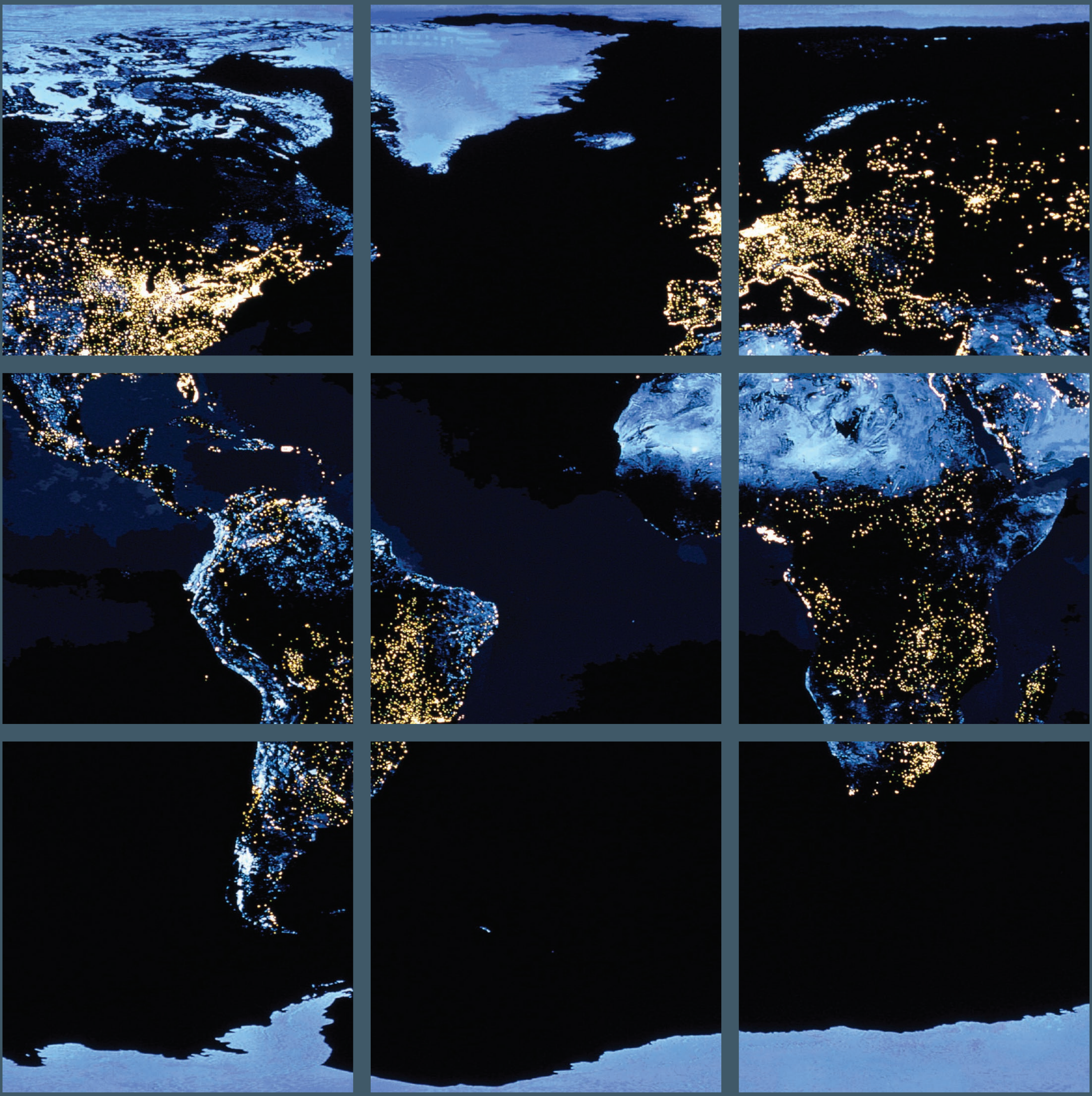
SCOTTISH MORTGAGE INVESTMENT TRUST PLC

Your low cost choice
for global investment



Annual Report and Financial Statements
31 March 2019

BAILLIE GIFFORD

Scottish Mortgage Investment Trust PLC is a low cost investment trust that aims to maximise total return over the long term from a high conviction, actively managed portfolio. It invests globally, looking for strong businesses with above-average returns.

Contents

Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive requires certain information to be made available to investors prior to their investment in the Company. The Company's Investor Disclosure Document is available for viewing at www.scottishmortgageit.com.

Notes

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

Scottish Mortgage Investment Trust PLC currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's ordinary shares can qualify to be considered as a mainstream investment product and can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority in relation to non-mainstream investment products.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000 immediately if you are in the United Kingdom or, if not, another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your holding in Scottish Mortgage Investment Trust PLC, please forward this document, together with accompanying documents, but not your personalised Form of Proxy or Form of Direction, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

Fiona McBain, Chairman

Message from the Chairman

Scottish Mortgage's core proposition is very simple: it provides long term investment in strong growth companies at as low a cost as possible. I am delighted to say the long term returns from the Managers' steadfast adherence to this task remain impressive. The share price total returns over five and ten years remain very strong, at 157% and 737%. While the short term results below also look attractive, I would urge readers to pay scant attention to them. They reveal little about the success or otherwise of the Company in pursuing its long term aims.

This unique approach continues to resonate with a wide range of investors. Scottish Mortgage provides access to leading growth companies around the world, a number of which many shareholders would otherwise find very expensive, if not practically impossible, to own as they are not quoted on a stock exchange.

Demand for the Company's shares remained high throughout the year. A record level of just over £400 million in new capital was issued this year and no shares were bought back. By the end of the year, the total assets of the Company stood at just over £8 billion. As large as this is in the context of other conventional investment trusts, it is still small relative to the size of the open-ended global equity funds. Greater scale would help Scottish Mortgage in the pursuit of its core proposition and I and my fellow Directors look forward to supporting the Company in its growth ambitions over the coming years.

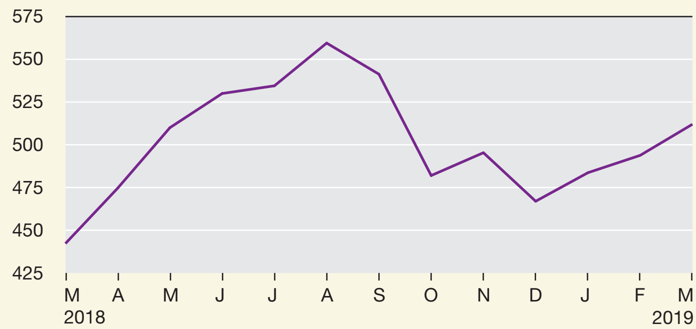
Financial Highlights – Year to 31 March 2019

Share Price* 16.5%	NAV* 14.4% (borrowings at book value)	NAV* 14.6% (borrowings at fair value#)	Benchmark*† 10.7%

* Source: Refinitiv/Baillie Gifford. All figures are stated on a total return basis. Total return is an Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on pages 77 and 78. Comparatives for 2018 can be found on page 5.

Share Price (pence)

Share price

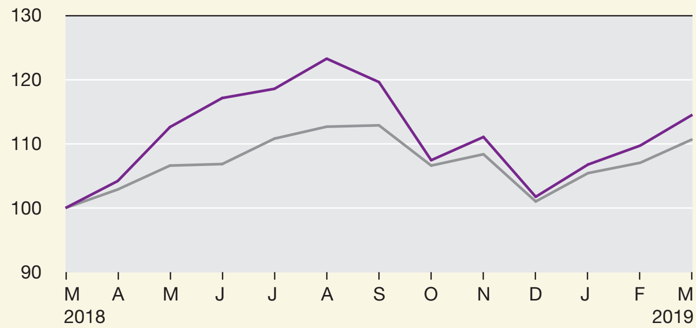


NAV and Benchmark

(figures rebased to 100 at 31 March 2018)

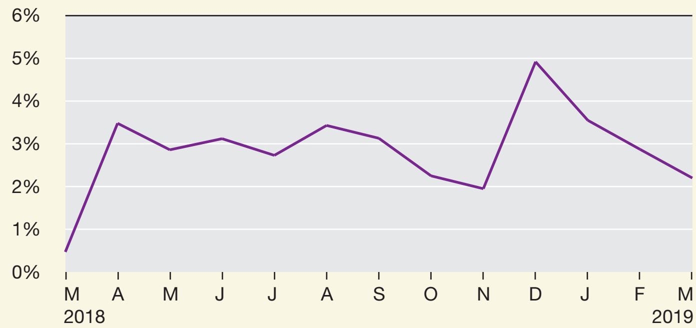
NAV total return (after deducting borrowings at fair value#)

Benchmark† total return



Premium/(Discount)#

Premium/(Discount) (after deducting borrowings at fair value#) plotted as at month end dates



Source: Refinitiv/Baillie Gifford.

† Benchmark: FTSE All-World Index (in sterling terms).

\# Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

Past performance is not a guide to future performance.

See disclaimer on page 76.

Strategic Report

This Strategic Report, which includes pages 2 to 25 and incorporates the Chairman's Statement, has been prepared in accordance with the Companies Act 2006.

Chairman's Statement

Corporate Strategy

The Board and Managers focus on pursuing a truly distinctive global investment proposition, working to maximise the Company's competitive advantages. In a frantic world, obsessed with predicting the next 'thing' which might go wrong, Scottish Mortgage's consistent long term approach of patiently investing in outstanding growth businesses across the globe, whether those businesses are public or private, continues to set it apart.

Performance

The Managers and the Board believe strongly in the advantages of being very clear as to the investment proposition that Scottish Mortgage offers shareholders, to ensure everyone's time horizons are aligned. Scottish Mortgage is not intended to be all things for all people and is most suited to those who share its patient, long term approach to investment. We aim to report on Scottish Mortgage's results in a manner consistent with this approach, drawing on the lessons from the Managers themselves on the challenges of being long term shareholders and the dangers of short term distractions. I am delighted to say that the Company's long term progress remains impressive.

Long Term Returns

This table shows the five and ten year total returns for the Company to 31 March 2019, alongside the Association of Investment Companies (AIC) Global Sector average for comparison.

Total Return* (%)	Five years	Ten years
NAV	152.7	647.4
Share price	157.1	737.3
FTSE All-World Index	79.8	260.8
Global Sector Average – NAV	94.7	361.0
Global Sector Average – share price	110.8	442.5

Source: AIC/Refinitiv/Baillie Gifford. NAV after deducting borrowings at fair value*.

* Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

We report performance figures over the 12 month period within the Annual Report because of the nature of the document and, as it happens, once again these look attractive. However, granting these figures undue prominence is not particularly helpful for shareholders of this Company and I urge readers to pay little heed to them, whether they be good, bad or indifferent. They reveal little about the success or otherwise of the Company in pursuing its aims.

Past performance is not a guide to future performance.
See disclaimer on page 76.

12 Months

Total Return* (%)	12 months
NAV	14.6
Share price	16.5
FTSE All-World Index	10.7
Global Sector Average – NAV	9.9
Global Sector Average – share price	11.7

Source: AIC/Refinitiv/Baillie Gifford. NAV after deducting borrowings at fair value*.

* Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

Progress This Year

The considerable growth in the Company's assets over the last five years was predominantly a result of long term investment performance, also augmented by the net new capital raised under the Company's long-standing liquidity policy, which is set out on page 7. I am pleased to say that, during this financial year, over £400 million in new capital has been generated in this way and there were no share buy-backs undertaken. The Board views this as indicative of the degree to which Scottish Mortgage's unique investment proposition continues to resonate with investors. The Board does not anticipate making any changes to the liquidity policy over the coming year.

Due to the growth in the assets over time, the Company has also raised additional long term borrowings; the Board authorised these in order to maintain what it views as the strategically appropriate level of gearing in the portfolio. The impact of growth on the level of gearing is clearly illustrated in the table of the ten year record of Capital on page 25. In June 2018, Scottish Mortgage raised a further £170 million through additional private placement agreements at very competitive rates of under 3% per annum. The Board believes this offers a potential source of additional value for shareholders over time. The Board will continue to keep the level of gearing under review.

Earnings and Dividend

Over the year, earnings per share for Scottish Mortgage rose to 1.64 pence, a significant increase of nearly 37% over last year (1.20 pence). However, this was due to the impact of the change in accounting treatment to allocate management and finance costs entirely to capital, highlighted in the previous Annual Report as well as this year's Interim Report. Previously 75% of the costs had been allocated against capital, with the remainder set against income. The basis was revised from the start of this financial year to reflect better the split of returns in the portfolio between capital and income. While the overall position for the Company is not affected, the new allocation policy does mean that more of the modest income from the portfolio becomes distributable earnings.

By now there can be few investors who seek a significant dividend yield from their shares in Scottish Mortgage. The Board has repeatedly highlighted that, while the formal investment objective is 'to maximise total return…enabling the Company to provide capital and dividend growth' shareholders should anticipate that returns will primarily come through long term capital appreciation. One common characteristic of many of the businesses in the portfolio is the retention and investment of most if not all of their earnings to support future growth. This tends to result in a relatively low level of dividend income for Scottish Mortgage.

However the Board acknowledges that a significant number of shareholders value the modest level of income they do receive and has therefore maintained the policy of paying a small and growing dividend. The consistent application of this policy allows those shareholders to plan their own portfolio income. The Board has therefore decided not to change the current dividend policy. Those who do not require the income may elect to reinvest their cash dividend.

The Board proposes paying a final dividend of 1.74 pence which, together with the interim dividend, would give a total of 3.13 pence per share for the year. This is an increase of 2% over last year (3.07 pence). As the Company's revenue earnings for the year are insufficient to cover the entire dividend, the balance is paid from realised capital reserves. The Board believes this to be appropriate, given the relatively immaterial size of the element paid from capital, compared with the scale of the distributable capital gains over the long term.

The Board will continue to keep the dividend policy and use of realised capital reserves under review.

Low Cost

Scottish Mortgage has led the way in providing investors with access to great growth businesses at a highly competitive cost level. Through the twin advantages of the Company's own increasing scale and its enduring relationship with Baillie Gifford, we have brought the management and administrative costs down over time to one of the lowest levels available for an actively managed portfolio. This means that, as a shareholder, you keep more of the returns generated with your capital. Very unusually, Scottish Mortgage has also extended this low cost mantra to the unlisted area of the capital markets. This year I am pleased to report that the total 'Ongoing Charges Ratio' for Scottish Mortgage remains at a market leading rate of 0.37%. I am sure you will agree with the Board that this provides excellent long term value for shareholders.

Accessibility

Access to most of the private companies held by Scottish Mortgage came about as a result of the Managers' hard-won global reputation as genuine long term custodians of businesses and long established relationships with those at other companies in the portfolio, built over many years of supportive investment by the Managers. The Board believes that it would be very hard for others to replicate this distinguishing feature of Scottish Mortgage and that the importance of this competitive advantage is often underestimated. This year, the Managers made their largest single investment in a private company to date: Chinese financial services giant, Ant Financial. The opportunity came about as direct result of the long-standing investment in its parent company, Alibaba. Ant Financial has the potential to disrupt our own industry and it reminds us that all companies, including this one, must be prepared to adapt to the changes taking place.

Diversity and Board Independence

Ensuring that there is real diversity of thought informing the decisions taken for the Company, both at a Board and operational level, remains just as vital for Scottish Mortgage as for any other business. Maintaining this will help Scottish Mortgage to continue to adapt to change so that it can progress through its second century.

Achieving diversity of thought cannot be reduced to ticking a selection of predefined boxes. However, the Board and Managers do consider it more likely to arise within discussions between a group of individuals who can bring together a mix of experiences, whether those arise through their variety of professional disciplines, cultural backgrounds, gender or other factors.

There are currently five Non-Executive Directors on the Board, three men and two women, none of whom has ever worked for Baillie Gifford. The Board believes each of the Directors to be independent of the Managers and considers this to be essential for the delivery of their individual responsibility to act in the best interests of shareholders.

Each Director brings a fresh perspective to the Board's central tasks. Current members include two economists, two chartered accountants and a professor of clinical medicine. The Board believes that this broad range of experience is particularly valuable. When considering any future recruitment requirements, the Board will seek to draw upon as diverse a pool of candidates as possible, including men and women from across all ethnic backgrounds, working in the fields of science and industry as well as finance, to ensure this remains the case.

Baillie Gifford has always carried out all of the executive functions of the Company and so Scottish Mortgage itself has no employees. Baillie Gifford similarly strives for diversity in its own business and reports on its progress in this area to the Board every year. The Board also encourages all major third-party suppliers to the Company to consider such issues and to report progress on this topic to the Board.

Just as with diversity, the Board does not believe the simple imposition of a hard limit on the tenure of individual members to be the best way to ensure ongoing diversity and Board refreshment. In determining the appropriate length of service for each Director, including the Chairman, the Board must judge the appropriate overall balance between the retention of the corporate memory and a suitable rate of refreshment at any given point in time. The Board also wishes to retain the flexibility to be able to recruit outstanding candidates when they become available, rather than simply adding new Directors based upon a predetermined timetable.

As the new Corporate Governance Code comes into effect over the course of this year, the Board will continue to monitor the development of best practice and align its policies in these related areas as appropriate, to include a formal statement of these policies.

This year we will be asking shareholders at the Annual General Meeting to approve an increase in the total permitted level of Board remuneration. The Board is not seeking to raise the current level of remuneration for existing Directors this year; the increase is to allow sufficient flexibility to recruit new Non-Executive Directors as and when the Board finds suitable candidates. It will also provide the necessary headroom to accommodate modest increases in the Directors' remuneration levels where appropriate in years to come to enable the Company to continue to recruit the best candidates.

Shareholders should be reassured that the Board remains mindful of Scottish Mortgage's low-cost focus and, in common with the Managers, the members of the Board remain committed to playing their part in ensuring the maintenance of this key competitive advantage for shareholders' benefit.

Just as the Managers do with the investee companies, so as a Board we aim to offer support and a discussion forum for ideas to help the Managers to maximise their competitive advantages within the strategic framework set by the Board and to resist the inevitable countervailing short term pressures of the public markets. As an independent Board, this is one of the most valuable tasks we can undertake for shareholders.

Future Prospects

The strengths of Scottish Mortgage's investment strategy tend to be recognised most clearly when markets focus their attentions on company fundamentals. However there will almost inevitably also be periods of broad-based swings in sentiment when that is not the case and short term views prevail in markets. The Board does not view such oscillations as a true investment risk for the patient investor who is prepared to hold steady; it is why we continually emphasise that this a long term investment.

The ability to cope with uncertainty is key to all investment. The best long-run risk mitigation strategy remains flexibility. Scottish Mortgage can invest in companies in any industry or geography. The overall approach remains consistent, although the reflection of this within the portfolio evolves through time as countries, industries and companies themselves change.

Today, Scottish Mortgage has perhaps become best known for its holdings in the tech giants but investors are cautioned that defining the portfolio in such terms gives too narrow a perspective on this Company's future prospects. The portfolio not only includes retail, advertising and media businesses but also a wide variety of companies in healthcare, manufacturing, transportation, financial services, food production and consumption. There will inevitably be some portfolio companies whose future progress does not match their ambitions. Yet while this is a clear investment risk, it is mitigated by the asymmetry of the capital exposure compared with the potential scale of returns from those which do succeed. As a Board a key task of ours is therefore to ensure the portfolio is sufficiently, but not overly, diversified.

The Board and Managers acknowledge the potential risk of changes to the regulatory environment for some of the larger portfolio holdings, but believe such risks are manageable as the likelihood, scope and impact of any such changes may be anticipated to a reasonable degree. There is also a range of macro level risks facing Scottish Mortgage, such as issues around global security and rising geopolitical tensions as a result of the Eastward shift of economic power and influence. Macro factors such as these have far reaching, interconnected consequences but are more properly considered general risks which all investors must acknowledge and accept. The Board predominantly focuses its efforts on analysing risk to the extent to which it is possible to predict the potential impact on individual companies and thereby the Scottish Mortgage portfolio.

Over time, the Board believes that it is likely that the winners and losers from the deep structural shifts taking place will become more apparent but that the transition period will likely be challenging and more volatile. Once again, shareholders are cautioned not to expect any attempt by the Board or Managers to mitigate short term market swings. Scottish Mortgage's advantages lie elsewhere. The Board will continue to stand resolutely behind the long term strategy.

