

INVESTORS CHRONICLE

Scottish Mortgage Investment Trust PLC

Rational Optimism for the Long Term

September 2016



Be Different, Keep it Simple

Long Term

Global

Growth

Learning from the Wisdom of Others

**Charlie Munger:
(Berkshire Hathaway)**

“A great business at a fair price is superior to a fair business at a great price.”

Jeff Bezos:

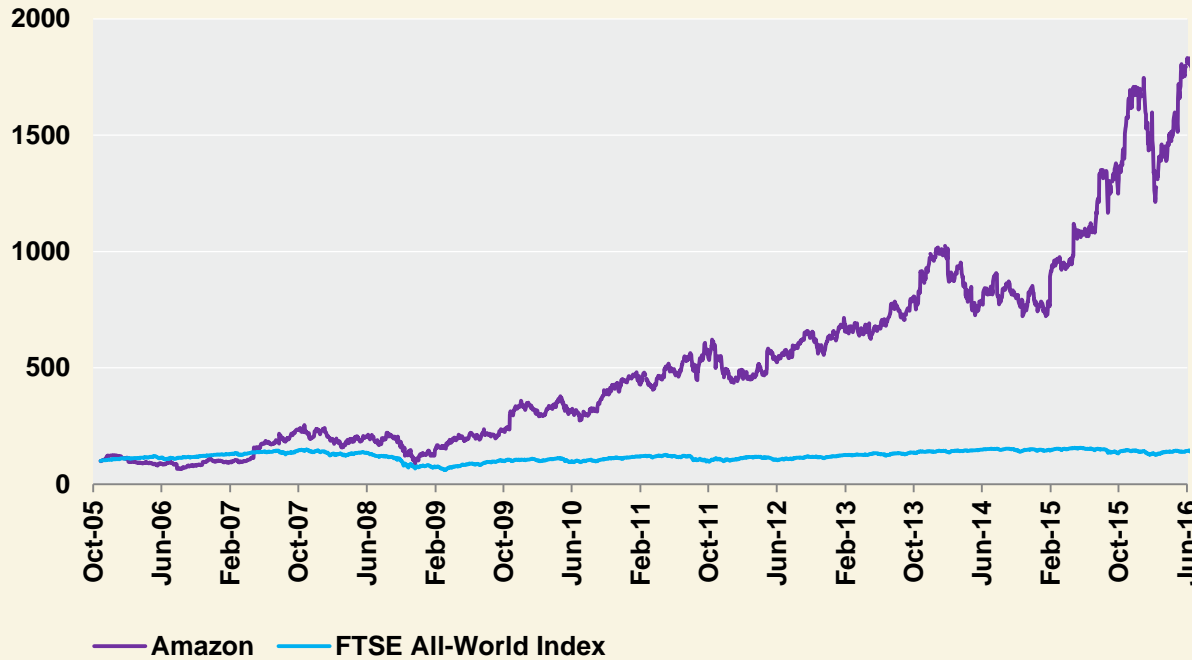
“Given a ten percent chance of a 100 times payoff, you should take that bet every time...

The difference between baseball and business, however is that baseball has a truncated outcome distribution. When you swing, no matter how well you connect with the ball, the most runs you can get is four. In business, every once in a while, when you step up to the plate, you can score 1000 runs.”

Letter to Shareholder 2015, Amazon.

