economically sensitive industries such as retail, energy, banks and other cyclicals, and increased positions in companies with resilient revenues, such as utilities, tobacco and healthcare. He also added two more names to the portfolio's stable of gold mining companies, taking the total to five.

Since adopting this defensive positioning, portfolio activity has been limited, as McKinnon has focused mainly on preserving capital. He was monitoring potential investment opportunities, especially in economically sensitive stocks with potential to benefit once activity returns to pre-pandemic levels. More lately, he has been taking the opportunities that he sees developing, buying 'badly beaten-up companies'. McKinnon has made additions to the portfolio's exposure to energy companies and to banks and financial names, via the acquisition of positions in the Spanish bank Santander, US bank First Horizon and the Dutch insurer and asset manager, Aegon. He has also initiated holdings in Capri, a US luxury fashion provider, and Ambev, a Brazilian beverage company. Overall, portfolio turnover this year has been similar to other years, at around 20–25%. The portfolio held 59 positions at end-October 2020, up from 51 a year earlier.

The manager's positive view on gold is reflected in the fact that the portfolio's top three holdings are all gold mining companies (Exhibit 1). Pharmaceutical companies Pfizer, Roche and Gilead Sciences (whose antiviral drug remdesivir is being used to treat COVID-19) also feature in the portfolio's top 10 holdings. The manager believes these companies are all inexpensive compared to their peers, offer attractive and sustainable yields, and additionally, Pfizer and Roche have pipelines of new drugs that are not yet fully appreciated by the market. Roche also had a leading diagnostics business, and Gilead's strong balance sheet provides it with scope to pursue M&A opportunities as and when they emerge. Consumer staples and utility companies complete the top 10 roll call.

Exhibit 3: Portfolio sector exposure vs MSCI AC World Index (% unless stated)

	Portfolio end-Oct 2020	Portfolio end-Oct 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Materials	23.0	14.2	8.8	4.5	18.5	5.1
Consumer staples	15.7	12.8	2.9	8.1	7.6	1.9
Healthcare	14.5	8.1	6.4	13.5	1.0	1.1
Communication services	13.1	15.4	(2.3)	9.2	3.9	1.4
Utilities	9.0	2.3	6.7	3.4	5.6	2.6
Energy	4.9	11.1	(6.2)	2.4	2.5	2.0
Financials	4.8	11.2	(6.4)	12.1	(7.3)	0.4
Consumer discretionary	1.9	9.5	(7.6)	11.9	(10.0)	0.2
Industrials	0.9	4.0	(3.1)	10.4	(9.5)	0.1
Real estate	0.0	1.7	(1.7)	2.8	(2.8)	0.0
Information technology	0.0	0.0	0.0	21.6	(21.6)	0.0
Cash	12.2	9.7	2.5	0.0	12.2	N/A
	100.0	**100.0**		**100.0**		

Source: The Scottish Investment Trust, Edison Investment Research

On a sectoral basis (Exhibit 3), McKinnon's attraction to gold has ensured that the portfolio's heaviest overweight is in materials (23.0% of the portfolio at end October 2020, up from 14.2% a year ago, representing an overweight of 18.5pp versus the MSCI AC World index). The portfolio also has notable and increasing overweights to consumer staples and utilities, compared to end-October 2019. Consistent with the manager's contrarian, high-conviction approach, SCIN is most heavily underweight information technology, having no exposure to this sector, compared to an index weight of 21.6%. As at 31 October, the trust is also heavily underweight financials, consumer discretionary and industrials. The portfolio remains well diversified on a geographical basis (Exhibit 4). Notable shifts over the past year include increased exposures to North America, Japan, the Pacific and the Middle East and Africa, at the expense of exposures to the UK and Europe.

As part of the defensive actions taken early in the year, McKinnon reduced portfolio gearing to a net cash position of 5% at end-April 2020 (ie the portfolio held all of its borrowings and an additional 5% of net assets in cash), from net gearing of 1% at the end of FY19. This cautious approach to gearing was intended to protect the portfolio from the market decline and 'preserve firepower for a period of sustained recovery'. As at end-FY20, net gearing stood at 0% and McKinnon anticipates that there will be 'compelling opportunities to deploy additional gearing for the long-term benefit of shareholders – when the time is right'.