Brexit

This year the Company is required to comment on the potential impact of 'Brexit' on its future prospects. I will refrain from general speculation or comment as to the political process itself, simply observing that there are very few UK companies in the portfolio (5 holdings representing around 3% of assets), most of which are global, rather than purely domestically focused businesses.

The greatest exposure of Scottish Mortgage to potential negative impacts from Brexit is through fluctuations in foreign currency exchange rates, which impact the sterling value of the Company's overseas assets. The following observations may therefore be helpful. The pound has already fallen considerably in recent years against a range of currencies, most notably the US dollar. A certain degree of pessimism is therefore already priced in. However if concerns over Brexit were to weigh further on sterling, this would actually benefit the portfolio due to its global nature. Conversely, if Brexit were to be resolved in a more constructive manner than is currently feared and sterling was to appreciate, this would be a headwind for our overseas assets; however, this would likely be offset to a degree by a corresponding improvement in sentiment and perhaps even in the actual business environment.

The Managers will not be turning their investment skills to attempting to predict the byzantine path of Brexit or to express any views on potential resulting currency market moves. The Board fully supports them in this and, as always, will encourage them to remain focused on the area where they have a deep competitive advantage: finding great businesses with long term growth prospects.

Shareholders may also wish to note that Scottish Mortgage already has a long term structural hedge in place for its largest foreign currency exposure, as it has both US dollar denominated assets and liabilities. Movements in the dollar/sterling exchange rate have opposing impacts on these, thereby helping to reduce the net impact of oscillations in this exchange rate. More broadly, the long-run impact of currency fluctuations is diversified by the nature of this portfolio, including as it does many global companies, listed in a wide range of countries.

Shareholder Engagement

In addition to urging all shareholders to read the Annual Report, I would also encourage all interested investors to take up the various opportunities to hear directly from the Managers. This can be done through the various digital sources which the Managers provide, as well as through attendance at one of the Scottish Mortgage Investor Forums which take place throughout the year. The details of these are available at the back of the Annual Report and at www.scottishmortgageit.com.

We hope to see as many shareholders as possible at the Scottish Mortgage AGM on 27 June. Please note that this year the meeting will be held at a new venue: The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ.

Finally, I want to thank shareholders for their ongoing support of Scottish Mortgage and the Managers for all their efforts on shareholders' behalf. Scottish Mortgage's success very much depends on the patience of both. I would also like to thank my colleagues on the Board, our professional advisers and the teams at Baillie Gifford that provide the support necessary to best look after your interests as shareholders.

Fiona McBain
Chairman
15 May 2019

One Year Summary

The following information illustrates how Scottish Mortgage has performed over the year to 31 March 2019.

	31 March 2019	31 March 2018	% change
Total assets (before deduction of debentures, long and short term borrowings)†	£8,133.4m	£6,673.5m	
Borrowings	£703.4m	£485.7m	
Shareholders' funds	£7,430.0m	£6,187.8m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	500.8p	439.9p	13.8
Net asset value per ordinary share (after deducting borrowings at par)*	504.2p	443.7p	13.6
Net asset value per ordinary share (after deducting borrowings at book)†	504.0p	443.5p	13.6
Share price	512.0p	442.2p	15.8
FTSE All-World Index (in sterling terms)			8.0
Dividends paid and proposed per ordinary share	3.13p	3.07p	2.0
Revenue earnings per ordinary share	1.64p	1.20p	36.7
Ongoing charges ratio*	0.37%	0.37%	
Premium (after deducting borrowings at fair value)*	2.2%	0.5%	
Active share*	94%	94%	

Year to 31 March	2019	2018
Total returns (%)*		
Net asset value per ordinary share (after deducting borrowings at fair value)*	14.6	25.0
Net asset value per ordinary share (after deducting borrowings at book)†	14.4	24.5
Share price	16.5	21.6
FTSE All-World Index (in sterling terms)	10.7	2.9

Year to 31 March	2019	2019	2018	2018
Year's high and low	**High**	**Low**	**High**	**Low**
Share price	568.3p	420.6p	477.8p	361.5p
Net asset value per ordinary share (after deducting borrowings at fair value)*	545.6p	420.5p	480.1p	349.8p
Premium/(discount) (after deducting borrowings at fair value)*	5.9%	(3.4%)	5.5%	(5.6%)
Average sector discount (AIC Global Sector)	0.3%	(2.4%)	(2.1%)	(4.4%)

	31 March 2019	31 March 2018
Net return per ordinary share		
Revenue return	1.64p	1.20p
Capital return	59.58p	85.80p
	61.22p	**87.00p**

† See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.
* Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.
Source: Morningstar/Baillie Gifford and relevant underlying index providers. See disclaimer on page 76.

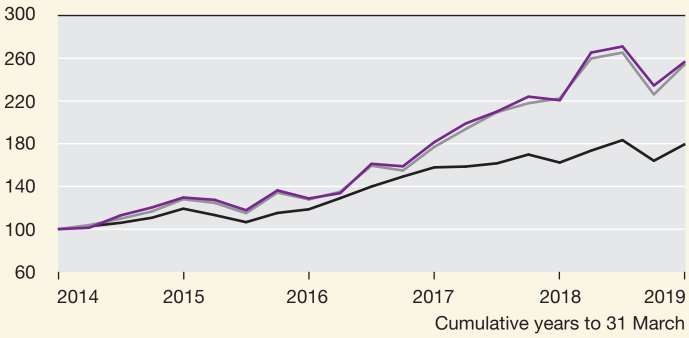
Past performance is not a guide to future performance.

Five Year Summary

The following charts indicate how Scottish Mortgage has performed relative to its benchmark* and the dividend against the retail price index (RPI) over the five year period to 31 March 2019.

Five Year Total Return Performance†

(figures rebased to 100 at 31 March 2014)



Source: Refinitiv#.

Share price total return

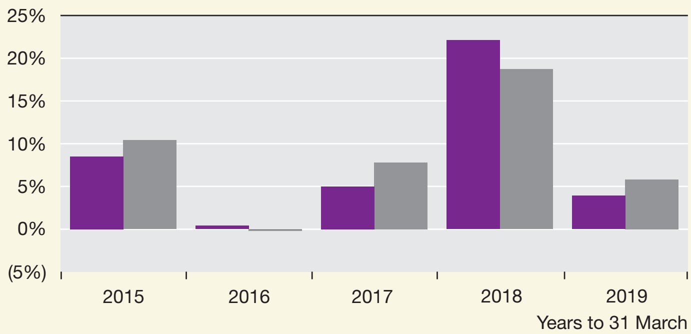
NAV (after deducting borrowings at fair value) total return

Benchmark* total return

* Benchmark: FTSE All-World Index (in sterling terms)#.

Annual Net Asset Value and Share Price Total Returns†

(relative to the benchmark total returns)



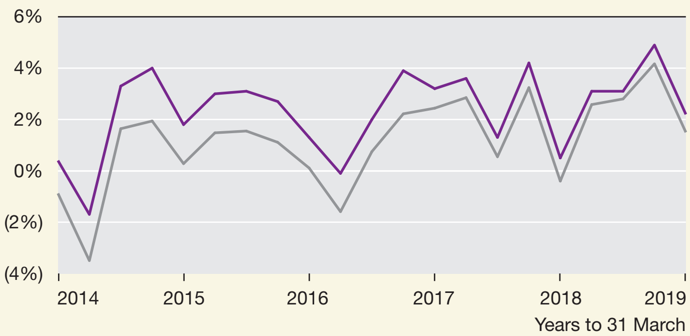
Source: Refinitiv#.

NAV (fair) return

Share price return

Premium/(Discount) to Net Asset Value†

(plotted on a quarterly basis)



Source: Refinitiv/Baillie Gifford#.

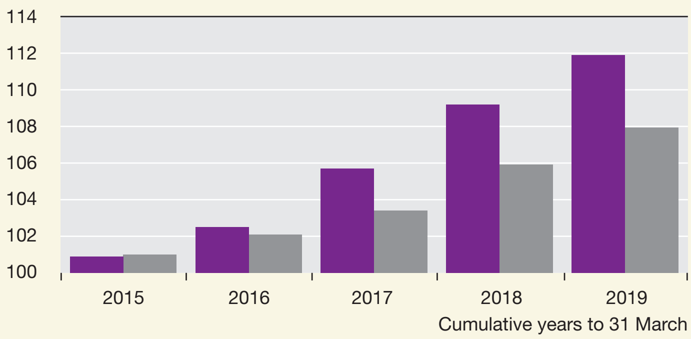
Scottish Mortgage premium/(discount) (after deducting borrowings at fair value)

Scottish Mortgage premium/(discount) (after deducting borrowings at par)

The premium/(discount) is the difference between Scottish Mortgage's quoted share price and its underlying net asset value calculated on one of two bases: borrowings are either deducted at par (redemption value) or at fair value (the current market worth). As borrowings have a current market value above par, the effect of valuing the borrowings at fair value reduces both the NAV and any resultant discount but increases any resultant premium.

Dividend and RPI Growth

(figures rebased to 100 at 31 March 2014)



Source: Refinitiv/Baillie Gifford#.

RPI

Scottish Mortgage dividend

Past performance is not a guide to future performance.

† See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

See disclaimer on page 76.

Business Review

Business Model

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006 and carries on business as an investment trust. Investment trusts are UK public listed companies and their shares are traded on the London Stock Exchange. They invest in a portfolio of assets in order to spread risk. The Company has a fixed amount of share capital although, subject to shareholder approval sought annually, it may purchase its own shares or issue shares. The price of the Company's shares is determined, like other listed shares, by supply and demand.

The Company has been approved as an investment trust by HM Revenue & Customs subject to the Company continuing to meet the eligibility conditions. The Directors are of the opinion that the Company has continued to conduct its affairs so as to enable it to comply with the ongoing requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) Regulations 2011.

The Company is an Alternative Investment Fund (AIF) for the purposes of the EU Alternative Investment Fund Managers Directive.

Investment Objective

Scottish Mortgage carries on business as an investment trust. The objective is to maximise total return from a portfolio of long term investments chosen on a global basis enabling the Company to provide capital and dividend growth.

Investment Policy

Investment is predominantly in equities. The number of equity holdings will typically range between 50 and 100 and the portfolio can be relatively concentrated. Achieving diversification is a requirement when selecting investments but an unconstrained approach is adopted and there are no fixed limits set as to geographical, industry and sector exposure. Portfolio concentration and levels of diversity are monitored by the Board on a regular basis. The maximum investment in any one holding is limited to 8% of total assets at the time of purchase.

A long term investment horizon is observed and little attention is paid to short term market trends when deciding strategy. This patient approach allows market volatility to be exploited to shareholders' long term advantage. An average holding period for investments of five years or more is targeted.

The major part of the portfolio will be held in quoted equities with good liquidity. Investment may also be made in fixed interest securities, convertible securities, funds, unquoted entities and other assets based on the individual investment case. The maximum amount which may be invested in companies not listed on a public market shall not exceed 25 per cent. of the total assets of the Company, measured at the time of purchase.

With prior approval of the Board, the Company may use derivatives for the purpose of efficient portfolio management (for the purpose of reducing, transferring or eliminating investment risk in its investment portfolio, including protection against currency risk) and for investment purposes. The maximum permitted investment in other UK listed investment companies in aggregate is 15% of gross assets.

The Company aims to achieve a greater return than the FTSE All-World Index (in sterling terms) over a five year rolling period or longer. This benchmark is a reference point for considering performance and emphatically is not a portfolio construction tool. The portfolio does not set out to reproduce the index and there will be periods when performance diverges significantly from the benchmark.

Borrowings are invested in equity markets when it is believed that long term investment considerations merit the Company taking a geared position. Apart from in exceptional market conditions the Company will not take out additional borrowings if, at the time of borrowing, this takes the level of gearing beyond 30% calculated in accordance with the Association of Investment Companies (AIC) guidelines. In any event, the Company will not exceed the limit on borrowings set out in its Articles of Association, which provide that the amount of all the Company's borrowings shall not, without the previous sanction of an ordinary resolution of shareholders, exceed one half of the aggregate issued and fully paid share capital and capital reserves of the Company and, in addition, that the Company may from time to time borrow for temporary purposes sums not exceeding 20% of the Company's issued and fully paid share capital.

The Managers' Core Investment Beliefs with respect to the Company are set out on page 15.

Details of investment strategy and activity this year can be found in the Chairman's Statement on pages 2 to 4 and in the Managers' Review on pages 11 to 14. A detailed analysis of the Company's investment portfolio is set out on pages 18 to 24.

Liquidity Policy

The Board recognises that it is in the long term interests of shareholders to manage discount/premium volatility. Whilst the Board believes that the primary driver of discounts over the longer term is performance, the relationship between the Company's NAV and share price can be impacted in the shorter term by an imbalance of buyers and sellers in the market.

The Board does not have formal discount or premium targets at which shares will be bought back or sold respectively, as it believes that the announcement of specific targets is likely to hinder rather than help the successful execution of a buyback/issuance policy. However, it will undertake to aid the efficient functioning of the market in its shares in normal market conditions, by acting when such a significant imbalance in supply and demand for the Company's shares exists.

In furtherance of this policy, during the year the Company sold 26,367,671 shares from treasury and issued 52,525,000 ordinary shares at a premium to the net asset value. Between 1 April and 13 May 2019, a further 4,450,000 ordinary shares were issued at a premium to net asset value. No shares were bought back during the year.

In order to implement this strategy again over the coming year, the Directors will seek the relevant authorities from shareholders at the forthcoming Annual General Meeting.

To prevent substantial demand for the Company's shares pushing them to trade at a significant premium to the underlying NAV, the Board will again seek shareholder authority to allot equity securities, or sell treasury shares, for cash without having to offer such shares to existing shareholders pro-rata to their existing holdings, up to a total amount representing approximately 10 per cent. of the Company's total issued Ordinary Share capital.

Having regard to guidance previously received from the UKLA and consistent with the approach adopted in previous years, the Directors wish to ensure that any such sale of Ordinary Shares held in treasury or issue of new Ordinary Shares will not result in an inadvertent breach of the Listing Rules by virtue of the UKLA determining that 'net asset value' should be calculated on the basis of debt valued at par value, instead of the general market understanding that net asset value is determined on the basis of debt valued at fair value. The Directors will therefore also seek to renew the authority previously granted to issue shares at a discount to net asset value with debt at par value, in order to continue to protect against any such inadvertent breach. The Directors wish to stress that they will in no circumstances seek to issue Ordinary Shares (including any Ordinary Shares held in treasury) for cash at a price below the net asset value per share on the basis of debt valued at fair value.

The Directors are further seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14.99 per cent. of the Ordinary Shares in issue from the date of grant of the authority to the date of the Annual General Meeting in 2020. Such purchases will only be made at a discount to the prevailing net asset value. Any such shares which are bought back may be held in treasury and may subsequently then either be sold for cash or cancelled.

Dividend Policy

The Board intends to pay a modest but growing dividend in accordance with the stated Investment Objective of the Company to maximise total return from a portfolio of long term investments chosen on a global basis enabling the Company to provide capital and dividend growth. The Board anticipates that returns will primarily be driven by long term capital appreciation and that income will remain a small component of the total return, consistent with the Company's growth focused investment strategy.

The dividend will be paid from a combination of revenue earnings, revenue reserves (if any) and distributable capital reserves (comprising mainly realised investment gains), provided that the Board remains of the view that the total returns being earned by the Company over the long run justify this use of capital reserves.

The Board will continue to keep the dividend policy and the use of realised capital reserves under review.

Gearing Policy

The Board is committed to the strategic use of borrowings in the belief that gearing the portfolio into long run equity market returns will enhance returns to shareholders over the long term. The Board views this capacity to use debt as one of the principal advantages of the investment trust structure. In line with the long term approach taken, no attempt is made to time short term market movements through tactical shifts in the level of gearing. The gearing instruments will include debt instruments with different durations. Where the Board deems it appropriate, borrowings may be denominated in foreign currencies as well as sterling.

Although the borrowings limit set out in the Articles of Association is 50% of issued and fully paid share capital and reserves, borrowing covenants are in place restricting gearing to 35% of adjusted net asset value or total assets (dependent on the lender). The Company will not take out additional borrowings if, at the time of borrowing, this takes gearing beyond 30% (calculated in accordance with the AIC guidelines).

Performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

Key Performance Indicators

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share (after deducting borrowings at fair value);
- the movement in the share price;
- the movement of net asset value and share price performance compared to the Benchmark;
- the premium/discount (after deducting borrowings at fair value);
- the ongoing charges ratio;
- revenue return; and
- dividend per share.

An explanation of these measures can be found in the Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

The one, five and ten year records of the KPIs are shown on pages 5, 6 and 25.

In addition to the above, the Board considers performance against other companies within the AIC Global Sector.

Borrowings

There are four debentures in issue, all of which are listed and quoted on the London Stock Exchange and details of which are given on pages 59, 61 to 63 and 67. The Company has issued private placement loan notes as detailed on page 59. In addition, loan facilities are in place which are shown on page 58.

During the year the Company issued the following private placement unsecured loan notes:

- £30 million at a coupon of 2.91% maturing on 4 June 2038
- £50 million at a coupon of 2.94% maturing on 4 June 2041
- £90 million at a coupon of 2.96% maturing on 4 June 2048

Additionally, the US$40 million one year revolving loan with The Royal Bank of Scotland plc ('RBS') was refinanced during the year with a US$80 million three year revolving loan with RBS. The US$200 million two year revolving loan with National Australia Bank Limited ('NAB') was refinanced with a US$200 million two year loan with NAB.

Principal Risks

As explained on page 34 there is a process for identifying, evaluating and managing the risks faced by the Company on a regular basis. The Directors 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. A description of these risks and how they are being managed or mitigated is set out below:

Financial Risk – the Company's assets consist mainly of listed securities and its principal financial risks are therefore market-related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 18 to the Financial Statements on pages 61 to 67. To mitigate these risks, the Board considers at each meeting various metrics including portfolio concentration, regional and industrial sector weightings, top and bottom stock contributors to performance and contribution to performance by industrial sector. The Managers provide the rationale for stock selection decisions and both the investment strategy and portfolio risk are formally considered in detail at least annually.

Unlisted Investments – the Company'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 than for listed investments.

To mitigate this risk, the Board considers the unlisted investments in the context of the overall investment strategy and provides guidance to the Managers on the maximum exposure to unlisted investments. The investment policy limits the amount which may be invested in unlisted companies to 25 per cent. of the total assets of the Company, measured at time of purchase.

Investment Strategy Risk – pursuing an investment strategy to fulfil the Company's objective which the market perceives to be unattractive or inappropriate, or the ineffective implementation of an attractive or appropriate strategy, may lead to reduced returns for shareholders and, as a result, a decreased demand for the Company's shares. This may lead to the Company's shares trading at a widening discount to their net asset value. To mitigate this risk, the Board regularly reviews and monitors the Company's objective and investment policy and strategy, the investment portfolio and its performance, the level of discount/premium to net asset value at which the shares trade and movements in the share register.

Discount Risk – the discount/premium at which the Company's shares trade relative to its net asset value can change. The risk of a widening discount is that it may undermine investor confidence in the Company. To manage this risk, the Board monitors the level of discount/premium at which the shares trade and the Company has authority to buy back its existing shares when deemed by the Board to be in the best interests of the Company and its shareholders. The Liquidity Policy is set out on page 7.

Regulatory Risk – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment trust companies, the UKLA Listing Rules and the Companies Act could lead to suspension of the Company's Stock Exchange listing, financial penalties, a qualified audit report or the Company being subject to tax on capital gains. To mitigate this risk, Baillie Gifford's Business Risk, Internal Audit and Compliance Departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes. Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised. Shareholder documents and announcements, including the Company's published Interim and Annual Report and Financial Statements, are subject to stringent review processes and procedures are in place to ensure adherence to the Transparency Directive and the Market Abuse Directive with reference to inside information.

Custody and Depositary Risk – safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber security incidents. To mitigate this risk, the Board receives six monthly reports from the Depositary confirming safe custody of the Company's assets held by the Custodian. Cash and portfolio holdings are independently reconciled to the Custodian's records by the Managers. The Custodian's audited internal controls reports are reviewed by Baillie Gifford's Business Risk Department and a summary of the key points is reported to the Audit Committee and any concerns investigated.