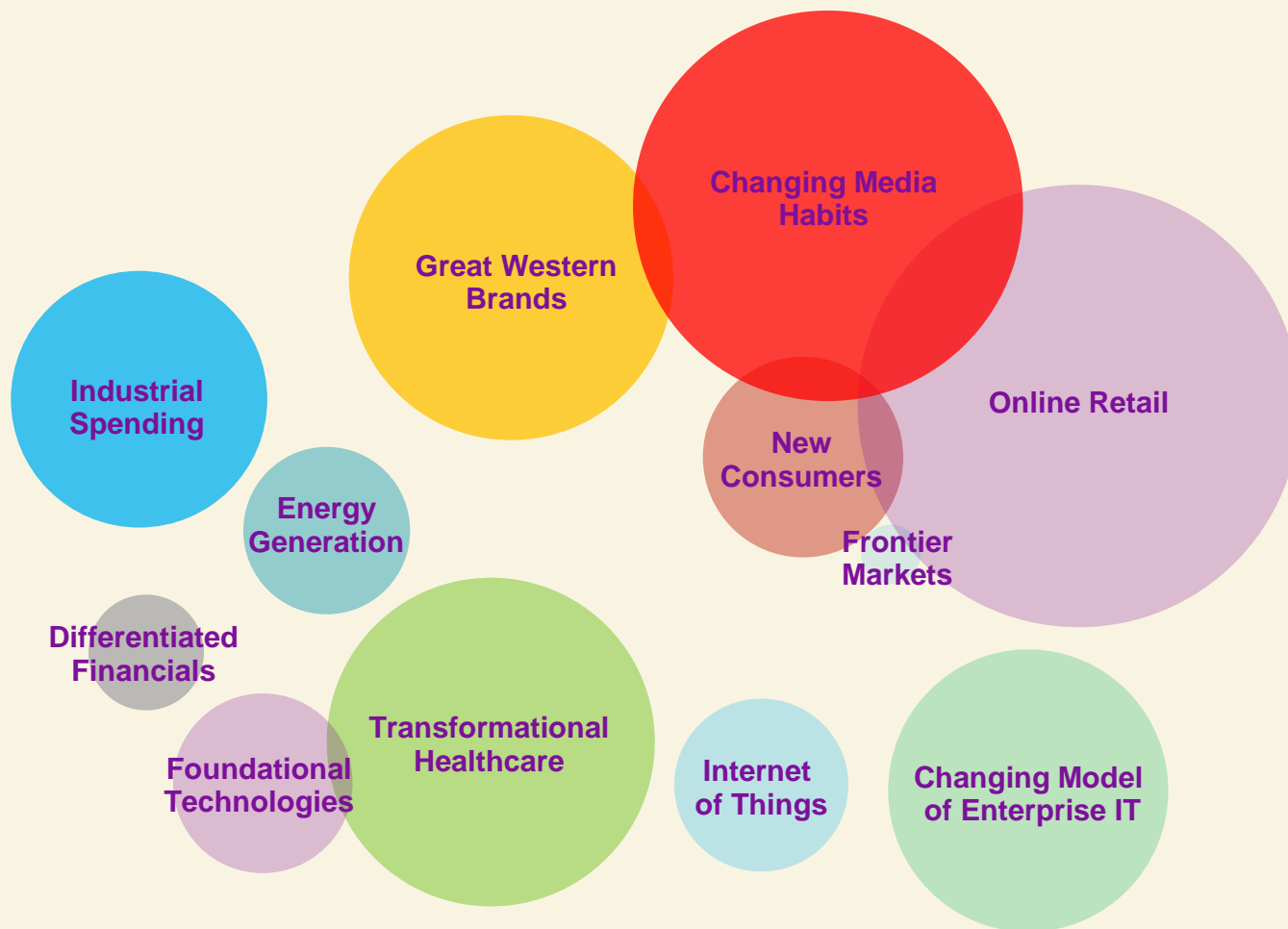
Not Easy

Investing this way requires patience: Amazon



Source: Bloomberg. Data to 30 June 2016. Share price rebased to 100 as at 26 October 2005, the date at which Scottish Mortgage invested in Amazon.

A Different Point of View – Portfolio Exposures



The circles are to scale and represent the proportion of assets in a particular area. As at 31 July 2016.

Change Happens Faster Than You Think

20 years of the internet

Accelerating pace of change and broadening scope: where next?



Number of Internet Users

*Source: Internet World Stats, www.internetworldstats.com.

†Source: Statista, www.statista.com/statistics/273018/number-of-internet-users-worldwide.

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It is all about the Individual Companies

What are they doing differently?

—Industry background

Why might they be successful?

—Competitive advantage

—Financial strength

—Management attitudes

Is it an attractive investment?

—Valuation



Growth at an Unreasonable Price

Price v Value

- Price/Earnings – easy but...?
- Complex business' future expressed as a single figure?