Exhibit 4: Portfolio geographic exposure (% unless stated)

	Portfolio end-Oct 2020	Portfolio end-Oct 2019	Change (pp)
North America	38.6	34.4	4.2
UK	19.2	28.9	(9.7)
Europe ex-UK	16.0	18.9	(2.9)
Japan	12.0	10.0	2.0
Pacific ex-Japan	11.9	7.8	4.1
Middle East & Africa	2.3	0.0	2.3
	100.0	**100.0**	

Source: The Scottish Investment Trust, Edison Investment Research

Performance: Solid long-term, outperforming the UK

Exhibit 5: Five-year discrete performance data

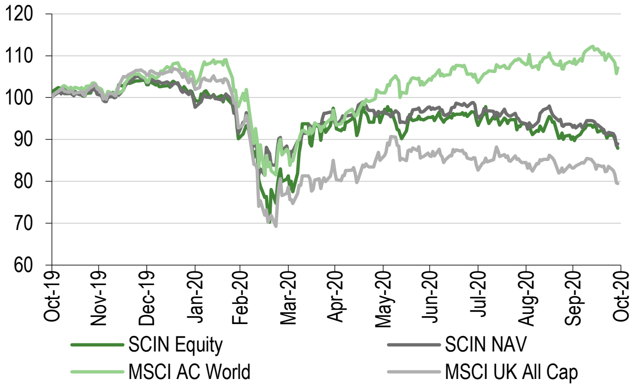
12 months ending	Share price (%)	NAV (%)	MSCI AC World net (%)	MSCI UK All Cap net (%)
31/10/16	30.1	29.6	29.8	12.4
31/10/17	12.7	10.6	13.9	13.3
31/10/18	1.9	1.4	3.9	(1.5)
31/10/19	1.0	0.5	11.8	6.0
31/10/20	(12.1)	(10.9)	5.5	(20.5)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

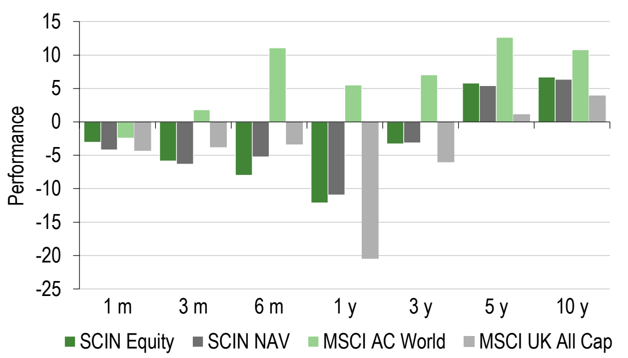
SCIN's performance since the onset of the pandemic has been disappointing in absolute terms (Exhibit 6). In the six months to end-October 2020, the trust returned -8.0% in share price terms and -5.2% in NAV terms, compared to returns of 11.1% on the MSCI AC World Index and -3.4% from UK equities, as measured by the MSCI UK All Cap index. Taking a longer-term view, the trust has delivered solid absolute returns over five and 10 years but has underperformed the MSCI AC World Index in all periods shown. This underperformance is not surprising given that global indices are heavily influenced by the US market and are presently being driven by the extraordinary gains of a handful of fashionable, mainly US mega-cap growth stocks.

Exhibit 6: Investment trust performance to 31 October 2020

Price, NAV and index total return performance, one-year rebased



Price, NAV and index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

The trust's performance relative to global markets should improve once this bubble deflates, and investors once again come to appreciate the value in the more attractively priced companies SCIN's manager favours. Performance compares more favourably against the UK market, which the trust has outperformed over one, three, five and 10 years – a clear indication of the potential benefits for UK investors of diversifying away from their home market into a global strategy.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI AC World	(0.6)	(7.5)	(17.2)	(16.7)	(26.2)	(26.8)	(31.5)
NAV relative to MSCI AC World	(1.8)	(8.0)	(14.7)	(15.6)	(25.9)	(28.2)	(33.5)
Price relative to MSCI UK All Cap	1.4	(2.1)	(4.8)	10.6	8.9	25.3	29.6
NAV relative to MSCI UK All Cap	0.2	(2.6)	(1.9)	12.0	9.4	23.0	25.7

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2020. Geometric calculation.