Operational Risk – failure of Baillie Gifford's systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. To mitigate this risk, Baillie Gifford has a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Board reviews Baillie Gifford's Report on Internal Controls and the reports by other key third party providers are reviewed by Baillie Gifford on behalf of the Board.

Leverage Risk – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the impact of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings. To mitigate this risk, all borrowings require the prior approval of the Board and leverage levels are discussed by the Board and Managers at every meeting. Covenant levels are monitored regularly. The majority of the Company's investments are in quoted securities that are readily realisable. Further information on leverage can be found on page 73 and the Glossary of Terms and Alternative Performance Measures on page 78.

Political Risk – Political developments are closely monitored and considered by the Board. The Board continues to monitor developments as they occur regarding the Government's intention that the UK should leave the European Union and to assess the potential consequences for the Company's future activities. Whilst there remains considerable uncertainty, the Board believes that the Company's global portfolio, with no significant exposure to the United Kingdom, positions the Company to be suitably insulated from Brexit-related risk (see page 4).

Viability Statement

In accordance with provision C2.2 of the UK Corporate Governance Code that the Directors assess the prospects of the Company over a defined period, the Directors have elected to do so over a period of 10 years. The Directors continue to believe this period to be appropriate as the investment objective of the Company is aimed at investors with a 5 to 10 year investment horizon and, subject to the assumptions detailed below, the Directors do not expect there to be any significant change to the current principal risks facing the Company nor to the adequacy of the controls in place to effectively mitigate those risks. Furthermore, the Directors do not reasonably envisage any change in strategy or any events which would prevent the Company from operating over a 10 year period. The Board has considered the uncertainty arising from the UK's ongoing negotiations to leave the EU and does not envisage any outcome that would significantly affect the viability or going concern status of the Company.

Assumption 1

There is no significant adverse change to the regulatory environment and tax treatment enjoyed by UK investment trusts.

Assumption 2

The Company does not suffer sustained inadequate relative investment performance with the current or any successor fund managers such that the Company fails to maintain a supportive shareholder base.

Using the long term expectations of shareholders as the main determinant of the chosen assessment period, the Directors have conducted a robust assessment of the principal risks and uncertainties facing the Company (as detailed on pages 8 and 9) and, in particular, the impact of market risk where a significant fall in global equity markets would adversely impact the value of the investment portfolio. In reviewing the viability of the Company, the Directors have considered the key characteristics of the Company which include an investment portfolio that takes account of different degrees of liquidity, with moderate levels of debt and a business model where substantially all of the essential services required are outsourced to third party providers; this outsourcing structure allows key service providers to be replaced at relatively short notice where necessary.

The Directors have also considered the Company's leverage and liquidity in the context of fixed term debentures, the existing and additional private placement loan notes issued during the year and short term bank loans, the revenue projections, the readily realisable nature of the listed portfolio which could be sold to provide funding if necessary and its stable closed ended structure. Specific leverage and liquidity stress testing was conducted during the year. The leverage stress testing identified the impact on leverage in scenarios where gross assets fall by 25% and 50%, reflecting a range of market conditions that may adversely impact the portfolio. The liquidity stress testing identified the reduction in the value of assets that can be liquidated within one month that would result in the value of those assets falling below the value of the borrowings. The stress testing did not indicate any matters of concern.

The Directors have concluded that these sustainable long term characteristics provide a high degree of flexibility to the Company and afford an ability to react so as to mitigate both controllable and most external uncontrollable risks and events in order to ensure the long term prosperity of the business.

Based upon the Company's processes for monitoring operating costs, share price premium/discount, the Managers' compliance with the investment objective, the portfolio risk profile, leverage, counterparty exposure, liquidity risk and financial controls, the Board believes that the prospects of the Company are sound and the Directors are able to confirm that they have a reasonable expectation that it will continue in operation and meet its liabilities as they fall due over a period of at least 10 years.

Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no disclosures to be made in respect of employees, human rights and community issues. Further information on the Company's approach to environmental, social and governance (ESG) matters is provided on page 35.

Gender Representation

The Board comprises five Directors, three male and two female. The Company has no employees. The Board's policy on diversity is set out on page 33.

Environmental, Social and Governance Policy

The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and has asked the Managers to take these issues into account. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' statement of compliance with the UK Stewardship Code can be found on the Managers' website at www.bailliegifford.com. The Managers' policy has been reviewed and endorsed by the Board.

The Managers are signatories to the United Nations Principles for Responsible Investment and the Carbon Disclosure Project and are also members of the International Corporate Governance Network.

Further information can be found under Corporate Governance and Stewardship on page 35.

The Company considers that it does not fall within the scope of the Modern Slavery Act 2015 ('Act') and it is not, therefore, obliged to make a slavery and human trafficking statement. In any event, the Company considers its supply chains to be of low risk as its suppliers are typically professional advisers. A statement by the Managers under the Act has been published on the Managers' website at www.bailliegifford.com.

Future Developments of the Company

The outlook for the Company is set out in the Chairman's Statement on pages 2 to 4 and the Managers' Report on pages 11 to 14.

The Strategic Report which includes pages 2 to 25 was approved by the Board of Directors and signed on its behalf on 15 May 2019.

Fiona McBain
Chairman

Managers' Review

It's been a year ruled by sound and fury. From trade wars to Brexit political arguments were rife and unedifying. By October it was thought that the US economy was overheating and that interest rates would therefore have to rise substantially. But by our March year end bond yields had reversed course and fallen sufficiently to provoke forecasts of imminent recession. Global stock markets have been equally emotional. We've moved from the worst December falls in American equity markets since 1931 to their best quarterly performance for a decade. Not to be outdone Chinese stocks have risen by almost a quarter in 2019, yet this leaves the Shanghai market below its level of twelve months ago.

It's far from evident that these levels of volatility signify much of significance. It may be that the last few months have provided a useful reminder that it's become hard for the western world to generate high and sustained nominal growth, let alone substantial inflation, in an era of technology driven deflation, economic inequality and demographic decay. It may be that signs of a revival in animal spirits in China hints that American antagonism will not reverse the return to Asian leadership that so preoccupies Washington. But these are but reminders of what has long appeared probable.

The Evolution of the Scottish Mortgage Portfolio

On the surface there has been little change in Scottish Mortgage's portfolio in the last twelve months. Of the top thirty holdings last year we still own 28. The two that we have sold, BASF and Svenska Handelsbanken, have been replaced because the opportunities opening up to us in the unquoted realm seem to offer more compelling growth potential rather than out of disappointment at their conduct of affairs. Amongst our top ten quoted stocks, which exert a crucial influence given that they sum to just over half of the assets, the sole change has been the rise of Netflix at the cost of Baidu. The former has been driven by stock outperformance whilst we have reduced Baidu as, for once, we share the market concern that the group is squandering broader opportunities in the Chinese internet in the desire for unduly tight managerial controls.

Netflix has nearly 150m subscribers, with over half of these outside the US.

But beneath the apparent stability there has been a step change in our commitment to venture capital which we believe matters considerably for our future prospects, deeply differentiates Scottish Mortgage from its peers and requires nuanced explanation. Given that the percentage of assets in our unquoted equities has only increased from 15% to 17% and the attention we paid to reporting on these assets at the half-year stage it may appear that we are becoming excessively focussed on this segment but this underestimates its structural importance. Currently 34% of the assets started out as investments in private companies, even if some of those are now public. Up until now we have been reluctant to stress this area too heavily because our own education in venture capital was incomplete. We have now become more convinced in our abilities and advantages in this comparatively new and different area. In fact we're thrilled with what we have learnt. Our opportunity is greater than we initially perceived. It's our responsibility to take advantage of this favourable combination of circumstances.

The starting point is that we have outstanding access to unquoted companies across the world. This may be illustrated by some of our new purchases in the last twelve months. The only unquoted holding amongst our top ten overall is Ant Financial, which amongst other attributes runs both Alipay, the largest global mobile payments platform and Yu'e Bao, the world's largest money market fund. Our access came about through our faithful ownership of Ant's parent Alibaba from the days it too was a private company. Similarly our recent purchase of a holding in Space X would have been unimaginable without our patient, controversial and unashamed backing of Tesla. Perhaps we need to move on from pride in being a rare truly global fund to embarrassment at being so limited in our ambitions.

But lest it be thought that our unquoted portfolio is solely a reflection of our committed ownership of public companies it may be worth citing another area where we have substantially increased our exposure in the past year. This is the crossover between genomics and large scale, but individual, data observation in healthcare. Although Flatiron, one of our initial forays in this direction, was purchased by Roche in early 2018 its continued progress illustrates the reality of clinical utility in this area. We've added holdings in Tempus and Recursion that are emblematic of accelerated efforts and medical hope through such techniques.

Our purpose in unquoted equities goes further than obtaining access to a new universe of opportunity for our shareholders. We are doing so at a cost that is structurally lower than that available elsewhere. We ask no higher fee for incorporating unquoted equities. The overall ongoing charges of 0.37% compares with a still normal level of 2% and 20% carried interest for venture capital funds. This matters to us and we hope to our shareholders.

Our appeal to companies is equally distinctive. Most venture capitalists demand an exit as their funds near the end of their ten year life. In turn many companies seek to go public to satisfy this need for liquidity. We feel no need to encourage companies to move to an Initial Public Offering prematurely. But if an IPO is the eventual outcome then our preference, subject to business progress, is to buy more shares at that stage both for Scottish Mortgage and frequently for other portfolios managed by Baillie Gifford that are unable to make investments until a company is public.

Alipay has 600m monthly active users.

This willingness to own companies regardless of their status as private for the long term, on the verge of an IPO, or as fully fledged public companies is a cornerstone of our policy. We believe it is a damaging narrowing of the necessarily limited opportunity set of potentially great growth stocks to confine ourselves to public companies at a time when the necessity to be quoted is unclear and the pressures of being so all too evident. As owners we are structurally neutral as to the best status whilst listening to the arguments for each unique company in which we invest. Whatever the conclusion we try to bring attitudes more typical of venture capitalism to all our investments. We believe that patient support – especially at the inevitable moments of struggle – is better than hurried exit. We believe that our success in quoted as well as unquoted stocks will continue to be dependent on a small number of extreme winners rather than a parade of the slightly above average.

Growth Investing

Whilst we aspire to special, potentially unique, advantages in unquoted equities our approach to all our investing is consistent and in line with our Core Beliefs as set out once again on page 15. Plainly these contentions are based on our convictions around extreme outcomes and the attractions of high growth investing.

It has been an investment commonplace for long decades that growth investing is a chimera. Value investing, especially as articulated by Warren Buffett, has risen to the status of the one true faith. Yet over the last decade growth indices have substantially outperformed their value counterparts. Moreover this trend has principally been driven by the shares of a cohort of major internet platforms that have defied all predictions of doom based on the strains of growth from an already large base or assumptions of a short competitive advantage period.

What is critical now is to analyse whether this pattern of the last decade is just a chance occurrence, defying eternal verities, or whether it is the outcome of structural changes in corporate affairs and economic structures that find their natural echo in stock markets. We contend that it is the latter. There were two central reasons why the broad genre of value investing outperformed growth in the past. The first was that for all the vicissitudes of cycles and products over time average companies survived and endured. Now they die. Their demise is usually at the hands of technologically driven business models.

Secondly, growing companies did not scale satisfactorily. Returns tended to decline as complexity and asset bases grew in search of increasingly marginal customers. Compounding growth was therefore both hard and dragged down profitability. But in increasing portions of the modern economy this is no longer true. Instead the pattern of increasing returns to scale is more and more evident. Ultimately this isn't hard to understand: for a software or internet company the initial product introduction is expensive and success uncertain but at scale each new customer is often close to costless after adoption and profitability surges. Gaining new customers frequently becomes easier as network effects prevail. In retrospect investors ought to have grasped the dawning of a new age as long as thirty years ago. This model was pioneered at ever increasing scale by Microsoft. It's yet to be destroyed there despite substantial managerial missteps or the extraordinary size of the company.

Far from increasing returns to scale being a temporary and limited facet of the economic conditions of today we suspect that such characteristics will persist and subsume ever increasing areas of the global economy. Healthcare and transportation may be the next sectors to be transformed in this manner as their own forms of data and software emerge. Traditional models will find it hard to cope with such revolutions. More and more of the traditional giants of the world economy and the value universe will therefore fail. They will not revert to the mean as has been the assumption.

Future Prospects

It's traditional to end reports such as this with a list of events and conundrums that preoccupy headline writers and then to move on to a prediction as to the market response over the next year.

We shouldn't be tempted by either habit. There will always be difficulties and uncertainties. Mostly they pass. They are then succeeded by others that appear equally worthy of fascinated minute by minute attention. But it is the underlying rhythm of scientific advance, of increased knowledge on a global scale and the associated development of great business models that ultimately powers sustainable increases in the prices of special equities. This process requires decades. In any twelve month period news flow and emotions will contribute to unknowable outcomes. If we are to be of use to our shareholders then we need to concentrate on the beneficial trends of decades not the specifics of the current preoccupations of the moment.

James Anderson

A Complexified World

There was a media frenzy earlier this year when Amazon CEO Jeff Bezos published details of an attempt to blackmail him with stolen photographs. In a blog post, Bezos suggested that his ownership of the Washington Post was a 'complexifier' leading one critic to suggest he should have engaged an editor and that the word 'complicating' would have done. It is dangerous to criticise a genius and it seems to me that Bezos' quixotic use of language was justified. The situation was not complicated. It was complex. I would like to explain the distinction and why it matters.

Complex systems are transforming our world and driving a process of accelerating change with big implications for investors. Companies that have relied on established market structures to extract high prices from their customers (for example broadcasters, consumer goods or oil companies) are likely to face great challenges. Those that earn their revenues by facilitating connections and taking a share of the value they create for their customers are in a much stronger position.

Complicated problems are hard to solve but often can be addressed with formulae, rules and processes. Many of today's hierarchical institutions were created to solve complicated problems. However, approaches that work for complicated problems don't work well with complex problems. Complex problems arise when a system has many connected parts which interact with one another. Our climate is a complex system, as is the human brain or our transportation network. Such systems involve too many unknowns and too many interrelated factors to be reduced to rules and processes. They behave in ways that are hard to predict even when you know a great deal about the individual components. Connections dramatically change the way the individual components of a network behave.

The explosion in the number of connected devices is leading to fundamental change in our society and our economy. This deeper level of connection makes us all part of a complex network. It is changing the way we behave as citizens, as consumers and as workers. Connection creates big new opportunities and we have seen phenomenal growth in social networks, ride-sharing companies and cloud computing. At the same time, it creates threats that our society is ill-equipped to counter from hacking and information theft through to terrorist infrastructure. The shape of our global network is evolving rapidly and there is still much that is unknown but those that understand and can influence this development are likely to possess significant advantage.

The networks we interact with on a daily basis accelerate the pace of our lives. In a networked world, having the closest and fastest connections is valuable. This creates a self-reinforcing drive towards ever greater speed. Our machines are always on. Ideas spread almost instantly and new movements grow and evolve in unexpected ways. The friction that has historically slowed our access to information is being removed and we are increasingly intolerant of barriers to speed.

Consequently, our political and military institutions are creaking. They are failing to address the implications of vast connected networks for nationalism and geopolitics, inequality of every kind, terrorism or climate change. Many of the large corporate institutions in which billions of pounds of savings are invested face similar threats as they fail to comprehend the rapidly changing expectations of their users and partners.

It is not just humans who are being connected. Billions of sensors are giving our computer networks an innate awareness of what is going on in the world around them. The power of connected computers has ushered in a new era of Artificial Intelligence, allowing machines to turn awareness into actionable insights. The applications of such collective intelligence will have profound effects on our society and we must absorb these changes at ever faster speeds. The next ten years will bring self-driving cars. Drones will take on many roles now carried out by human workers. Computational biology will transform our understanding of disease. We will synthesise biology and use it in our manufacturing processes. More work must be done to understand the consequences of this progress and also to limit the less appealing aspects.

An inherent feature of a complex system is that there is no permanent equilibrium. The state of the system is constantly changing. We can no longer expect that market structures will endure indefinitely, that corporate advantages will persist or that consumers will behave in a predictable way. Instead a position of advantage within the network becomes a more important source of competitive edge, as does the institutional ability to adapt quickly to a changing environment. We are often asked about Scottish Mortgage's exposure to Technology or to Emerging Markets (both unhelpful groupings advanced by the manufacturers of stock market indices). When 1.4bn Chinese consumers and entrepreneurs are milliseconds away it surely makes little sense to segregate the world by geography? Similarly, networks affect every company, not just the subset that are deemed to be 'Technology Companies'. It is far more relevant to distinguish between those that have understood network power and those that have not.

Launch of one of Zipline's drones delivering blood supplies in rural Rwanda.

Inside Tencent's WeChat Open Class Conference.

It is obvious that a small handful of internet companies have understood the power of networks. Microsoft, Alphabet and Facebook between them have bought and built twelve products with more than a billion users. Tencent and Alibaba are not far behind. These products become more appealing to each user as the total number of users grows. This makes rival services unlikely. The companies have become more profitable and often grown faster as they have got bigger. They are gatekeepers to networks which allows them to build any number of profitable and useful services. We think the potential of several such companies is still only dimly perceived and a long way from being reflected in valuations. Regulators across the globe are scrambling to understand but until they grasp the network-centric nature of these companies' market position they will find it hard to exert influence.

There are many other implications of a networked society and we spend much of our time trying to understand the entrepreneurs and businesses that are shaping its development. Our holdings in Airbnb and Lyft are demonstrating the power of this model in reconstructing the accommodation and transportation markets. So too are Delivery Hero, Grubhub and Meituan in the food industry. Transferwise matches buyers and sellers of currency through its network avoiding the need for money to cross borders and incur the associated fees. Most of the new successful businesses we look at are harnessing network effects to create new markets or disrupt existing industries.

It isn't necessary to be a young company to encounter and exploit the opportunities presented by a connected world. When established businesses have leadership and vision the results they can achieve are remarkable. Kering is a fine example. Its Gucci subsidiary has doubled sales in the past two years through careful attention to its brand and the way it uses technology to build deep connections with its customers. Conversely, for those that get it wrong, the consequences are immediate and can be hugely damaging.

The impact of greater complexity and the power of networks is all around us. Mr Bezos understood this long before most people. As investors, we must simultaneously absorb and understand the implications of accelerating connectedness whilst stepping back from it to seek space for reflection. We can see the malign consequences of ever-faster networks in our stock markets and the shortening time-horizons this inflicts on corporate management teams. Our aim remains patiently to support the companies we think can navigate this complex world over the long term.