Embrace Uncertainty

- Scenario analysis
- What is the potential payoff structure
- What is the likelihood of success

Active Management

Position Sizing

- Expression of the combination of
 1. Opportunity size
 2. Likelihood of success

Resisting the temptation to water the weeds and trim the flowers

Lessons Learnt by Us

Aim to invest in great businesses

Be optimistic

Be patient

Reduce costs

The greatest investment mistakes come from the opportunities you miss,
not the ones you buy

Appendix

Scottish Mortgage Investment Trust PLC

Genuinely different, high conviction global growth portfolio, investing for the long term

Characteristics

- Portfolio of around 80 investments from all over the world
- High concentration in 30 largest holdings

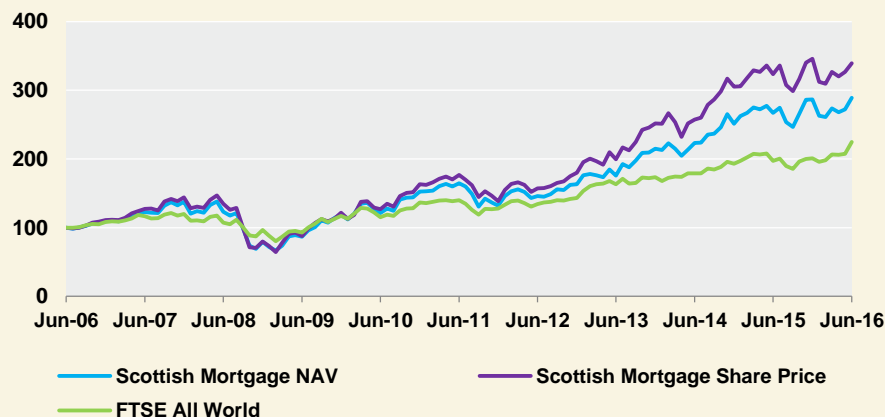
Time horizon

- Investment performance assessed over 5 years and 10 year rolling periods
- Low Turnover – typically under 20% p.a.

Low cost

- Costs matter – considerable impact on compounding returns
- Ongoing charges of 0.45% (as at 31 March 2016)

Ten Year Performance



Source: Morningstar, rebased to 100, total return in sterling terms.

How Have We Measured Up?

Cumulative Total Return Performance for Scottish Mortgage Investment Trust PLC

	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Share Price	4.9	70.1	92.2	239.4
NAV	8.2	65.8	75.6	189.1
FTSE All-World Index	14.0	37.8	60.5	124.8

30 June 2016. Source: Morningstar, total return in sterling terms. The 1,3 and 5 year performance is reported at NAV cum Fair. The 10 year performance period is reported at NAV ex Par.

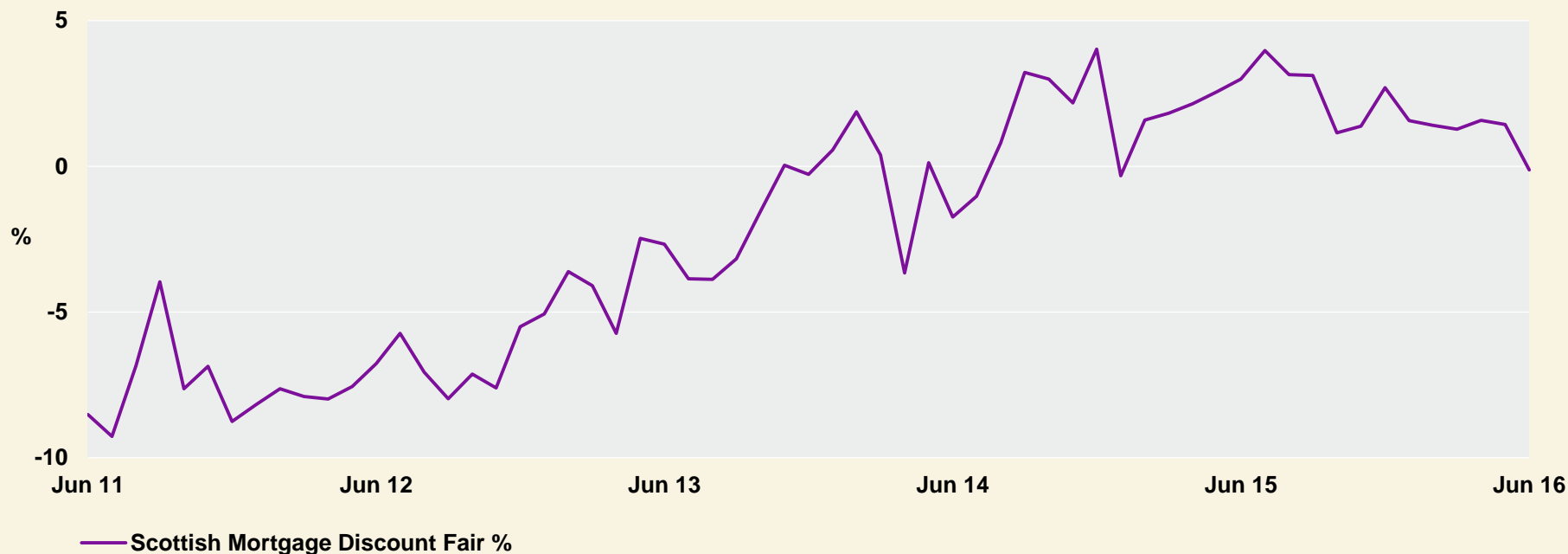
Annualised Performance to 30 June Each Year