SCIN's holdings in gold mining companies have been the most significant positive contributor to performance since the onset of the pandemic. McKinnon has not added to these positions in recent months, but they have increased in value as the gold price has risen sharply, briefly touching a record $2,000 per ounce. Newmont and Barrick Gold have performed particularly well, thanks to an additional boost from synergies provided by recent acquisitions. Newcrest Mining has lagged, as a drought temporarily hampered output. SCIN's healthcare holdings also assisted performance as the current health crisis has increased investor focus on pharmaceutical companies, especially those working on a vaccine. US retailer Target has also been a recent strong performer, due to its success in adapting to changing consumer habits. Its efforts to increase online sales and open more convenience-style stores has been vindicated by the pandemic. Target's second-quarter results demonstrated its ability to gain market share and the share price responded accordingly. Food retailer Tesco has also enhanced returns.

The main detractors from recent performance have been SCIN's holdings in banks, including ING, Lloyds and BNP Paribas, all of which have been hurt by low interest rates, which impede their ability to make profits. The oil price collapse hurt Shell and Exxon Mobil, while the overweight to the UK, in anticipation of an eventual Brexit deal, proved premature, as the UK market has continued to lag.

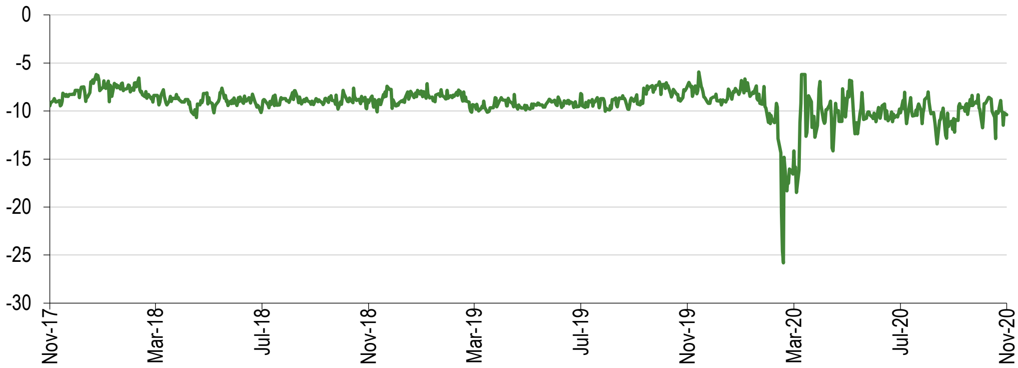
Exhibit 8: NAV total return performance relative to MSCI AC World index over three years

Source: Refinitiv, Edison Investment Research

Discount: Back at long-term average levels

After widening briefly to 25.8%, as a result of the market declines in March 2020, SCIN's share price discount to cum-income NAV returned to more usual levels. As at 30 November 2020, SCIN traded at a discount of 10.4%. This compares to average discounts over the past one, three, five and 10 years of 10.1%, 9.2%, 9.7% and 9.9%, respectively. The board actively manages the discount through share buybacks, with the aim of capping it at 9%. The board believes there is scope for the discount to narrow as and when market conditions stabilise and SCIN's holdings re-rate. SCIN has also made significant efforts in marketing, especially through its website (www.thescottish.co.uk), with the aim of broadening its appeal to a wider range of potential investors.

Exhibit 9: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

SCIN is a conventional investment trust with a single share class. At 30 October 2020, there were 72.9m ordinary shares in issue and share repurchases since then have reduced shares in issue to 72.5m. The board regularly repurchases shares, up to 14.99% of shares in issue, to cap the share price discount to NAV at 9%. In FY19, 3.3m shares (4.2% of the share base at the beginning of the year) were repurchased, at a cost of £27.0m. Share repurchases in FY20 totalled 1.0m (1.4% of the share base at the beginning of the year), at a cost of £7.0m. As at 24 November 2020, share repurchases so far in FY21 have totalled 0.35m (0.3% of the share base at the beginning of the new fiscal year), at a cost of £2.5m.

The trust has access to gearing via secured bonds issued with an initial maturity of 30 years (maturing in 2030), with a fixed coupon of 5.75%. Net gearing stood at 0% at the end of FY20. As SCIN is a self-managed investment trust, it does not pay management fees. The trust is one of the lowest-cost funds in the AIC global universe, with ongoing charges of 0.58%.