Tom Slater

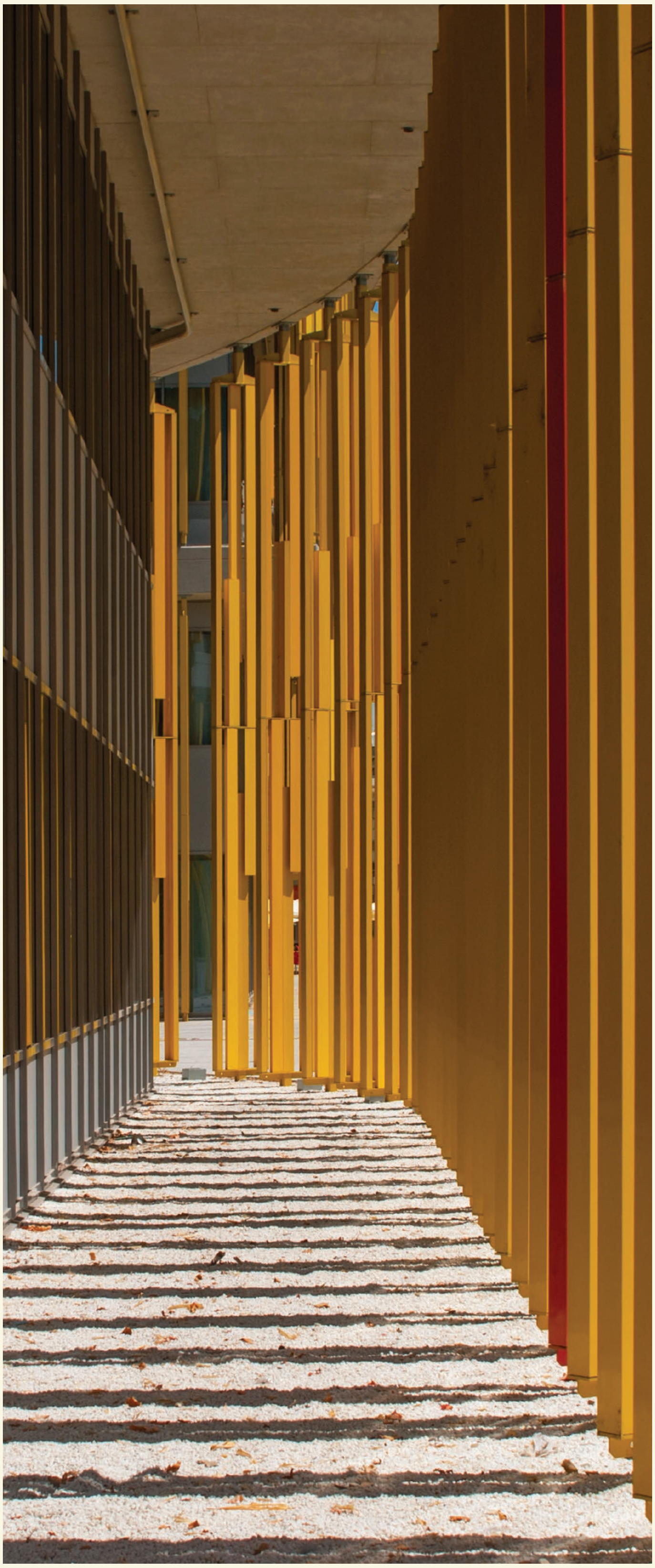
Managers' Core Beliefs

Whilst fund managers claim to spend much of their careers assessing the competitive advantage of companies they are notoriously reluctant to perform any such analysis on themselves. The tendency is to cite recent performance as evidence of skill despite the luck, randomness and mean-reverting characteristics of most such data. If this does not suffice then attention turns to a discussion of the high educational qualifications, hard work and exotic remuneration packages that the fund manager enjoys. Sometimes the procedural details of the investment process are outlined with heavy emphasis on risk controls. Little attention is given to either the distinctiveness of the approach or the strategic advantages the manager might enjoy in order to make imitation improbable. We think we should try to do better than this.

— We are long term in our investment decisions. It is only over periods of at least five years that the competitive advantages and managerial excellence of companies become apparent. It is these characteristics that we want to identify and support. We own companies rather than rent shares. We do not regard ourselves as experts in forecasting the oscillations of economies or the mood swings of markets. Indeed we think that it is hard to excel in such areas as this is where so many market participants focus and where so little of the value of companies lies. Equally Baillie Gifford is more likely to possess competitive advantages for the good of shareholders when it adopts a long-term perspective. We are a 111 year old Scottish partnership. We think about our own business over decades not quarters. Such stability may not be exciting but it does encourage patience in this most impatient of industries. We only judge our investment performance over five year plus time horizons. In truth it takes at least a decade to provide adequate evidence of investment skill.

— The investment management industry is ill-equipped to deal with the behavioural and emotional challenges inherent in today's capital markets. Our time frame and ownership structure help us to fight these dangers. We are besieged by news, data and opinion. The bulk of this information is of little significance but it implores you to rapid and usually futile action. This can be particularly damaging at times of stress. Academic research argues that most individuals dislike financial losses twice as much as they take pleasure in gains. We fear that for fund managers this relationship is close to tenfold. Internal and external pressures make the avoidance of loss dominant. This is damaging in a portfolio context. We need to be willing to accept loss if there is an equal or greater chance of (almost) unlimited gain.

— We are very dubious about the value of routine information. We have little confidence in quarterly earnings and none in the views of investment banks. We try to screen out rather than incorporate their noise. In contrast we think that the world offers joyous opportunities to hear views, perspectives and visions that are barely noticed by the markets. There is more in the investment world than the *Financial Times* or *Wall Street Journal* describe.



— We are global in stock selection, asset allocation and attribution. We are active not passive – or far worse – index plus in stock selection. Holding sizes reflect the potential upside and its probability (or otherwise) rather than the combination of the market capitalisation and geographical location of the company and its headquarters. We do not have sufficient confidence in our top-down asset allocation skills to wish to override stock selection. We do not have enough confidence in our market timing abilities to wish to add or remove gearing at frequent intervals. We do, however, have strong conviction that our portfolio should be comparatively concentrated, and that it is of little use to shareholders to tinker around the edges of indices. We think this produces better investment results and it certainly makes us more committed shareholders in companies. We suspect that selecting stocks on the basis of the past (their current market capitalisation) is a policy designed to protect the security of tenure of asset managers rather than to build the wealth of shareholders. Companies that are large and established tend to be internally complacent and inflexible. They are often vulnerable to assault by more ambitious and vibrant newcomers.

— We are Growth stock investors. Such has been the preference for Value and the search to arbitrage away minor rating differentials that investors find it very hard to acknowledge the extraordinary growth rates and returns that can be found today. The growth that we are particularly interested in is of an explosive nature and often requires minimal fixed assets or indeed capital. We think of it as 'Growth at Unreasonable Prices' rather than the traditional discipline of 'Growth at a Reasonable Price'. We need to be willing to pay high multiples of immediate earnings because the scale of future potential and returns can be so dramatic. On the stocks that flourish the valuation will have turned out to be derisorily low. On the others we will lose money.

— We believe that it is our first duty to shareholders to limit fees. Both the investment management fee (0.30% on the first £4 billion of assets, and 0.25% thereafter – please see page 28) and ongoing charges ratio (0.37% as at 31 March 2019) are low by comparative standards but at least adequate in absolute terms. We think that the malign impact of high fees is frequently underestimated. The difference between an ongoing charges ratio of 0.37% and one of 1.5% may not appear great but if the perspective is altered to think of costs as a percentage of expected annual returns then the contrast becomes obvious. If annual returns average 10% then this is the difference between removing approximately 4% or 15% of your returns each year. Nor do we believe in a performance fee. Usually it undermines investment performance. It increases pressure and narrows perspective.

Evolution

We first set out our Core Beliefs in the Annual Report of 2013 and reviewed the statement of these in 2018 to ensure that it still accurately captured how we approach investment. The original still stands, but inevitably our investment philosophy has evolved and no doubt will continue to do so. We have therefore added the following:

— We are optimists. In a world where limiting volatility and avoiding downside is the dominant investor mentality, we focus unashamedly on the drivers and implications of corporate success. Limiting volatility can make sense for an overall investment portfolio but we doubt the benefits of using equities to meet this objective. The asymmetric payoff structure (you can make far more if you're right about a stock than you can lose if you're wrong) is the fundamental attraction of investing in equity markets. Whilst we have long believed in the impact of a small number of exceptional companies, even we are surprised by how narrowly returns have been shown to extend within the market. Our own research demonstrates that in the past thirty years approximately five per cent. of stocks have returned at least five-fold in any five-year period. Over longer time horizons, this power law is even more dramatic. Academic work on the past ninety years of US data shows that over half of the excess return from equities came from just 90 companies. Investors enjoy little (if any) reward for taking the risk of owning the median stock in the market. Instead it is the outsized impact of a small number of exceptional companies that dominate the payoff structure.

— In this context we have defined our core task more narrowly: to identify companies that have sufficient opportunity to deliver such outlying returns and to own them for long enough without interference so that the return accrues to our shareholders. We previously noted our investment time horizon to be at least five years. In practice, for businesses where our conviction has remained steadfast and our difference from the market view is clear, we have held the shares for far longer. Today nine of our top ten listed holdings have been held for more than five years and three have been held for more than ten.

— Whilst listed equity markets currently remain the principle focus of our investments, the nature of capital markets has changed and our search for outliers has moved with it. Some of our most successful investee companies have benefited from (and indeed created) new growth models with dramatically lower financing requirements than has been the case historically. Access to online distribution has grown the addressable market for breakthrough businesses by an order of magnitude. The ability to harness third party infrastructure has drastically reduced the capital intensity of growth. This has made new companies less dependent on external financing. As a consequence, their boardrooms are not dominated by early financial investors looking to realise their gains and these companies are remaining private longer. They are being selective about their shareholders and they are reluctant to accept the burdens that accompany public status.

— We are determined to own the most promising Growth companies in the world. To maintain our opportunity set we have expanded our operations in private markets. This has little impact on our investment process. Access to fluctuating daily quotations for our holdings is more often a distraction than an advantage for a fund with permanent capital. We are preoccupied with company fundamentals and increasingly indifferent to a company's private or public status. As access to the most promising private companies is dependent on relationships and reputation our task becomes more important, as it is much harder for our shareholders to invest directly. Our scale and commitment to low costs allows us to do this without changing our fee structure.

— As we make these investments we are providing more primary capital to businesses and directly funding investment in future economic growth. The role of public equity markets in providing such investment capital has diminished. Declining holding periods and frenzied speculation around newsflow is the norm. More insidiously, the demand for immediate returns pressures companies to pay out their cashflows to shareholders rather than investing in their future. Professional management teams incentivised to maximise share prices have been happy to oblige, resulting in a declining proportion of cash flow being devoted to research and development or capital expenditure across the market. Such investments are needed more than ever in a world that is experiencing rapid change. Our holdings in public markets are heavily focused on companies whose ownership or management structure allows them to ignore such demands.

— Whilst we expressed our scepticism of the value of routine information in our original document, we didn't articulate where more useful counsel might lie or suggest that we ought to play our part in ensuring its existence. Some of you may have attended the book festivals we sponsor or read some of the shortlisted titles for the Baillie Gifford Prize for Non-Fiction. We have invested in supporting interesting authors and sought to enhance our investment thinking with their insight. We have built relationships with academics and universities. We are funding research which we hope will inform our long run thinking on companies. At the same time, our time horizon is facilitating a different type of relationship with the management teams with whom we invest. They find little of value or interest in the endless cycle of quarterly updates. They delight in having less frequent and more in-depth discussion about the longer-term development of their business. Getting to listen to the entrepreneurs and visionaries that have built some of these outstandingly successful franchises is a hugely valuable input to our investment approach.

— In turn, this is challenging us to re-evaluate our long-held belief that there is no opportunity for informational advantage in markets. Such inputs seem largely neglected in a world where 'colour on the quarter's numbers' is the main preoccupation of so-called investors. For instance, we first invested in Alibaba back in 2012 as a private company. Through our patient ownership and ongoing support, we have earned the opportunity to speak with the company's senior management. We believe the growth of the Chinese consumer economy is a transformational force in the global economy and there is no one better placed to help us understand its implications.

— Dialogue with management is a valuable input but the relationship extends in both directions. The investment management industry has ceded much of its role in the governance of companies to the vested interests of activist investors. We must do better. Ensuring strong governance and engaging with our holdings on matters of substance is our responsibility. More than that, it is essential if we are to be seen as attractive shareholders by our investee companies and if we are to maximise the returns we can generate on your behalf.

Tom Slater and James Anderson
Joint Portfolio Managers

Thirty Largest Holdings and Twelve Month Performance at 31 March 2019

Name	Business	Fair value 31 March 2019 £'000	% of total assets	Absolute performance* %	Contribution to absolute performance† %	Fair value 31 March 2018 £'000
Amazon.com	Online retailer and cloud computing	778,843	9.6	32.4	3.0	661,339
Illumina	Biotechnology equipment	613,045	7.5	41.5	2.3	433,312
Alibaba GroupⓅ	Online retailing and financial services	532,441	6.5	7.0	1.0	497,643
Tencent Holdings	Internet services	531,946	6.5	(4.9)	(0.1)	500,986
Tesla Inc	Electric cars, autonomous driving and solar energy	428,304	5.3	13.2	0.9	324,503
Kering	Luxury goods producer and retailer	299,236	3.7	41.4	1.7	231,740
Netflix	Subscription service for TV shows and movies	254,115	3.1	30.0	1.0	195,159
Ferrari	Luxury automobiles	246,825	3.0	21.2	0.7	195,553
ASML	Lithography	233,003	2.9	3.5	0.1	207,437
Ant International LimitedⓊ	Online financial services platform	191,858	2.4	3.0#	0.1	–
Inditex	Global clothing retailer	178,783	2.2	4.0	0.3	239,840
Spotify Technology SAⓅ	Online music streaming service	176,293	2.2	24.4	0.1	62,505
Baidu	Online search engine	141,665	1.7	(20.5)	(0.5)	265,268
Ctrip.com	Travel agent	138,253	1.7	0.9	0.1	137,095
Alphabet	Holding company for Google and associated ventures	132,109	1.6	22.6	0.4	128,777
Delivery Hero	Online food delivery service	124,960	1.5	(19.1)	(0.6)	67,124
Workday	Enterprise information technology	124,657	1.5	63.4	0.8	93,244
Bluebird Bio Inc	Provider of biotechnological products and services	123,604	1.5	(0.8)	0.1	124,535
Nvidia	Visual computing	119,284	1.5	(16.3)	(0.5)	143,346
Zalando	International online clothing retailer	116,867	1.4	(22.9)	(0.4)	151,205
Intuitive Surgical	Surgical robots	106,974	1.3	48.9	0.6	89,464
Facebook	Social networking site	105,764	1.3	11.8	0.2	130,886
Transferwise LtdⓊ‡	Online money transfer services	93,173	1.1	124.0	0.6	41,601
Housing Development Finance Corporation	Indian mortgage provider	92,568	1.1	10.4	0.2	84,710
Lyft IncⓅ	Ridesharing services	92,448	1.1	116.1	0.6	35,708
NIO IncⓅ	Designs and manufactures electric and autonomous vehicles	87,726	1.1	22.0	(0.2)	17,822
Kinnevik	Investment company	84,359	1.1	(15.9)	(0.2)	108,283
Indigo Agriculture IncⓊ‡	Analyses plant microbiomes to increase crop yields	77,425	1.0	124.3	0.4	24,950
Atlas Copco	Engineering	71,839	1.0	(5.9)	(0.1)	106,975
Meituan DianpingⓅ	Local services aggregator	67,254	0.9	27.1	–	26,774
		6,365,621	**78.3**			

* Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2018 to 31 March 2019. For the definition of total return see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

† Contribution to absolute performance (in sterling terms) has been calculated to illustrate how an individual stock has contributed to the overall return. It is influenced by both share price performance and the weighting of the stock in the portfolio, taking account of any purchases or sales over the period.

Figures relate to part period returns where the investment has been purchased in the period.

ⓊDenotes unlisted investment.

ⓅDenotes listed security previously held in the portfolio as an unlisted security.

‡ Multiple lines of stock held. Holding information represents the aggregate of all lines of stock.

Source: Baillie Gifford/StatPro and underlying data providers. See disclaimer on page 76.

Past performance is not a guide to future performance.

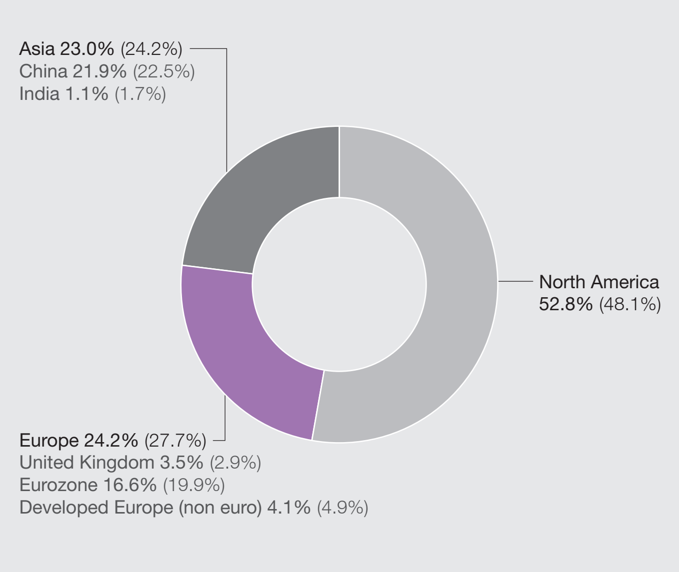
Investment Changes

	Valuation at 31 March 2018 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2019 £'000
North America	3,175,883	253,572	854,234	4,283,689
Europe				
United Kingdom	197,780	(15,122)	76,550	259,208
Eurozone	1,335,238	(9,327)	20,519	1,346,430
Developed Europe (non euro)	333,306	16,258	(17,073)	332,491
Asia				
China	1,492,078	327,027	(34,672)	1,784,433
India	111,730	(43,139)	23,977	92,568
Total investments	**6,646,015**	**529,269**	**923,535**	**8,098,819**
Net liquid assets	27,456	(916)	8,032	34,572
Total assets	**6,673,471**	**528,353**	**931,567**	**8,133,391**

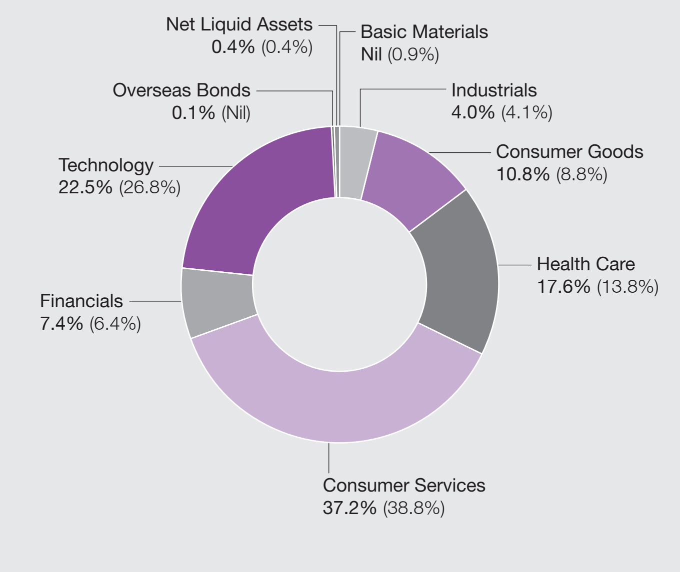
The figures above for total assets are made up of total net assets before deduction of all borrowings.

Distribution of Total Assets†

Geographical 2019 (2018)



Sectoral 2019 (2018)



† Total assets represents total net assets before deduction of all borrowings.