	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)
Scottish Mortgage Share Price	-11.0	26.9	28.9	25.8	4.9
FTSE All-World Index	-4.0	21.4	9.6	10.2	14.0

Source: Morningstar, total return in sterling terms.

Scottish Mortgage Share Price Discount/Premium to NAV

Scottish Mortgage Share Price Discount to NAV



Source: Morningstar, discount at cum fair value. 30 June 2011 to 30 June 2016.

Contributors to Performance

Five Years to 30 June 2016

Top Ten Contributors

Security Name	Average Stock Weight %	Absolute Contribution %
Amazon.com	9.6	18.8
Tencent	5.6	13.4
Illumina	6.0	9.0
Inditex	5.1	6.5
Alibaba	2.4	6.4
Facebook	2.4	5.5
Alphabet	2.4	4.9
Baidu.com	7.7	4.5
Prudential	2.5	3.9
Atlas Copco	4.2	3.2

Bottom Ten Contributors

Security Name	Average Stock Weight %	Absolute Contribution %
America Latina Logistica*	0.2	-0.8
KGHM Polska Miedz*	1.4	-0.9
Rocket Internet	0.5	-0.9
Telekomunikacja Polska*	0.6	-1.0
Banco Santander *	2.4	-1.1
Telefonica O2*	0.8	-1.1
New Oriental Education & Tech*	1.3	-1.3
Bluebird Bio	0.2	-1.4
Vale*	1.5	-3.7
First Solar*	0.2	-5.3

Source: StatPro.

*No longer held in the Trust.