Dividend policy and record

SCIN's board aims to deliver annual dividend growth greater than the rate of UK inflation, and it is on track to achieve this goal for 37 consecutive years. It pays dividends quarterly, in May, August, November and February, and payouts have often been supplemented by a special dividend, subject to portfolio income. In FY19, the regular dividend was 22.8p up from 21.2p in FY18 and the trust also paid a special dividend, which rose very significantly, to 7.45p, versus the FY18 special dividend of 4.0p, and 5.0p in FY17. The total dividend for FY19 thus increased by 20%, to 30.25p. For FY20, the board has declared three quarterly interim dividends of 5.7p and has recently confirmed that it will recommend a final dividend of more than 5.7p, to ensure that the total regular dividend for FY20 will be higher than the regular dividend for FY19. The final dividend will be approved by shareholders at the AGM in February 2021.

With revenue reserves amounting to 2.5x FY19's regular dividend as at 30 April 2020, SCIN appears capable of fulfilling its stated intention to continue to grow the regular dividend over the longer term ahead of UK inflation, thereby continuing to build on its long-term record of ordinary dividend growth, even if portfolio income is lower year-on-year. Based on the current share price and the FY19 regular dividend, SCIN's current yield is 3.3%.

Peer group comparison

SCIN is a member of the Association of Investment Companies' Global sector, which is a diverse group including some of the largest and most well-established investment trusts. Unlike SCIN, many of the constituents of this sector pursue growth and momentum-focused strategies, so to give a more meaningful comparison of SCIN's performance against its true peers, the table below shows a selection of value-orientated trusts from various sectors including the AIC Global, UK All Companies, UK Smaller Companies, UK Equity Income, Europe and Flexible investment categories.

The table shows that SCIN has underperformed the average of this value peer group over one, three and 10 years, but outperformed over five years on a NAV total return basis, ranking sixth over one year, seventh over three years, sixth over five years and ninth over 10 years. Returns have been solidly positive in absolute terms over five and 10 years. The trust's ongoing charge is among the lowest, and very competitive for an active manager. Like most of its peers, SCIN does not charge a performance fee. Its discount to NAV is wider than the average and it takes a more cautious approach to gearing than its peers, with net gearing of 0% at present, compared to average gearing of 7%. SCIN's 3.3% dividend yield (based on the current share price and FY19 regular dividend) is equal to the average of this value peer group.

Exhibit 10: Selected 'value'-style investment companies as at 30 November 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf fee	Discount (cum-fair)	Net gearing	Dividend yield
Scottish Investment Trust	507.8	(8.5)	(5.2)	35.6	89.6	0.6	No	(10.4)	100	3.3
Aberforth Smaller Companies	1,044.6	(12.5)	(10.5)	12.4	138.7	0.8	No	(3.8)	106	2.7
AVI Global Trust	864.3	9.5	18.6	85.7	116.2	0.9	No	(9.0)	107	2.0
Bankers	1,380.6	12.1	30.0	89.2	204.0	0.5	No	1.2	100	2.0
EP Global Opportunities	108.1	(1.6)	(0.7)	41.2	106.9	1.0	No	(8.4)	100	2.2
Fidelity Special Values	674.8	(10.7)	(3.4)	24.9	129.5	1.0	No	2.1	103	2.5
Law Debenture Corporation	731.9	1.1	5.5	36.6	129.8	0.3	No	0.4	108	4.2
Lowland	313.4	(13.2)	(16.0)	4.8	107.3	0.6	No	(0.5)	113	5.2
Majedie Investments	119.3	(9.3)	(6.4)	24.4	79.5	1.0	Yes	(15.4)	111	5.1
Miton Global Opportunities	74.5	3.6	3.3	63.3	103.4	1.3	Yes	(5.2)	100	0.0
Temple Bar	632.6	(26.8)	(16.4)	5.2	67.5	0.5	No	(3.7)	110	4.1
Value and Income	82.0	(21.0)	(17.2)	(3.2)	57.4	1.4	No	(24.9)	128	6.7
Average (12 funds)	**544.5**	**(6.4)**	**(1.5)**	**35.0**	**110.8**	**0.8**		**(6.5)**	**107**	**3.3**
SCIN rank in sector	**7**	**6**	**7**	**6**	**9**	**9**		**10**	**9**	**6**

Source: Morningstar, Edison Investment Research. Note: *Performance to 27 November 2020 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

SCIN's board of five independent directors is chaired by James Will, who joined the board in 2013 and was appointed chair in 2016. He is the longest serving board member. Jane Lewis and Mick Brewis joined the board in 2015 and Karyn Lamont was appointed in 2017. Neil Rogan was appointed in September 2019. Between them, the directors have professional experience in accountancy, fund management and corporate law.

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