Long Term Investment

Portfolio Holding Periods as at 31 March 2019

More Than 5 Years

Name		% of total assets
Amazon.com	⑩	9.6
Illumina		7.5
Alibaba Group	Ⓟ	6.5
Tencent Holdings	⑩	6.5
Tesla Inc		5.3
Kering	⑩	3.7
Ferrari		3.0
ASML		2.9
Inditex		2.2
Baidu	⑩	1.7
Ctrip.com		1.7
Alphabet	⑩	1.6
Workday		1.5
Intuitive Surgical		1.3
Facebook		1.3
Housing Development Finance Corporation	⑩	1.1
Kinnevik		1.1
Atlas Copco	⑩	1.0
Renishaw		0.7
Alnylam Pharmaceuticals		0.3
Innovation Works Development Fund	Ⓤ	0.3
WI Harper Fund VII	Ⓤ	0.1
Level E Maya Fund		0.1
Total		**61.0**

2–5 Years

Name		% of total assets
Netflix		3.1
Spotify Technology SA	Ⓟ	2.2
Bluebird Bio Inc		1.5
Nvidia		1.5
Zalando		1.4
Transferwise	Ⓤ	1.1
Meituan Dianping*	Ⓟ	0.9
Tableau Software		0.8
Grail	Ⓤ	0.8
Orchard Therapeutics	Ⓟ	0.8
Anaplan	Ⓟ	0.7
Rocket Internet		0.7
Denali Therapeutics	Ⓟ	0.7
You & Mr Jones	Ⓤ	0.6
Essence Healthcare	Ⓤ	0.6
Ginkgo Bioworks	Ⓤ	0.5
Funding Circle	Ⓟ	0.5
HelloFresh	Ⓟ	0.4
JAND Inc (Warby Parker)	Ⓤ	0.4
Auto1	Ⓤ	0.4
Thumbtack	Ⓤ	0.3
SurveyMonkey	Ⓟ	0.3
Palantir Technologies	Ⓤ	0.3
CureVac	Ⓤ	0.3
Airbnb	Ⓤ	0.3
Unity Biotechnology	Ⓟ	0.2
Intarcia Therapeutics	Ⓤ	0.2
ZocDoc	Ⓤ	0.1
Udacity	Ⓤ	0.1
Sinovation Fund III	Ⓤ	0.1
ARCH Ventures Fund IX	Ⓤ	0.1
WI Harper Fund VIII	Ⓤ	0.1
Home24	Ⓟ	0.1
Total		**22.1**

Less Than 2 Years

Name		% of total assets
Ant International	Ⓤ	2.4
Delivery Hero		1.5
Lyft Inc	Ⓟ	1.1
NIO	Ⓟ	1.1
Indigo Agriculture	Ⓤ	1.0
Carbon	Ⓤ	0.7
Zipline	Ⓤ	0.7
Rubius Therapeutics	Ⓟ	0.6
Uptake Technologies	Ⓤ	0.6
Tanium	Ⓤ	0.6
Vir Biotechnology	Ⓤ	0.6
Space Exploration Technologies	Ⓤ	0.6
Shopify		0.5
Tempus Labs Inc	Ⓤ	0.5
HeartFlow	Ⓤ	0.5
Pinduoduo		0.5
Recursion Pharmaceuticals	Ⓤ	0.4
The Production Board	Ⓤ	0.4
Bolt Threads	Ⓤ	0.4
Eventbrite	Ⓟ	0.3
Full Truck Alliance	Ⓤ	0.3
Affirm	Ⓤ	0.3
Grubhub		0.3
Clover Health	Ⓤ	0.2
KSQ Therapeutics	Ⓤ	0.2
Slack Technologies	Ⓤ	0.1
Sana Biotechnology	Ⓤ	0.1
ARCH Ventures Fund X	Ⓤ	<0.1
ARCH Ventures Fund X Overage	Ⓤ	<0.1
Total		**16.5**

Ⓤ Denotes unlisted security.
Ⓟ Denotes listed security previously held in the portfolio as an unlisted security.
⑩ Denotes security held for more than 10 years.
* Previously known as Internet Plus Holdings.
Net liquid assets represent 0.4% of total assets. See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

List of Investments as at 31 March 2019

Name	Business	Fair value 31 March 2019 £'000	% of total assets	Contribution to absolute performance * %	Notes †	Fair value 31 March 2018 £'000
Amazon.com	Online retailer and cloud computing	778,843	9.6	3.0		661,339
Illumina	Biotechnology equipment	613,045	7.5	2.3		433,312
Alibaba Group℗	Online retailing and financial services	532,441	6.5	1.0		497,643
Tencent Holdings	Internet services	531,946	6.5	(0.1)		500,986
Tesla Inc	Electric cars, autonomous driving and solar energy	428,304	5.3	0.9	Significant addition	324,503
Kering	Luxury goods producer and retailer	299,236	3.7	1.7		231,740
Netflix	Subscription service for TV shows and movies	254,115	3.1	1.0		195,159
Ferrari	Luxury automobiles	246,825	3.0	0.7		195,552
ASML	Lithography	233,003	2.9	0.1		207,437
Ant International Limited Class C Ord.Ⓤ	Online financial services platform	191,858	2.4	0.1	New purchase	–
Inditex	Global clothing retailer	178,783	2.2	0.3	Significant reduction	239,840
Spotify Technology SA℗	Online music streaming service	176,293	2.2	0.1	Significant addition following IPO	62,505
Baidu	Online search engine	141,665	1.7	(0.5)	Significant reduction	265,268
Ctrip.com	Travel agent	138,253	1.7	0.1		137,095
Alphabet	Google search engine and associated ventures	132,109	1.6	0.4		128,777
Delivery Hero	Online food delivery service	124,960	1.5	(0.6)	Significant addition	67,124
Workday	Enterprise information technology	124,657	1.5	0.8	Significant reduction	93,244
Bluebird Bio Inc	Provider of biotechnological products and services	123,604	1.5	0.1		124,535
Nvidia	Visual computing	119,284	1.5	(0.5)		143,346
Zalando	International online clothing retailer	116,867	1.4	(0.4)		151,205
Intuitive Surgical	Surgical robots	106,974	1.3	0.6	Significant reduction	89,464
Facebook	Social networking site	105,764	1.3	0.2	Significant reduction	130,886
Transferwise Ltd Series D Pref.Ⓤ	Online money transfer service	45,327	0.6	0.3		20,238
Transferwise Ltd Series Ord.Ⓤ	Online money transfer service	19,266	0.2	0.1		8,602
Transferwise Ltd Series A Pref.Ⓤ	Online money transfer service	10,542	0.1	0.1		4,707
Transferwise Ltd Series B Pref.Ⓤ	Online money transfer service	9,588	0.1	0.1		4,281
Transferwise Ltd Series E Pref.Ⓤ	Online money transfer service	5,482	0.1	–		2,448
Transferwise Ltd Series Seed Pref.Ⓤ	Online money transfer service	2,565	<0.1	–		1,145
Transferwise Ltd Series C Pref.Ⓤ	Online money transfer service	403	<0.1	–		180
		93,173	1.1	0.6		41,601
Housing Development Finance Corporation	Indian mortgage provider	92,568	1.1	0.2		84,710
Lyft Inc℗	Ridesharing services	92,448	1.1	0.6	Significant addition following IPO	35,708
NIO Inc℗	Designs and manufactures electric and autonomous vehicles	87,726	1.1	(0.2)	Significant addition following IPO	17,822

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2018 to 31 March 2019. For the definition of total return see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

† Significant additions and reductions to investments have been noted where the transaction value is at least a 20% movement from the value of the holding at 31 March 2018. The change in value over the year also reflects the share price performance and the movement in exchange rates.

Ⓤ Denotes unlisted security.

℗ Denotes listed security previously held in the portfolio as an unlisted security.

Past performance is not a guide to future performance.

Name	Business	Fair value 31 March 2019 £'000	% of total assets	Contribution to absolute performance* %	Notes†	Fair value 31 March 2018 £'000
Kinnevik	Investment company	84,359	1.1	(0.2)		108,283
Indigo Agriculture Inc Series D Pref.ⓤ	Analyses plant microbiomes to increase crop yields	55,273	0.7	0.4		24,950
Indigo Agriculture Inc Series E Pref.ⓤ	Analyses plant microbiomes to increase crop yields	22,152	0.3	–	Participated in additional funding round	–
		77,425	1.0	0.4		24,950
Atlas Copco	Engineering	71,839	1.0	(0.1)	Sold shares in Epiroc received following spin-off	106,975
Meituan Dianpingⓟ	Local services aggregator	67,254	0.9	–	Significant addition following IPO	26,774
Tableau Software	Analytics software	67,133	0.8	0.4	Significant addition	33,609
Grail Inc Series B Pref.ⓤ	Clinical stage biotechnology company	66,768	0.8	0.2		53,485
Orchard Therapeuticsⓟ	Gene therapy for rare diseases	64,778	0.8	0.5	Participated in additional funding round and increased holding following IPO	16,076
Carbon Inc Series D Pref.ⓤ	Manufactures and develops 3D printers	36,796	0.4	0.1		28,514
Carbon Inc Series E Pref.ⓤ	Manufactures and develops 3D printers	23,023	0.3	–	Participated in additional funding round	–
		59,819	0.7	0.1		28,514
Zipline International Inc Series D Pref.ⓤ	Logistics company that designs, manufactures and operates drones to deliver medical supplies	30,697	0.4	–		–
Zipline International Inc Series C Pref.ⓤ	Logistics company that designs, manufactures and operates drones to deliver medical supplies	26,209	0.3	0.2		–
		56,906	0.7	0.2	New purchase	–
Anaplan Inc Commonⓟ	Enterprise planning software	56,535	0.7	0.6		14,677
Rocket Internet	Internet start-up factory	54,691	0.7	(0.1)		61,456
Renishaw	Electronic equipment	53,663	0.7	(0.1)		65,218
Denali Therapeuticsⓟ	Biotechnology	51,851	0.7	0.1		40,800
You & Mr Jones Class A Unitsⓤ	Digital advertising	50,650	0.6	0.2		34,538
Space Exploration Technologies Corp Series J Pref.ⓤ	Designs, manufactures and launches rockets and spacecraft	50,502	0.6	–	New purchase	–
Rubius Therapeutics Incⓟ	Biotechnology	47,558	0.6	0.2		28,863
Uptake Technologies Inc Series D Pref.ⓤ	Designs and develops enterprise software	47,427	0.6	(0.2)		60,814
Tanium Inc Class B Commonⓤ	Provides security and systems management solutions	46,813	0.6	–	New purchase	–
Essence Healthcare Series 3 Pref.ⓤ	Cloud-based health provider	46,105	0.6	0.2		27,837
Vir Biotechnology Inc Series A Pref.ⓤ	Biotechnology company developing anti-infective therapies	30,697	0.4	0.3		7,200
Vir Biotechnology Inc Series B Pref.ⓤ	Biotechnology company developing anti-infective therapies	15,349	0.2	–	Participated in additional funding round	–
		46,046	0.6	0.3		7,200

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2018 to 31 March 2019. For the definition of total return see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

† Significant additions and reductions to investments have been noted where the transaction value is at least a 20% movement from the value of the holding at 31 March 2018. The change in value over the year also reflects the share price performance and the movement in exchange rates.

ⓤ Denotes unlisted security.

ⓟ Denotes listed security previously held in the portfolio as an unlisted security.

Past performance is not a guide to future performance.

Name	Business	Fair value 31 March 2019 £'000	% of total assets	Contribution to absolute performance * %	Notes †	Fair value 31 March 2018 £'000
Gingko Bioworks Inc Series D Pref.ⓤ	Bio-engineering company	22,796	0.3	–		20,853
Gingko Bioworks Inc Series C Pref.ⓤ	Bio-engineering company	21,867	0.2	–		21,444
		44,663	0.5	–		42,297
Funding Circleⓟ	Facilitates loans to small and medium enterprises	42,748	0.5	–	Significant addition following IPO	25,218
Shopify	Cloud-based commerce platform provider	41,338	0.5	0.2	New purchase	–
Tempus Labs Inc Series E Pref.ⓤ	Offers molecular diagnostics tests for cancer and aggregates clinical oncology records	40,849	0.5	0.1	New purchase	–
Heartflow Inc Series E Pref.ⓤ	Develops software for cardiovascular disease diagnosis and treatment	40,065	0.5	–		37,423
Pinduoduo Inc	Chinese e-commerce	39,711	0.5	0.1	New purchase	–
Recursion Pharmaceuticals Inc Series C Pref.ⓤ	Uses image recognition/machine learning and automation to improve drug discovery	38,372	0.4	–	New purchase	–
HelloFreshⓟ	Grocery retailer	33,661	0.4	(0.3)	Significant addition	44,416
JAND Inc (Warby Parker) Series D Pref.ⓤ	Online and physical glasses retailer	17,087	0.2	–		16,844
JAND Inc (Warby Parker) Series A Commonⓤ	Online and physical glasses retailer	11,019	0.1	–		10,862
JAND Inc (Warby Parker) Series E Pref.ⓤ	Online and physical glasses retailer	4,220	0.1	–		4,094
		32,326	0.4	–		31,800
The Production Board Series A-2 Pref.ⓤ	Holding company for food technology companies	31,925	0.4	–	New purchase	–
Auto1 Group GmbH Series E Pref.ⓤ	Online retailer of used cars	31,269	0.4	0.1		21,918
Bolt Threads Inc Series D Pref.ⓤ	Natural fibres and fabrics manufacturer	31,182	0.4	0.1		24,950
Thumbtack Inc Series G Pref.ⓤ	Online directory service for local businesses	25,791	0.3	–		24,963
SurveyMonkeyⓟ	Online surveys	24,732	0.3	0.2	Significant addition following IPO	10,920
Eventbrite Incⓟ	Online ticketing service	23,924	0.3	–		17,822
Alnylam Pharmaceuticals	Biotechnology	23,459	0.3	(0.1)		27,763
Palantir Technologies Inc Series J Pref.ⓤ	Data integration software and service provider	23,394	0.3	–		22,573
Full Truck Alliance Ltd Series A-15 Pref.ⓤ	Freight-truck matching platform	23,023	0.3	–	New purchase	–
Innovation Works Development Fundⓤ	Venture capital fund	22,300	0.3	0.1		19,784
Affirm Inc Series F Pref.ⓤ	Online platform which provides lending and consumer credit services	21,872	0.3	–	New purchase	–
CureVac AG Series B Pref.ⓤ	Biotechnology	21,542	0.3	–		21,918

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2018 to 31 March 2019. For the definition of total return see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

† Significant additions and reductions to investments have been noted where the transaction value is at least a 20% movement from the value of the holding at 31 March 2018. The change in value over the year also reflects the share price performance and the movement in exchange rates.

ⓤ Denotes unlisted security.

ⓟ Denotes listed security previously held in the portfolio as an unlisted security.

Past performance is not a guide to future performance.

Name	Business	Fair value 31 March 2019 £'000	% of total assets	Contribution to absolute performance * %	Notes †	Fair value 31 March 2018 £'000
Grubhub	US online food services	20,797	0.3	(0.2)	New purchase	–
Airbnb Inc Series E Pref.ⓤ	Online market place for travel accommodation	20,648	0.3	–		20,750
Unity Biotechnologyⓟ	Clinical stage biotechnology company	20,003	0.2	(0.3)	Significant addition following IPO	25,836
Intarcia Therapeutics Inc Convertible Bondⓤ	Implantable drug delivery system	11,511	0.1	–	Additional investment	–
Intarcia Therapeutics Inc Series EE Pref.ⓤ	Implantable drug delivery system	8,039	0.1	(0.1)		16,705
		19,550	0.2	(0.1)		16,705
Clover Health Investments Series D Pref.ⓤ	Healthcare insurance provider	19,190	0.2	(0.1)		20,714
KSQ Therapeutics Inc Series C Pref.ⓤ	Biotechnology company	19,186	0.2	–	New purchase	–
Zocdoc Inc Series D-2 Pref.ⓤ	Online platform for searching for doctors and booking appointments	17,492	0.1	–		16,900
Slack Technologies Inc Series H Pref.ⓤ	Enterprise messaging platform	10,338	0.1	–	New purchase	–
WI Harper Fund VIIⓤ	Venture capital fund	9,885	0.1	–		7,806
Udacity Inc Series D Pref.ⓤ	Online education	9,606	0.1	–		10,155
Sinovation Fund IIIⓤ	Venture capital fund	8,256	0.1	–	Additional investment	5,320
ARCH Ventures Fund IXⓤ	Venture capital fund to invest in biotech start-ups	8,242	0.1	–	Additional investment	2,575
WI Harper Fund VIIIⓤ	Venture capital fund	6,970	0.1	–	Additional investment	5,171
Sana Biotechnology Inc Series A-2 Pref.ⓤ	Biotechnology company creating and delivering engineered cells as medicine	6,395	0.1	–	New purchase	–
Home24 AGⓟ	Online furniture retailer	5,593	0.1	(0.3)		29,936
Level E Maya Fund	Artificial intelligence based algorithmic trading	4,846	0.1	–		5,174
ARCH Ventures Fund Xⓤ	Venture capital fund to invest in biotech start-ups	413	<0.1	–	New purchase	–
ARCH Ventures Fund X Overageⓤ	Venture capital fund to invest in biotech start-ups	397	<0.1	–	New purchase	–
Total Investments		**8,098,819**	**99.6**			
Net liquid assets		34,572	0.4			
Total Assets		**8,133,391**	**100.0**			

	Listed equities %	Unlisted securities # %	Unlisted bonds %	Net liquid assets %	Total %
31 March 2019	**82.2**	**17.3**	**0.1**	**0.4**	**100.0**
31 March 2018	84.6	15.0	–	0.4	100.0

Figures represent percentage of total assets.

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2018 to 31 March 2019. For the definition of total return see Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

† Significant additions and reductions to investments have been noted where the transaction value is at least a 20% movement from the value of the holding at 31 March 2018. The change in value over the year also reflects the share price performance and the movement in exchange rates.

ⓤ Denotes unlisted security.

ⓟ Denotes listed security previously held in the portfolio as an unlisted security.

Includes holdings in preference shares and ordinary shares.

The following investments were completely sold during the period: BASF, Dropbox, Marketaxess Holdings, Prudential, Rolls-Royce Group, Svenska Handelsbanken and Under Armour. The following investments were taken over during the period: Flatiron Health, Flipkart and Mobike.

Source: Baillie Gifford/StatPro.

Ten Year Record

Capital

At 31 March	Total assets £'000	Borrowings £'000	Shareholders' funds £'000	Shareholders' funds/net asset value (book) per share p	Net asset value per share * (fair) p	Net asset value per share * (par) p	Share price p	Premium/ (discount) † (fair) %	Premium/ (discount) † (par) %
2009	1,398,270	317,933	1,080,337	79.4	76.8	79.9	70.6	(8.0)	(11.6)
2010	2,154,585	314,677	1,839,908	141.8	138.6	142.2	121.8	(12.1)	(14.4)
2011	2,502,278	369,984	2,132,294	166.2	163.3	166.7	148.4	(9.1)	(11.0)
2012	2,378,319	365,996	2,012,323	158.7	153.7	159.1	141.6	(7.9)	(11.0)
2013	2,593,446	375,078	2,218,368	176.7	171.5	177.1	164.5	(4.1)	(7.1)
2014	2,986,580	388,867	2,597,713	211.8	208.0	212.2	208.8	0.4	(1.6)
2015	3,820,439	487,221	3,333,218	267.6	262.4	268.0	267.2	1.8	(0.3)
2016	3,955,398	497,954	3,457,444	263.4	259.2	263.8	262.5	1.3	(0.5)
2017	5,383,157	509,566	4,873,591	358.7	354.6	359.0	366.1	3.2	2.0
2018	6,673,471	485,715	6,187,756	443.5	439.9	443.7	442.2	0.5	(0.3)
2019	**8,133,391**	**703,461**	**7,429,930**	**504.0**	**500.8**	**504.2**	**512.0**	**2.2**	**1.5**

Source: Refinitiv/Baillie Gifford. See disclaimer on page 76.

* Net asset value per ordinary share has been calculated after deducting long term borrowings at either par, book or fair value (see note 18, page 67 and Glossary of Terms and Alternative Performance Measures on pages 77 and 78).

† Premium/(discount) is the difference between the Company's quoted share price and its underlying net asset value with borrowings at either par value or fair value. See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

Revenue

Gearing Ratios

Year to 31 March	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share # p	Dividend paid and proposed per ordinary share (net) p	Ongoing charges ratio ‡ %	Gearing ¶ %	Potential gearing § %
2009	57,470	34,571	2.53 ^	2.46 ^	0.54	26	29
2010	49,174	30,200	2.24	2.26	0.52	16	17
2011	53,703	34,374	2.66	2.40	0.51	17	17
2012	52,689	33,473	2.61	2.60	0.51	17	18
2013	58,950	39,510	3.12	2.80	0.51	16	17
2014	50,385	30,209	2.43	2.90	0.50	15	15
2015	38,964	27,540	2.24	2.93	0.48	12	15
2016	32,910	21,428	1.66	2.96	0.45	13	14
2017	27,796	14,136	1.07	3.00	0.44	9	10
2018	30,663	16,701	1.20	3.07	0.37	7	8
2019	**28,187**	**23,669**	**1.64**	**3.13**	**0.37**	**9**	**9**

Source: Baillie Gifford.

\# The calculation of earnings per ordinary share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue (excluding treasury shares) (see note 7, page 55).

‡ Calculated as total operating costs divided by average net asset value (with debt at fair value) in accordance with AIC guidelines. See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

¶ Total assets (including all debt used for investment purposes) less all cash and cash equivalents divided by shareholders' funds. See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds. See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

^ Includes a non-recurring 0.3p per share from the reimbursement of previous years' VAT and associated interest thereon.