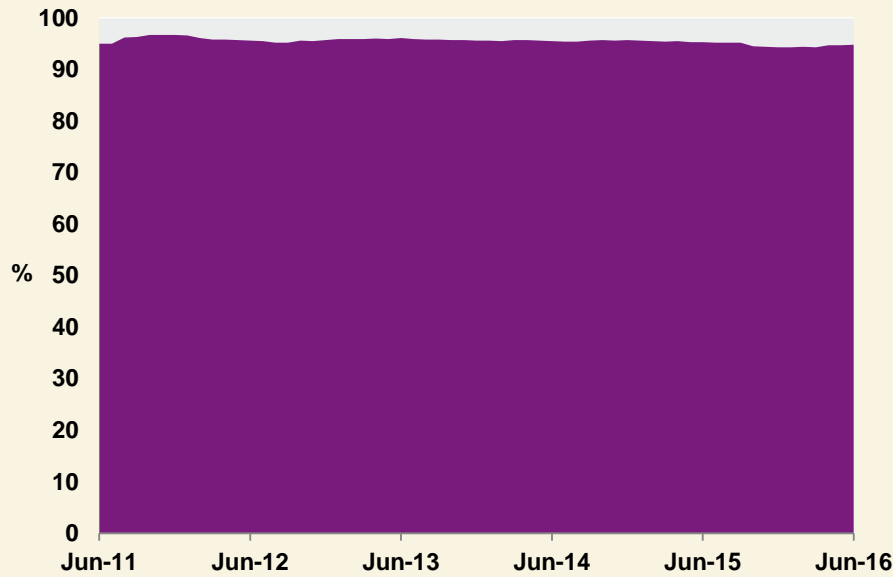
Top 30 Holdings List

Stock	%	Stock	%
Amazon.com	10.3	Intuitive Surgical	1.5
Illumina	6.5	Rolls-Royce	1.4
Inditex	6.1	Zalando	1.4
Tesla Motors	5.7	Netflix	1.4
Tencent	5.5	Ferrari	1.3
Baidu.com	5.1	HDFC	1.2
Facebook	4.7	Apple	1.1
Alibaba	4.3	ARM	1.1
Alphabet	3.7	Palantir Technologies	1.1
Atlas Copco	2.3	Fiat Chrysler Automobiles	1.1
BASF	2.1	ASM Lithography	1.1
Kering	2.0	Thumbtack	0.9
Prudential	1.8	You & Mr Jones	0.9
Novozymes	1.5	ctrip.com	0.9
Kinnevik	1.5	Rocket Internet	0.8
		Total	80.1

As at 30 June 2016. Totals may not sum due to rounding.

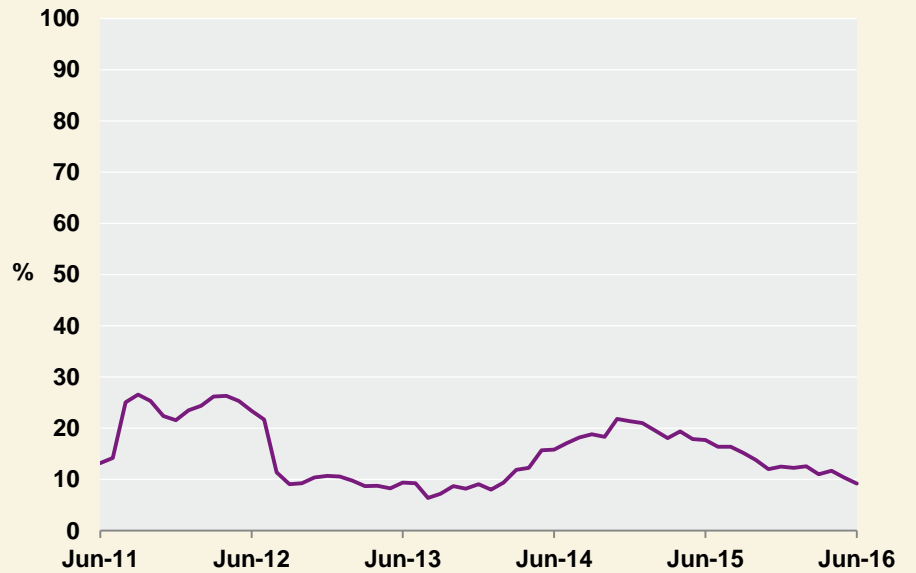
Active Share and Portfolio Turnover

Active Share



■ Scottish Mortgage Active Share vs FTSE All World Index

Portfolio Turnover



— Rolling 12 Month Turnover, June 2011 to June 2016

Why an Investment Trust

Closed ended pool of investment capital

Patience and flexibility

Premia/discount policy

Liquidity for shareholders

Modest gearing

Has the potential to enhance long term returns

Governance

Oversight from an Independent Board of Non-Executive Directors

Costs

Benefits of scale to lower costs

Baillie Gifford – A Brief Recap

Independent Partnership

— Longevity and Stability

Single business focus

— Active Investment Management

Alignment of interests with clients

— Scottish Mortgage Investment Trust is our oldest client



Important Information and Risk Factors

The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies. The value of their shares, and any income from them, can fall as well as rise and investors may not get back the amount invested.

The specific risks associated with the Trust include:

- The Trust’s risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.
- The Trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.
- The Trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- The Trust can borrow money to make further investments (sometimes known as “gearing” or “leverage”). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.
- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.
- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.

- The Trust can make use of derivatives which may impact on its performance.
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Contact Us

For further information about the Trust or Baillie Gifford’s range of Investment Trusts, please contact us at the below address, call our Client Relations Team on **0800 917 2112** (your call may be recorded for training or monitoring purposes), visit our website at www.bailliegifford.com, fax us on **0131 275 3955** or email its@bailliegifford.com

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