Cumulative Performance (taking 2009 as 100)

At 31 March	Net asset value per share (fair)	Net asset value total return (fair)	Benchmark ††	Benchmark †† total return	Share price	Share price total return	Revenue earnings per ordinary share	Dividend paid and proposed per ordinary share (net)	Retail price index
2009	100	100	100	100	100	100	100	100	100
2010	181	184	77	148	173	177	88	92	104
2011	213	221	112	161	210	219	105	98	110
2012	200	211	118	161	201	213	103	106	114
2013	223	240	115	188	233	253	123	114	118
2014	271	296	130	201	296	326	96	118	121
2015	342	378	136	239	378	422	88	119	122
2016	338	377	158	238	372	419	66	120	124
2017	462	522	153	317	519	591	42	122	127
2018	573	652	198	326	626	719	47	125	132
2019	**652**	**747**	**199**	**361**	**725**	**837**	**65**	**127**	**135**
Compound annual returns									
5 year	19.2%	20.4%	8.9%	12.4%	19.6%	20.8%	(7.5%)	1.5	2.3%
10 year	20.6%	22.3%	7.1%	13.7%	21.9%	23.7%	(4.3%)	2.4	3.0%

Source: Refinitiv/Baillie Gifford and relevant underlying providers. See disclaimer on page 76.

†† Benchmark: FTSE All-World Index (in sterling terms). See disclaimer on page 76. All per share figures have been restated for the five for one share split on 30 June 2014.

Past performance is not a guide to future performance.

Directors and Management

The members of the Board come from a broad variety of backgrounds. The Board can draw on an extensive pool of knowledge and experience.

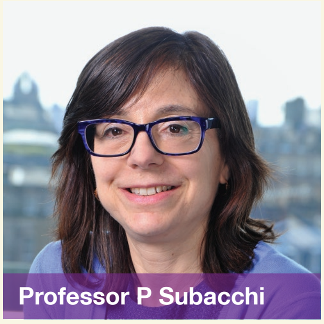
Directors

Fiona McBain is the former chief executive of Scottish Friendly Assurance, a mutually owned financial services group with over 1,000,000 policyholders. Fiona was appointed a Director in 2009 and became Chairman in 2017. She is also Chairman of the Nomination Committee. Before joining Scottish Friendly in 1998, Fiona, a chartered accountant, was employed by Prudential plc and Arthur Young (now EY) where she spent some time working across a number of industry sectors, both in the UK and in the United States. She is also a non-executive director of Dixons Carphone plc and Direct Line Insurance Group plc.

John Kay has a distinguished record as an economist, academic, author and commentator on business, government and economic issues. John was appointed a Director in 2008. He is a fellow of St John's College, University of Oxford and Investment Officer of the College and he is a non-executive director of Value and Income Trust PLC.

Justin Dowley is a former international investment banker and was appointed a Director in 2015. He qualified as a chartered accountant at Price Waterhouse in 1980. Subsequently he was a director of Morgan Grenfell & Co. Limited, Head of Investment Banking at Merrill Lynch Europe and a founder partner of Tricorn Partners LLP. Formerly the chairman of Intermediate Capital Group plc, he is currently a deputy chairman of The Takeover Panel, the chairman of Melrose Industries plc and a non-executive director of a number of private companies.

Patrick Maxwell is the Regius Professor of Physic and Head of the School of Clinical Medicine at Cambridge University. He was appointed a Director in 2016. Patrick has extensive knowledge and experience of the biotechnology sector and holds a Wellcome Trust senior investigator award for his research on oxygen sensing. He was elected a Fellow of the Academy of Medical Sciences in 2005. He is currently a member of the boards of Cambridge University Health Partners (CUHP) and Cambridge University Hospitals NHS Foundation Trust.



Paola Subacchi is an economist, writer and commentator on the functioning and governance of the international and monetary system. Paola was appointed to the Board in 2014. She is a professor of international economics at the Global Policy Institute, Queen Mary University London, a visiting professor at the University of Bologna, non-executive director of BlackRock Greater Europe Investment Trust PLC and the founding director of Essential Economics (e-economics.com). Her latest book, *The People's Money: How China is building a global currency*, was published by Columbia University Press. An Italian national, Paola studied at Universitá Bocconi in Milan and at the University of Oxford. In 2016 she received the honour Cavaliere dell'Ordine della Stella d'Italia.

The Chairman is also chairman of the Nomination Committee. All Directors are members of the Nomination and Audit Committees with the exception of Professor John Kay who is not a member of the Audit Committee. The Chairman rejoined the Audit Committee on 1 April 2019.

Managers and Secretaries

The Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager and Company Secretary. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Baillie Gifford & Co is an investment management firm formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been Managers and Secretaries to the Company since its formation in 1909.

Baillie Gifford is one of the largest investment trust managers in the UK and currently manages nine investment trusts. Baillie Gifford also manages open ended investment companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford total around £194 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 43 partners and a staff of around 1,100.

The Managers of Scottish Mortgage's portfolio are James Anderson and Tom Slater. James Anderson is a partner of Baillie Gifford & Co and Head of the Long Term Global Growth team. Tom Slater is also a partner and Head of the North American equities team.

Baillie Gifford & Co and Baillie Gifford & Co Limited are both authorised and regulated by the Financial Conduct Authority.

Directors' Report

The Directors present their Report together with the Financial Statements of the Company for the year to 31 March 2019.

Corporate Governance

The Corporate Governance Report is set out on pages 32 to 35 and forms part of this Report.

Manager and Company Secretaries

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretaries. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Dealing activity and transaction reporting has been further sub-delegated to Baillie Gifford Overseas Limited.

The Investment Management Agreement sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Investment Management Agreement is terminable on not less than six months' notice. The annual management fee for the year to 31 March 2019 was 0.30% on the first £4 billion of total assets less current liabilities (excluding short term borrowings for investment purposes) and 0.25% on the remaining assets.

Careful consideration has been given by the Board as to the basis on which the management fee is charged. The Board considers that maintaining a low ongoing charges ratio is in the best interests of all shareholders as lower costs mean higher returns, particularly when compounded over long periods. The Board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance.

The Board as a whole fulfils the functions of the Management Engagement Committee. The Board considers the Company's investment management and secretarial arrangements on a continuing basis and a formal review is conducted at least annually. The Board considers, amongst others, the following topics in its review: the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date, the administrative services provided by the Secretaries, the marketing efforts undertaken by the Managers and the promotion of diversity by the Managers. Following the most recent review and the good performance (particularly over the long term), it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co Limited as AIFM and the delegation of investment management services to Baillie Gifford & Co, on the terms agreed, is in the interests of shareholders as a whole.

Depositary

In accordance with the Alternative Investment Fund Managers Directive, the AIFM must appoint a Depositary to the Company. On 3 April 2018, the appointed Depositary changed from BNY Mellon Trust & Depositary (UK) Limited to The Bank of New York Mellon (International) Limited following an internal reorganisation at The Bank of New York.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. Following the internal reorganisation at The Bank of New York, the custody function is also undertaken by The Bank of New York Mellon (International) Limited ('the Custodian') (having previously been delegated to The Bank of New York Mellon SA/NV).

Directors

Information about the Directors, including their relevant experience, can be found on pages 26 and 27.

All Directors will retire at the Annual General Meeting and offer themselves for re-election.

Following a formal performance evaluation this year facilitated by external consultants, the Board considers that the performance of the Directors continues to be effective and each remains committed to the Company. Their contribution to the Board is greatly valued and the Board recommends their re-election to shareholders.

The Board also considers that FC McBain and Professor JA Kay remain independent notwithstanding having served on the Board for more than nine years (see page 32).

Director Indemnification and Insurance

The Company has entered into qualifying third party deeds of indemnity in favour of each of its Directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for 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 or her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person. The indemnities were in force during the year to 31 March 2019 and up to the date of approval of this Report.

The Company maintains Directors' and Officers' Liability Insurance.

Conflicts of Interest

Each Director submits a list of potential conflicts of interest to the Nomination Committee on an annual basis. The Committee considers these carefully, taking into account the circumstances surrounding them and makes a recommendation to the Board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a Director which conflicted with the interests of the Company.

Dividends

The Board recommends a final dividend of 1.74p per ordinary share which, together with the interim dividend of 1.39p per ordinary share already paid, makes a total of 3.13p for the year compared with 3.07p per ordinary share for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 2 July 2019 to shareholders on the register at the close of business on 7 June 2019. The ex-dividend date is 6 June 2019.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 72) and the final date for elections for this dividend is 11 June 2019.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2019 consists of 1,474,255,880 ordinary shares of 5p each, all of which are allotted and fully paid. No shares are held in treasury as at 31 March 2019. There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval.

Capital Entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found on pages 69 and 70.

Major Interests Disclosed in the Company's Shares

Name	No. of ordinary 5p shares held at 31 March 2019	% of issue*
BlackRock Inc (Indirect)	73,650,828	5.0

Following the year end, the BlackRock shareholding noted above was reported as falling below 5%. There have been no other changes to the major interests in the Company's shares disclosed to the Company up to 13 May 2019.

* Ordinary shares in issue excluding treasury shares.

Share Issuances and Share Buy-backs

At the last Annual General Meeting the Directors were granted power to allot equity securities or sell ordinary shares held in treasury for cash up to a maximum nominal amount of £7,020,816.

During the year to 31 March 2019 the Company sold 26,367,671 shares from treasury (nominal value £1,318,383.55) and issued 52,525,000 shares (nominal value £2,627,000), representing in aggregate 5.7% of the called up share capital (excluding treasury shares), at 31 March 2018). The shares were sold/issued on a non pre-emptive basis at a premium to net asset value (on the basis of debt valued at fair value) over 91 separate occasions at an average price of 514.6 pence per share raising net proceeds of £402,890,000. At 31 March 2019 no shares were held in treasury. Between 1 April and 13 May 2019 the Company issued a further 4,450,000 shares raising proceeds of £23,463,000.

During the year to 31 March 2019 no shares were bought back and no shares were bought back between 1 April and 13 May 2019.

The Directors will again be seeking authorities at the forthcoming Annual General Meeting to buy back shares and to sell any shares held in treasury and allot new shares at a premium to the net asset value per share with debt valued at a fair value. Details of these resolutions are set out below.

Annual General Meeting

Resolution 11 – Authority to allot shares

Section 551 of the Companies Act 2006 provides that the Directors may not allot new shares without shareholder approval. Resolution 11 seeks to renew the Directors' authority to allot shares up to a maximum nominal amount of £7,393,529.40, representing approximately 10 per cent. of the Company's total issued ordinary share capital as at 13 May 2019, being the latest practicable date prior to publication of this document.

The Directors presently intend to exercise this power when the number of shares held by the Company in treasury is not sufficient to support share issuance by the Company in accordance with its stated liquidity policy. As at 13 May 2019, the Company held no ordinary shares in treasury. The authority will expire on 27 September 2020 or, if earlier, at the end of the Annual General Meeting of the Company to be held in 2020, unless previously cancelled or varied by the Company in general meeting.

Resolution 12 – Disapplication of pre-emption rights

Resolution 12, which is being proposed as a Special Resolution, seeks to renew the Directors' authority to allot equity securities, or sell treasury shares, for cash without having to offer such shares to existing shareholders pro-rata to their existing holdings, up to a total nominal amount of £7,393,529.40, representing approximately 10 per cent. of the Company's total issued ordinary share capital as at 13 May 2019, being the latest practicable date prior to publication of this document.

The Directors consider that the authority proposed to be granted by Resolution 12 continues to be advantageous when the Company's shares trade at a premium to net asset value and the level of natural liquidity in the market is unable to meet demand. The Directors do not intend to use this authority to sell or issue ordinary shares on a non pre-emptive basis at a discount to net asset value on the basis of debt valued at fair value. The attention of shareholders is drawn to information set out under Resolution 13 below.

While the level of the authority being sought is greater than the 5 per cent. recommended by the Pre-Emption Group in their Statement of Principles on disapplying pre-emption rights, it is specifically recognised in the Statement of Principles that, where an investment trust is seeking authority to issue shares at a premium to the underlying net asset value per share, this should not normally raise concerns and the Directors consider the greater flexibility provided by this authority to be justified in the circumstances.

Resolution 13 – Authority to issue shares at a discount to net asset value

As noted above, the Directors do not intend to sell ordinary shares held in treasury or to issue new ordinary shares on a non pre-emptive basis at a discount to net asset value on the basis of debt valued at fair value. The Directors are aware that LR 15.4.11 of the Listing Rules prohibits the issue of ordinary shares (including ordinary shares held in treasury) for cash at a price below the net asset value per share of those shares without such shares first being offered to existing shareholders pro-rata to their existing holdings.

It is a general market understanding in this context that 'net asset value' is determined on the basis of debt valued at fair value, but, for the purposes of LR 15.4.11, the term 'net asset value' is not specifically defined. As a result, having regard to guidance previously received from the UKLA and consistent with the approach adopted last year, the Directors wish to ensure that any sale of ordinary shares held in treasury or issue of new ordinary shares will not result in an inadvertent breach of the Listing Rules by virtue of the UKLA determining that 'net asset value' should be calculated on the basis of debt valued at par value. Resolution 13 seeks to renew the authority granted to the Company at the 2018 Annual General Meeting to issue shares at a discount to net asset value, in order to continue to protect against any such inadvertent breach. The Directors wish to reiterate that they will in no circumstances seek to issue ordinary shares (including ordinary shares held in treasury) for cash at a price below the net asset value per share on the basis of debt valued at fair value.

Resolution 14 – Market purchase of own shares by the Company

The Directors are seeking shareholders' approval (by way of a Special Resolution) at the Annual General Meeting to renew the authority to purchase up to 14.99 per cent. of the ordinary shares in issue (excluding treasury shares) as at 13 May 2019, being the latest practicable date prior to publication of this document (or, if less, up to 14.99 per cent. of the ordinary shares in issue (excluding treasury shares) on the date on which the Resolution is passed). This authority will expire at the end of the Annual General Meeting of the Company to be held in 2020. Such purchases will only be made at a discount to the prevailing net asset value. The Company may hold bought back shares in treasury and then:

(a) sell such shares (or any of them) for cash (or its equivalent under the Companies Act 2006); or

(b) cancel such shares (or any of them).

Shares will only be re-sold from treasury at (or at a premium to) the net asset value per ordinary share on the basis of debt valued at fair value, in accordance with Resolution 13.

Treasury shares do not receive distributions and the Company will not be entitled to exercise the voting rights attaching to them.

Under the Listing Rules, the maximum price (exclusive of expenses) that may be paid on the exercise of the authority shall be an amount equal to the higher of:

(i) 5 per cent. above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of the purchase; and

(ii) the higher of the price of the last independent trade and the highest current independent bid as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy back programmes and stabilisation of financial instruments (No. 2273/2003).

The minimum price (again exclusive of expenses) that may be paid will be the par value of an ordinary share. Purchases of ordinary shares will be made within guidelines established, from time to time, by the Board. The Company does not have any warrants or options in issue.

The Directors intend that this authority, if conferred, will be exercised only if to do so would result in an increase in net asset value per ordinary share for the remaining shareholders and if it is in the best interests of shareholders generally.

Recommendation

The Board considers that all the Resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole. Accordingly, the Board unanimously recommends that you vote in favour of all of the Resolutions, as the Directors intend to do where possible in respect of their own beneficial shareholdings which amount in aggregate to 292,980 shares, representing 0.02% of the current issued share capital of the Company.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, borrowings and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 18 to the accounts.

Articles of Association

The Company's Articles of Association may only be amended by Special Resolution at a general meeting of shareholders.

Disclosure of Information to Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditor is unaware and the Directors have taken all the steps that they ought to 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.

Independent Auditor

Following the conclusion of a formal tender process led by the Company's Audit Committee, the Board has approved the proposed appointment of PricewaterhouseCoopers LLP as Auditor for the financial year commencing 1 April 2019. PricewaterhouseCoopers LLP has expressed its willingness to be appointed Auditor to the Company. The appointment is subject to shareholder approval at the Annual General Meeting to be held on 27 June 2019 and resolutions concerning PricewaterhouseCooper's appointment and remuneration will be submitted to the Annual General Meeting. The Board extends its appreciation to KPMG LLP for its services as Auditor and confirms that there are no matters in connection with KPMG LLP ceasing to hold office as Auditor following the 2019 audit which need to be brought to the attention of shareholders.

Post Balance Sheet Events

The Directors confirm that there have been no post Balance Sheet events up to 15 May 2019 other than those noted in note 19 on page 67.

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. The Company therefore has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Criminal Finances Act 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

Bribery Act

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

By order of the Board
Fiona McBain
15 May 2019

Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2016 UK Corporate Governance Code (the 'Code'), which can be found at www.frc.org.uk and the principles of the Association of Investment Companies ('AIC') Code of Corporate Governance were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at www.theaic.co.uk.

The Board has noted the new UK Corporate Governance Code published in July 2018 and the new AIC Code of Corporate Governance published in February 2019. The Company will report against these codes for the year ending 31 March 2020.

Compliance

The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code. The Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. Given that the Company is an externally managed investment trust, the Board considers these provisions are not relevant to the Company (the need for an internal audit function specific to the Company has been addressed on page 36).

The Board is of the opinion that the Company has complied with the recommendations of the AIC Code.

The Board

The Board has overall responsibility for the Company's affairs. The Board appoints the Managers and Secretaries and approves the terms of the investment management agreement. It has a number of matters reserved for its approval including strategy, investment policy, currency hedging, borrowings, gearing, share buy back and issuance policy, treasury matters, dividend and corporate governance policy. A separate meeting devoted to strategy is held each year. The Board also reviews the financial statements, investment transactions, revenue budgets and performance. Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities.

The Board comprises five Directors, all of whom are non-executive. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The executive responsibility for investment management has been delegated to the Company's Alternative Investment Fund Manager ('AIFM'), Baillie Gifford & Co Limited and, in the context of a Board comprising only non-executive Directors, there is no chief executive officer. Professor JA Kay is the Senior Independent Director.

The Directors believe that the Board has a balance of skills and experience that enables it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on pages 26 and 27.

There is an agreed procedure for Directors to seek independent professional advice, if necessary, at the Company's expense.

Appointments

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for inspection on request.

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. In accordance with the Code all the Directors will retire at each Annual General Meeting and, if appropriate, offer themselves for re-election.

Independence of Directors

All the Directors are considered by the Board to be independent of the Managers and free of any business or other relationship that could interfere with the exercise of their independent judgement.

Professor JA Kay and FC McBain have served on the Board for more than nine years. The Directors recognise the value of progressive refreshing of, and succession planning for, company boards and the Board's composition is reviewed annually. The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can be a benefit to the Board.

The Board does not believe the simple imposition of inflexible numerical based limits on the tenure of individual members to be the best way to ensure ongoing diversity and Board refreshment overall. In determining the appropriate length of service for each Director, including the Chairman, the Board must judge the appropriate balance between the retention of the corporate memory of the Company with a suitable rate of refreshment at any given point in time. Further, the Board wishes to retain the flexibility to be able to recruit outstanding candidates when they become available rather than simply adding new Directors based upon a predetermined timetable.

As the new Corporate Governance Code comes into effect over the course of this year, the Board will continue to monitor the development of best practice and align its policies in these related areas as appropriate, to include a formal statement of these policies.

The Board's approach to the tenure of the Chairman is in accordance with the FRC endorsed 2016 AIC Code of Corporate Governance, applicable to the year under review, and will (subject to certain additional disclosures) continue to be in accordance with the FRC endorsed 2019 AIC Code of Corporate Governance (applicable to the Company's financial year ending 31 March 2020) which specifically, and as an FRC-agreed departure from the 2018 UK Corporate Governance Code, does not impose a nine year limit on the tenure of an investment trust's chairman on the board of directors.

Following formal performance evaluation, the Board has concluded that, notwithstanding their length of service, Professor JA Kay and FC McBain continue to demonstrate independence of character and judgement and their skill and experience are a benefit to the Board.

Meetings

There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, revenue budgets, dividend policy and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the core Board and Committee Meetings held during the year (various additional meetings were also held). The Annual General Meeting was attended by all Directors serving at that date.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**6**	**2**	**1**
Fiona McBain	6	–	1
Justin Dowley	6	2	1
Professor John Kay	6	–	1
Professor Patrick Maxwell	5	2	–
Professor Paola Subacchi	6	2	1

Fiona McBain rejoined the Audit Committee on 1 April 2019.

Nomination Committee

The Nomination Committee consists of the independent non-executive Directors and the Chairman of the Board is Chairman of the Committee. The Committee meets on an annual basis and at such other times as may be required. The Committee has written terms of reference which include reviewing the Board, identifying and nominating new candidates for appointment to the Board, Board appraisal, Board independence, succession planning and training. The Committee also considers whether Directors should be recommended for re-election by shareholders. The Committee is responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised.

Board Diversity

Appointments to the Board are made on merit with due regard for the benefits of diversity, including gender. The priority in appointing new directors is to identify the candidate with the best range of skills and experience to complement the existing Directors. The Board believes diversity of thought is vital for informing the decisions taken for the Company. The Board considers that this diversity is more likely to arise through debate between a group of individuals who can bring together a mix of experiences, whether those arise through their variety of professional disciplines, cultural backgrounds, gender or other factors, rather than the application of rigid criteria. The Board therefore does not consider it appropriate to apply a rigid diversity policy or to set diversity targets. As the new Corporate Governance Code comes into effect over the course of this year, the Board will continue to monitor the development of best practice and align its policies in these related areas as appropriate, to include a formal statement of these policies.

Board Composition

The Board reviewed its composition during the year, with regard to the depth and breadth of experience.

The Board comprises five non-executive Directors, three men and two women, and includes two economists, two chartered accountants and a professor of clinical medicine. The Board reviewed its composition during the year and believes that this broad range of experience is particularly valuable when supporting and challenging the Managers. The Board has determined that the five Directors continue to provide sufficient resource at present. Future Board recruitment requirements will continue to seek to draw upon as diverse a pool of candidates as possible, including men and women from across all ethnic backgrounds working in the fields of science and industry as well as finance.

The Committee's terms of reference are available on request from the Company and on the Company's pages of the Managers' website: www.scottishmortgageit.com.

Performance Evaluation

During the year the Board appointed Lintstock Ltd, a firm which assists companies with the design and execution of board evaluations, to facilitate the performance evaluation of the Chairman, each Director, the Board as a whole and its Committees. Lintstock provided a similar evaluation for the Company in 2013 and 2016 but has no other connection with the Company or the Directors. Lintstock provided questionnaires which were tailored to the specific needs of the Company. The questionnaires addressed, amongst other issues:

— Board and Committee composition and expertise;

— quality of Board documentation, administration and third party relationships;

— trust oversight and priorities for change; and

— personal development.

Each Director and the Chairman completed the questionnaires and the Chairman discussed feedback with each Director. The results were considered by the Nomination Committee. Lintstock reviewed the output from the evaluation process and judged the Company's Board, Committees and Directors to be operating effectively. Following this process it was concluded that the performance of each Director, the Chairman, the Board and its Committees continues to be effective and each Director and the Chairman remains committed to the Company.

A review of the Chairman's and other Directors' commitments was carried out and the Nomination Committee is satisfied that they are capable of devoting sufficient time to the Company. During the year the Chairman was appointed a non-executive director of Direct Line Insurance Group plc and stepped down as vice chair and trustee of Save the Children UK. The Chairman is not the chair of any other companies. It is intended that the evaluation will again be externally facilitated in 2022.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Regular briefings were provided during the year on industry and regulatory matters. The Directors receive other training as necessary.

Remuneration

As all the Directors are non-executive, there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders with the Chairman's fees considered by the Board in the absence of the Chairman. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 38 and 39.

Audit Committee

The report of the Audit Committee is set out on pages 36 and 37.

Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is a continuing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the FRC guidance 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014.

The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the Company's assets and to manage its affairs properly, including the maintenance of effective operational and compliance controls, have been delegated to the Managers and Secretaries.

The Board oversees the functions delegated to the Managers and Secretaries and the controls managed by the AIFM in accordance with the Alternative Investment Fund Managers Directive (as detailed below). Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provide the Audit Committee with regular reports on their monitoring programmes. The reporting procedures for these departments are defined and formalised within a service level agreement. Baillie Gifford & Co conducts an annual review of its system of internal controls which is documented within an internal controls report which complies with ISAE 3402 and Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. This report is independently reviewed by Baillie Gifford & Co's Auditor and a copy is submitted to the Audit Committee.

A report identifying the material risks faced by the Company and the key controls employed to manage these risks is reviewed by the Audit Committee.

These procedures ensure that consideration is given regularly to the nature and extent of risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage these risks.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal controls systems, which accord with the FRC 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and up to the date of this Report.

The Board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this Report.

To comply with the Alternative Investment Fund Managers Directive, The Bank of New York Mellon (International) Limited (BNY Mellon Trust & Depositary (UK) Limited prior to 3 April 2018) acts as the Company's Depositary (see page 28) and Baillie Gifford & Co Limited as its AIFM.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. Following the change of Depositary on 3 April 2018, the Company's Depositary also acts as the Company's Custodian (this function having previously been delegated to The Bank of New York Mellon SA/NV London Branch (see page 28)). The Custodian prepares a report on its key controls and safeguards which is independently reviewed by KPMG LLP. The reports are reviewed by Baillie Gifford's Business Risk Department and a summary of the key points is reported to the Audit Committee and any concerns investigated.

The Depositary provides the Audit Committee with a report on its monitoring activities.

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor compliance with risk limits. The AIFM has a risk management policy which covers the risks associated with the management of the portfolio, and the adequacy and effectiveness of this policy is reviewed and approved at least annually. This review includes the risk management processes and systems and limits for each risk area.

The risk limits, which are set by the AIFM and approved by the Board, take into account the objectives, strategy and risk profile of the portfolio. These limits, including leverage (see page 73), are monitored and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables in the portfolio. Exceptions from limits monitoring and stress testing are escalated to the AIFM and reported to the Board along with remedial measures being taken.

Going Concern

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 18 to the Financial Statements. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis. The Company has continued to comply with the investment trust status requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) Regulations 2011.

Accordingly, the Financial Statements have been prepared on the going concern basis as it is the Directors' opinion, having assessed the principal risks and other matters set out in the Viability Statement on page 9 which assesses the prospects of the Company over a period of 10 years, that the Company will continue in operational existence for a period of at least 12 months from the date of approval of these Financial Statements.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Managers meet regularly with shareholders and their representatives and report shareholders' views to the Board. The Chairman and the Audit Committee Chairman are each available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the Company's registered office, or through the Company's brokers, Cenkos Securities and Jefferies (see contact details on the back cover).

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the meeting and published at www.scottishmortgageit.com. The notice period for the Annual General Meeting is at least twenty working days. Shareholders and potential investors may obtain up-to-date information on the Company at www.scottishmortgageit.com.

Corporate Governance and Stewardship

In its oversight of the Managers and the Company's other service providers, the Board received assurances that they have due regard to the benefits of diversity and promote these within their respective organisations. The Board's approach to matters of diversity are set out in the Chairman's Statement on page 3 and on page 33 of this report. As the new Corporate Governance Code comes into effect over the course of this year, the Board will continue to monitor the development of best practice and align its policies in these related areas as appropriate, to include a formal statement of these policies.

The Company has given discretionary voting powers to Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests and report their actions to the Board.

The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and has asked the Managers to take these issues into account. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' statement of compliance with the UK Stewardship Code can be found on the Managers' website at www.bailliegifford.com. The Managers' policy has been reviewed and endorsed by the Board.

The Managers are signatories to the United Nations Principles for Responsible Investment and the Carbon Disclosure Project and are also members of the International Corporate Governance Network.

By order of the Board
Fiona McBain
Chairman
15 May 2019

Audit Committee Report

The Audit Committee consists of Mr LJ Dowley, Professor PH Maxwell, Ms FC McBain and Professor P Subacchi. Ms FC McBain rejoined the Committee on 1 April 2019 in light of the 2019 AIC Code of Corporate Governance which permits the Chairman of the Board to be a member of the Audit Committee. The Board believes that Ms McBain's knowledge, experience and professional expertise as a Chartered Accountant is a significant benefit to the Committee. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. The Chairman of the Committee, Mr LJ Dowley, is a Chartered Accountant. The Committee's authority and duties are clearly defined within its written terms of reference which are available on request from the Company Secretary and at www.scottishmortgageit.com. The terms of reference are reviewed annually.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process (see page 33).

At least once a year the Committee meets with the external Auditor without any representative of the Manager being present.

Main Activities of the Committee

The Committee met formally twice during the year and KPMG LLP, the external Auditor, attended both meetings. The Committee also met on a number of other occasions to consider specific matters, such as the valuation of unlisted investments. Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provided reports on their monitoring programmes for these meetings.

The matters considered, monitored and reviewed by the Committee during the course of the year included the following:

— the results announcement and the Annual and Interim Reports;

— the Company's accounting policies and practices and the implementation of the Managers' valuation policy for investments in unquoted companies;

— the regulatory changes impacting the Company;

— the requirement to ensure the Annual Report and Financial Statements are fair, balanced and understandable and whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;

— the effectiveness of the Company's internal control environment;

— re-appointment, remuneration and engagement letter of the external Auditor;

— whether the audit services contract should be put out to tender. The Committee decided to tender the audit contract as explained on page 37;

— the policy on the engagement of the external Auditor to supply non-audit services;

— the independence, objectivity and effectiveness of the external Auditor;

— the need for the Company to have its own internal audit function;

— internal controls reports received from the Managers and Custodian; and

— the arrangements in place within Baillie Gifford & Co whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Internal Audit

The Committee continues to believe that the compliance and internal controls systems and the internal audit function in place within the Investment Managers provide sufficient assurance that a sound system of internal control which safeguards shareholders' investment and the Company's assets is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Financial Reporting

The Committee considers that the most significant area of risk likely to impact the Financial Statements is the existence, ownership and valuation of investments as they represent 99.6% of total assets.

— ***Unlisted Investments***

The Committee reviewed the Managers' valuation approach for investments in unquoted companies (as described on page 52) and approved the valuations of the unlisted investments following a detailed review of the valuation of each investment and relevant challenge where appropriate.

The Managers agreed the holdings in certificated form to confirmations from the Company's custodian and holdings of uncertificated unlisted investments were agreed to confirmations from the relevant investee companies.

— ***Listed Investments***

The majority of the investments are in quoted securities and market prices are readily available from independent external pricing sources. The Committee reviewed Baillie Gifford's Report on Internal Controls which details the controls in place regarding the recording and pricing of investments.

The Managers agreed the prices of all the listed investments at 31 March 2019 to external price sources and the holdings were agreed to confirmations from the Company's Custodian or Transfer Agent.

The Managers and Auditor confirmed to the Committee that they were not aware of any material misstatements in the context of the Financial Statements as a whole and that the Financial Statements are in accordance with applicable law and accounting standards.

The Financial Reporting Council ('FRC') reviewed the Company's Annual Report and Financial Statements for the year to 31 March 2018. The review findings requested an undertaking that reconciliations be provided where the basis of computing an Alternative Performance Measure ('APM') cannot immediately be derived from the amounts in the Financial Statements, and in particular for the Ongoing Charges Ratio and total return calculations. These, together with reconciliations for other APMs, have been included in the Glossary of Terms and Alternative Performance Measures section on pages 77 and 78. The FRC notes that its review does not provide assurance that the Annual Report and Financial Statements are correct in all material respects and that its role is not to verify the information provided but to consider compliance with reporting requirements.

Audit Tender

During the year the Company tendered its external audit. Invitations to tender were issued to three audit firms, resulting in comprehensive proposals of a very high standard being submitted and three firms being invited to present their approach in more detail to the Audit Committee. In evaluating the firms, the primary focus was on audit quality giving specific consideration to audit approach and delivery with attention on the audit firms' approach to unlisted investments; audit engagement team quality; insight into future developments likely to affect the Company; and independence. Following a robust and transparent review process, where the audit firms were subjected to scrutiny and appropriate challenge, the Board unanimously decided to propose PricewaterhouseCoopers LLP for appointment as Auditor and a resolution to this effect will be proposed at the Annual General Meeting.

In recognition of underlying audit rotation requirements, the Committee currently intends that a further tender process should be undertaken during the year to 31 March 2029 to cover the financial years ending 31 March 2030 onwards.

Internal Controls and Risk Management

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on page 34. No significant weaknesses were identified in the year under review.

External Auditor

To fulfil its responsibility regarding the independence of the external Auditor, the Committee reviewed:

— a report from the Auditor describing the arrangements to identify, report and manage any conflicts of interest and received confirmation of their independence; and

— the extent of non-audit services provided by the external Auditor. Non-audit fees for the year to 31 March 2019 were £750 and related to the certification of financial information for the debenture trustee. The Committee does not believe that this has impaired the Auditor's independence.

The effectiveness of the external Auditor was reviewed and the Committee considered:

— the Auditor's fulfilment of the agreed audit plan;

— feedback from the Secretaries on the performance of the audit team;

— the Audit Quality Inspection Report from the FRC; and

— detailed discussion with audit personnel to challenge audit processes and deliverables.

To fulfil its responsibility for oversight of the external audit process the Committee considered and reviewed:

— the Auditor's engagement letter;

— the Auditor's proposed audit strategy;

— the audit fee; and

— a report from the Auditor on the conclusion of the audit.

Non-audit service requests were considered on a case by case basis.

Although KPMG LLP, or its predecessor firms, has been Auditor for over twenty nine years, the audit partners/directors responsible for the audit have been rotated at least every five years in accordance with professional and regulatory standards in order to protect independence and objectivity and to provide fresh challenge to the business. Mr J Waterson was appointed audit partner during the year to 31 March 2017.

KPMG has confirmed that it believes it is independent within the meaning of regulatory and professional requirements and that the objectivity of the audit partner and staff is not impaired.

Having carried out the review process described above, the Committee is satisfied that the Auditor has remained independent and effective.

There are no contractual obligations restricting the Committee's choice of external Auditor.

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 40 to 46.

By order of the Board
Justin Dowley
Audit Committee Chairman
15 May 2019

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of the Companies Act 2006.

Statement by the Chairman

The Directors' Remuneration Policy is subject to shareholder approval every three years or sooner if an alteration to the policy is proposed. The Remuneration Policy which is set out below was approved at the Annual General Meeting in June 2017. No changes are proposed to the policy at this year's Annual General Meeting.

The Board reviewed the level of fees during the year and it was agreed that there would be no change to Directors' fees. The fees were last increased on 1 April 2017.

Directors' Remuneration Policy

The Board is composed wholly of non-executive Directors, none of whom has a service contract with the Company. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time, with the Chairman's fee being considered in the absence of the Chairman. Baillie Gifford & Co Limited, who has been appointed by the Board as the Company Secretaries, provide comparative information when the Board considers the level of Directors' fees.

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. The Board believes that the fees paid to the Directors should reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts and prevailing rates of retail price inflation. Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

Directors are not eligible for any other remuneration or benefits apart from the reimbursement of allowable expenses. There are no performance conditions relating to Directors' fees and there are no long term incentive schemes or pension schemes. No compensation is payable on loss of office.

Limits on Directors' Remuneration

The fees for the Directors are payable six monthly in arrears and are determined within the limit set out in the Company's Articles of Association which is currently £300,000 in aggregate. Any change to this limit requires shareholder approval.

The Board is seeking shareholders' approval at the forthcoming Annual General Meeting to increase the aggregate annual limit, which has not changed since 2011, to £400,000 to provide flexibility to allow for an increase in the number of Directors should the Board believe it to be appropriate as part of the long term succession planning and Board refreshment policy. It will also allow for future increases in Directors' fee levels over the medium to long term to ensure that the Company can continue to attract suitable Directors at competitive rates, while being mindful of the overall low cost proposition of Scottish Mortgage. Your attention is drawn to Resolution 15 in the Notice of Annual General Meeting on page 68.

The fees paid to Directors in respect of the year ended 31 March 2019 and the expected fees payable in respect of the year ending 31 March 2020 are set out in the table below. The fees payable to the Directors in the subsequent financial periods will be determined following an annual review of the Directors' fees.

	Expected fees for year ending 31 Mar 2020 £	Fees for year ending 31 Mar 2019 £
Chairman's fee	60,000	60,000
Chairman of Audit Committee's fee	50,000	50,000
Director's fee	40,000	40,000
Total aggregate annual fees that can be paid to the Directors in any year under the Directors' Remuneration Policy, as set out in the Company's Articles of Association	400,000*	300,000

* Subject to the passing of Resolution 15 at the forthcoming Annual General Meeting.

Annual Report on Remuneration

An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in KPMG LLP's report on pages 41 to 46.

Directors' Remuneration for the Year (audited)

The Directors who served during the year received the following remuneration in the form of fees and taxable benefits. This represents the entire remuneration paid to the Directors.

Name	2019 Fees £	2019 Taxable benefits* £	2019 Total £	2018 Fees £	2018 Taxable benefits* £	2018 Total £
Fiona McBain (Chairman)	60,000	1,186	**61,186**	55,077	729	**55,806**
Justin Dowley (Audit Committee Chairman)	50,000	4,436	**54,436**	50,000	3,431	**53,431**
Professor John Kay	40,000	2,747	**42,747**	40,000	1,897	**41,897**
Professor Patrick Maxwell	40,000	2,659	**42,659**	40,000	2,472	**42,472**
Professor Paola Subacchi	40,000	2,511	**42,511**	40,000	2,532	**42,532**
John Scott (retired 29 June 2017)	–	–	**–**	14,846	528	**15,374**
	230,000	**13,539**	**243,539**	**239,923**	**11,589**	**251,512**

* Comprises travel and subsistence expenses incurred by or on behalf of Directors in the course of travel to attend Board, Committee and other meetings held at the Company's registered office in Edinburgh. These amounts have been grossed up for income tax and, if applicable, National Insurance contributions.

Directors' Interests (audited)

Name	Nature of interest	Ordinary 5p shares held at 31 March 2019	Ordinary 5p shares held at 31 March 2018
Fiona McBain	Beneficial	6,163	6,127
Justin Dowley	Beneficial	204,437	203,233
Professor John Kay	Beneficial	32,792	32,792
Professor Patrick Maxwell	Beneficial	26,586	16,150
Professor Paola Subacchi	Beneficial	23,002	19,379

The Directors at the year end, and their interests in the Company, were as shown above. Following the year end, Professor Paola Subacchi purchased a further 94 shares. There have been no other changes in the Directors' interests up to 13 May 2019.

Statement of Voting at Annual General Meeting

At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.1% were in favour, 0.6% were against and votes withheld were 0.3%. At the last Annual General Meeting at which the Directors' Remuneration Policy was considered (June 2017), 99.2% of votes received were in favour, 0.5% were against and votes withheld were 0.3%.

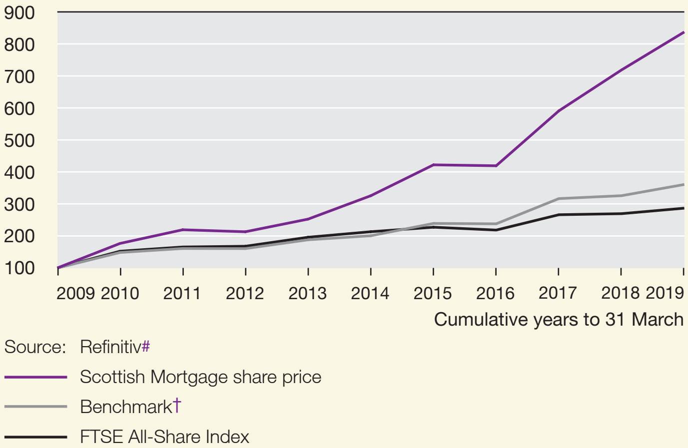
Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration and distributions to shareholders.

	2019 £'000	2018 £'000	Change %
Directors' remuneration	244	252	(3.2)
Dividends	43,955	41,666	5.5
Share buy-backs	–	62,951	(100.0)

Company Performance

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark*
(figures have been rebased to 100 at 31 March 2009)



* All figures are total return (assuming all dividends are reinvested). See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

† Benchmark: FTSE All-World Index (in sterling terms).

\# See disclaimer on page 76.

Past performance is not a guide to future performance.

The graph compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares in the component parts of the FTSE All-Share Index. This index was chosen for comparison purposes, as it is a widely used measure of performance for UK listed companies (benchmark provided for information purposes only).

Approval

The Directors' Remuneration Report on pages 38 and 39 was approved by the Board of Directors and signed on its behalf on 15 May 2019.

Fiona McBain
Chairman

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and 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 they are required to prepare the Financial Statements in accordance with UK accounting standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors have delegated responsibility to the Managers for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in Respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, 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.

On behalf of the Board
Fiona McBain
15 May 2019

Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Financial Statements:

- The maintenance and integrity of the Baillie Gifford & Co website is the responsibility of Baillie Gifford & Co; the work carried out by the auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of Scottish Mortgage Investment Trust PLC

1. Our opinion is unmodified

We have audited the financial statements of Scottish Mortgage Investment Trust PLC ("the Company") for the year ended 31 March 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

— give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its return for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors prior to 1991. The period of total uninterrupted engagement is at least the 29 financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: financial statements as a whole	£81.6m (2018:£66.8m) 1% (2018:1%) of Total Assets

Key audit matters		**vs 2018**
New risk	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Recurring risks	Valuation of unlisted investments	◀▶
	Carrying value of listed investments	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to pages 8-9 (principal risks), pages 9-10 (Viability Statement).*	**Unprecedented levels of uncertainty :** All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of unlisted investments below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Company's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • Our Brexit knowledge – We considered the Directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • Sensitivity analysis – When addressing valuation of unlisted investments and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty. • Assessing transparency – As well as assessing individual disclosures as part of our procedures on valuation of unlisted investments, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our findings:** • As reported under valuation of unlisted investments, we found the resulting estimates in respect of unlisted investments to be balanced and the related disclosures in relation to going concern to be proportionate. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Valuation of Unlisted Investments (£1,418.6 million; 2018: £1,003.5m) *Refer to page 36 (Audit Committee Report), refer to pages 51-52 (accounting policy) and pages 55 to 57 and 61-67 (financial disclosures).*	**Subjective valuation of unlisted investments:** As at 31 March 2019, £1,418.6m or 17% of the company's total assets (by value) is held in investments where no quoted market price is available. Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines, by using measurements of value such as prices of recent orderly transactions, earnings multiples, and net assets. There is a significant risk relating to the valuation of these investments. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unlisted investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note 18 disclose the range/sensitivity estimated by the Company.	Our procedures included: — **Historical comparisons:** Assessment of investment realisation in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the Company's approach to valuations; — **Methodology choice:** In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected; — **Our valuation experience:** Challenging the investment manager on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable. Our work included consideration of events which occurred subsequent to the year end until the date of this audit report; — **Comparing valuations:** Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation; and — **Assessing transparency:** Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. **Our findings** — We found the Company's valuation of unlisted investments to be balanced (2018: balanced) and the related disclosures to be proportionate (2018: proportionate).
Carrying Value of Listed Investments (£6,680.2 million; 2018: £5,604.5million *Refer to page 36 (Audit Committee Report), refer to pages 51-52 (accounting policy) and pages 55 to 57 and 61-67 (financial disclosures).*	**Low risk, high value:** The Company's portfolio of listed investments makes up 82% of the Company's total assets (by value) and is one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: — **Enquiry of custodians:** Agreeing 100 per cent of investment holdings in the portfolio to independently received third party confirmations from investment custodians or share certificates; and — **Tests of Detail:** Agreeing the valuation of 100 per cent of investments in the portfolio to externally quoted prices. **Our findings:** — We found no material differences from the holdings confirmations or externally quoted prices. (2018: no material differences from the holdings confirmations or externally quoted prices).

KPMG

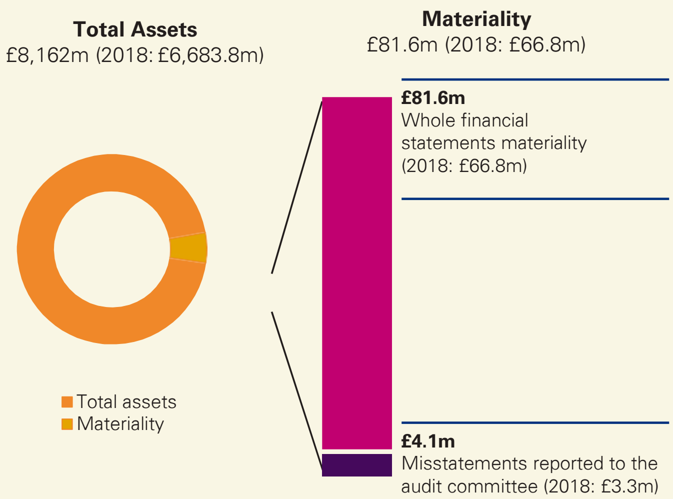
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £81.6m (2018: £66.8m), determined with reference to a benchmark of total assets, of which it represents 1% (2018: 1%).

In addition, we applied materiality of £1m (2018: £0.8m) to income from investments, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4.1m (2018: £3.3m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the client offices and our offices.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional procedures.

Based on this work, we are required to report to you if:

— we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

— the related statement under the Listing Rules set out on page 34 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information

Strategic report and Directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the Directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the Directors' confirmation within the Viability Statement on pages 9-10 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 and liquidity;

— the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and

— the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that 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; or

— the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

— 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

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7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 40, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors, the manager and the administrator (as required by auditing standards), and discussed with the Directors and the manager the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

First, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), and its qualification as an Investment Trust under UK legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation We identified the following areas as those most likely to have such an effect: the Listing Rules and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify any actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the company, 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.

John Waterson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
15 May 2019

Income Statement

For the year ended 31 March

	Notes	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Gains on investments	9	–	923,535	**923,535**	–	1,203,348	**1,203,348**
Currency (losses)/gains		–	(12,180)	**(12,180)**	–	21,129	**21,129**
Income	2	28,187	–	**28,187**	30,663	–	**30,663**
Investment management fee	3	–	(21,879)	**(21,879)**	(4,495)	(13,484)	**(17,979)**
Other administrative expenses	4	(4,342)	–	**(4,342)**	(3,929)	–	**(3,929)**
Net return before finance costs and taxation		23,845	889,476	**913,321**	22,239	1,210,993	**1,233,232**
Finance costs of borrowings	5	–	(29,866)	**(29,866)**	(5,490)	(16,471)	**(21,961)**
Net return before taxation		23,845	859,610	**883,455**	16,749	1,194,522	**1,211,271**
Tax	6	(176)	–	**(176)**	(48)	–	**(48)**
Net return after taxation		**23,669**	**859,610**	**883,279**	**16,701**	**1,194,522**	**1,211,223**
Net return per ordinary share	7	**1.64p**	**59.58p**	**61.22p**	**1.20p**	**85.80p**	**87.00p**

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies.

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

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 51 to 67 are an integral part of the Financial Statements.

Balance Sheet

As at 31 March

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		8,098,819		6,646,015
Current assets					
Debtors	10	27,892		2,764	
Cash and cash equivalents	18	35,587		34,974	
		63,479		37,738	
Creditors					
Amounts falling due within one year	11	(309,019)		(241,961)	
Net current liabilities			(245,540)		(204,223)
Total assets less current liabilities			7,853,279		6,441,792
Creditors					
Amounts falling due after more than one year	12		(423,349)		(254,036)
			7,429,930		**6,187,756**
Capital and reserves					
Share capital	13		73,713		71,086
Share premium account	14		710,569		352,375
Capital redemption reserve	14		19,094		19,094
Capital reserve	14		6,602,885		5,741,352
Revenue reserve	14		23,669		3,849
Shareholders' funds	15		**7,429,930**		**6,187,756**
Net asset value per ordinary share (after deducting borrowings at book)*	15		**504.0p**		**443.5p**

The Financial Statements of Scottish Mortgage Investment Trust PLC (Company registration No. SC007058) were approved and authorised for issue by the Board and were signed on its behalf on 15 May 2019.

Fiona McBain
Chairman

The accompanying notes on pages 51 to 67 are an integral part of the Financial Statements.

* See Glossary of Terms and Alternative Performance Measures on pages 77 and 78.

Statement of Changes in Equity

For the year ended 31 March 2019

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve * £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2018		71,086	352,375	19,094	5,741,352	3,849	**6,187,756**
Net return after taxation	14	–	–	–	859,610	23,669	**883,279**
Ordinary shares sold from treasury	13	–	91,044	–	42,069	–	**133,113**
Ordinary shares issued	13	2,627	267,150	–	–	–	**269,777**
Dividends paid during the year	8	–	–	–	(40,146)	(3,849)	**(43,995)**
Shareholders' funds at 31 March 2019		**73,713**	**710,569**	**19,094**	**6,602,885**	**23,669**	**7,429,930**

For the year ended 31 March 2018

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve * £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2017		71,086	216,808	19,094	4,537,789	28,814	**4,873,591**
Net return after taxation	14	–	–	–	1,194,522	16,701	**1,211,223**
Ordinary shares bought back into treasury	13	–	–	–	(62,951)	–	**(62,951)**
Ordinary shares sold from treasury	13	–	135,567	–	71,992	–	**207,559**
Dividends paid during the year	8	–	–	–	–	(41,666)	**(41,666)**
Shareholders' funds at 31 March 2018		**71,086**	**352,375**	**19,094**	**5,741,352**	**3,849**	**6,187,756**

The accompanying notes on pages 51 to 67 are an integral part of the Financial Statements.

* The Revenue Reserve and the Capital Reserve (to the extent it constitutes realised profits) are distributable.

Cash Flow Statement

For the year ended 31 March

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Cash flows from operating activities					
Net return before taxation		883,455		1,211,271	
Gains on investments		(923,535)		(1,203,348)	
Currency losses/(gains)		12,180		(21,129)	
Finance costs of borrowings		29,866		21,961	
Overseas withholding tax refunded		2,978		316	
Overseas withholding tax incurred		(1,488)		(2,128)	
Changes in debtors and creditors		1,448		4,295	
Cash from operations			4,904		11,238
Interest paid			(28,162)		(20,972)
Net cash outflow from operating activities			(23,258)		(9,734)
Cash flows from investing activities					
Acquisitions of investments		(1,248,097)		(938,385)	
Disposals of investments		707,123		800,627	
Net cash outflow from investing activities			(540,974)		(137,758)
Equity dividends paid	8	(43,995)		(41,666)	
Ordinary shares bought back into treasury and stamp duty thereon		(67)		(62,884)	
Ordinary shares sold from treasury		133,113		212,687	
Ordinary shares issued		269,776		–	
Bank loans repaid		(28,221)		(132,775)	
Bank loans drawn down and loan notes issued		226,207		136,921	
Net cash inflow from financing activities			556,813		112,283
Decrease in cash and cash equivalents			(7,419)		(35,209)
Exchange movements			8,032		(6,460)
Cash and cash equivalents at start of period	18		34,974		76,643
Cash and cash equivalents at end of period*	18		**35,587**		**34,974**

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

The accompanying notes on pages 51 to 67 are an integral part of the Financial Statements.

Notes to the Financial Statements

1 Principal Accounting Policies

The Financial Statements for the year to 31 March 2019 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and on the basis of the accounting policies set out below which are unchanged from the prior year and have been applied consistently.

(a) Basis of Accounting

All of the Company's operations are of a continuing nature and the Financial Statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust under section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011 will be retained. It is the Directors' opinion, having assessed the principal risks and other matters set out in the Viability Statement on page 9, that the Company will continue in operational existence for a period of at least twelve months from the date of approval of these Financial Statements. The Company's assets, the majority of which are readily realisable, exceed its liabilities significantly.

The Financial Statements have been prepared in accordance with The Companies Act 2006, applicable UK Accounting Standards and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014 and updated in February 2018 with consequential amendments.

In order to reflect better the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

The Directors consider the Company's functional currency to be sterling as the Company's share capital and dividends paid are denominated in sterling, the Company's shareholders are predominantly based in the UK, and the Company and its investment manager, who are subject to the UK's regulatory environment, are also UK based.

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when it becomes a party to the contractual provisions of the instrument.

The Company has only one material segment being that of an investment trust company investing in a portfolio of long term investments chosen on a global basis.

(b) Accounting Estimates, Assumptions and Judgements

The preparation of the Financial Statements requires the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets and liabilities at the reporting date. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates. The key sources of estimation and uncertainty relate to the fair valuation of the unlisted investments.

Judgements

The Directors consider that the preparation of the Financial Statements involves the following key judgements:

(i) the determination of the functional currency of the Company as sterling (see rationale in 1(a) above); and

(ii) the fair valuation of the unlisted investments.

The key judgements in the fair valuation process are:

(i) the Managers' determination of the appropriate application of the International Private Equity and Venture Capital Guidelines 2018 ('IPEV') to each unlisted investment; and

(ii) the Directors' consideration of whether each fair value is appropriate following detailed review and challenge. The judgement applied in the selection of the methodology used (see 1(c) below) for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

Estimates

The key estimate in the Financial Statements is the determination of the fair value of the unlisted investments by the Managers for consideration by the Directors. This estimate is key as it significantly impacts the valuation of the unlisted investments at the Balance Sheet date. The significance of this estimate has increased over the year with the increase in unlisted investments (see note 9). The fair valuation process involves estimation using subjective inputs that are unobservable (for which market data is unavailable). The main estimates involved in the selection of the valuation process inputs are:

(i) the selection of appropriate comparable companies in order to derive revenue multiples and meaningful relationships between enterprise value, revenue and earnings growth. Comparable companies are chosen on the basis of their business characteristics and growth patterns;

(ii) the selection of a revenue metric (either historic or forecast);

(iii) the application of an appropriate discount factor to reflect the reduced liquidity of unlisted companies versus their listed peers;

(iv) the estimation of the probability assigned to an exit being through an initial public offering ('IPO') or a company sale;

(v) the selection of an appropriate industry benchmark index to assist with the valuation validation or the application of valuation adjustments, particularly in the absence of established earnings or closely comparable peers; and

(vi) the calculation of valuation adjustments derived from milestone analysis (i.e. incorporating operational success against the plan/forecasts of the business into the valuation).

Fair value estimates are cross-checked to alternative estimation methods where possible to improve the robustness of the estimate. As the valuation outcomes may differ from the fair value estimates a price sensitivity analysis is provided in Other Price Risk Sensitivity in note 18 on page 64 to illustrate the effect on the Financial Statements of an over or under estimation of fair values. The risk of an over or under estimation of fair values is greater when methodologies are applied using more subjective inputs.

Assumptions

The determination of fair value by the Managers involves key assumptions dependent upon the valuation technique used. As explained in 1(c) below, the primary technique applied under the IPEV Guidelines is the Multiples approach. The valuation process recognises also, as stated in the IPEV Guidelines, that the price of a recent investment may be an appropriate starting point for estimating fair value. The Multiples approach involves subjective inputs and therefore presents a greater risk of over or under estimation and particularly in the absence of a recent transaction.

The key assumptions for the Multiples approach are that the selection of comparable companies provides a reasonable basis for identifying relationships between enterprise value, revenue and growth to apply in the determination of fair value. Other assumptions include that (i) the discount applied for reduced liquidity versus listed peers, (ii) the probabilities assigned to an exit being through either an IPO or a company sale, and (iii) the application of milestone analysis and industry benchmark indices are a reasonable basis for applying appropriate adjustments to the valuations. Valuations are cross-checked for reasonableness to alternative multiples-based approaches or benchmark index movements as appropriate.

(c) Investments

Purchases and sales

Purchases and sales of investments are accounted for on a trade date basis. All investments are designated as valued at fair value through profit or loss upon initial recognition and are measured at subsequent reporting dates at fair value.

Listed Investments

The fair value of listed security investments is bid value or, in the case of holdings on certain recognised overseas exchanges, at last traded prices.

Unlisted Investments

Unlisted investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Managers. The Managers' unlisted investment policy applies techniques consistent with the International Private Equity and Venture Capital Valuation Guidelines 2018 ('IPEV'). The techniques applied are predominantly market-based approaches. The market-based approaches available under IPEV are set out below and are followed by an explanation of how they are applied to the Company's unlisted portfolio:

— Multiples;

— Industry Valuation Benchmarks; and

— Available Market Prices.

The nature of the unlisted portfolio currently will influence the valuation technique applied. The valuation approach recognises that, as stated in the IPEV Guidelines, the price of a recent investment, if resulting from an orderly transaction, generally represents fair value as at the transaction date and may be an appropriate starting point for estimating fair value at subsequent measurement dates. However, consideration is given to the facts and circumstances as at the subsequent measurement date, including changes in the market or performance of the investee company. Milestone analysis is used where appropriate to incorporate the operational progress of the investee company into the valuation. Additionally, the background to the transaction must be considered. As a result, various multiples-based techniques are employed to assess the valuations particularly in those companies with established revenues. Discounted cashflows are used where appropriate. An absence of relevant industry peers may preclude the application of the Industry Valuation Benchmarks technique and an absence of observable prices may preclude the Available Market Prices approach. All valuations are cross-checked for reasonableness by employing relevant alternative techniques.

The unlisted investments are valued according to a three monthly cycle of measurement dates. The fair value of the unlisted investments will be reviewed before the next scheduled three monthly measurement date on the following occasions:

— at the year end and half year end of the Company; and

— where there is an indication of a change in fair value as defined in the IPEV guidelines (commonly referred to as 'trigger' events).

Significant Holdings

The Company has a significant holding in the shares of the Level E Maya Fund and in the limited partnership of the WI Harper Fund VII (see note 9 on page 57). The Company has taken advantage of the exemption from preparing consolidated accounts available in FRS 102 for investments held as part of an investment portfolio with a view to subsequent resale.

Gains and Losses

Gains and losses on investments, including those arising from foreign currency exchange differences are recognised in the Income Statement as capital items.

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if they have a maturity or period of notice of not more than one working day.

(e) Income

(i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

(ii) Interest from fixed interest securities is recognised on an effective interest rate basis. Where income returns are for a non-fixed amount, the impact of these returns on the effective interest rate is recognised once such returns are known. If there is reasonable doubt that a return will be received, its recognition is deferred until that doubt is removed.

(iii) Unfranked investment income includes the taxes deducted at source.

(iv) Interest receivable on deposits is recognised on an accruals basis.

(v) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

(vi) Special dividends are treated as repayments of capital or income depending on the facts of each particular case.

(f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Income Statement except as follows: where they relate directly to the acquisition or disposal of an investment (transaction costs), in which case they are recognised as capital within losses/gains on investments; and where they are connected with the maintenance or enhancement of the value of investments, in which case they have been charged to capital reserve (25% to the revenue account and 75% to capital reserve for the previous year).

(g) Long Term Borrowings and Finance Costs

Long term borrowings are carried in the Balance Sheet at amortised cost, representing the cumulative amount of net proceeds after issue, plus accrued finance costs attributable to the stepped interest debentures. The finance costs of such borrowings have been allocated to the capital reserve at a constant rate on the carrying amount (25% to the revenue account and 75% to capital reserve for the previous year). Issue costs are written off at a constant rate over the life of the borrowings. Gains and losses on the repurchase or early settlement of debt is wholly charged to capital.

(h) Taxation

Current tax is provided at the amounts expected to be paid or recovered. The tax effect of different items of income and expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective tax rate for the accounting period.

Deferred taxation is provided on an undiscounted basis on all timing differences which have originated but not reversed by the Balance Sheet date, calculated at the tax rates expected to apply when the timing differences reverse, based on what has been enacted or substantially enacted, relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(i) Foreign Currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or revenue reserve as appropriate.

(j) Capital Reserve

Gains and losses on disposal of investments, changes in fair value of investments held, exchange differences of a capital nature and the amount by which other assets and liabilities valued at fair value differ from their book cost are dealt with in this reserve. Purchases of the Company's own shares are also funded from this reserve. With effect from 1 April 2018, 100% of management fees and finance costs have been allocated to the capital reserve (previously 75% of management fees and finance costs were charged to the capital reserve and 25% to the revenue account) – see 1(f) above.

(k) Share Premium Account

The balance classified as share premium represents:

— the proceeds of sales of shares held in treasury in excess of the weighted average purchase price paid by the Company to repurchase the shares; and

— the excess of the proceeds of issuance of new shares over the nominal value.

2 Income

	2019 £'000	2018 £'000
Income from investments		
UK dividend income	1,048	2,332
Overseas dividends*	26,142	27,804
Overseas interest	62	147
	27,252	**30,283**
Other income		
Deposit interest	935	380
	935	**380**
Total income	**28,187**	**30,663**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	27,190	30,136
Interest from financial assets designated at fair value through profit or loss	62	147
Interest from financial assets not at fair value through profit or loss	935	380
	28,187	**30,663**

* Overseas dividend income includes non-equity income (from preference share holdings) of £nil (2018 – £354,000).

3 Investment Management Fee

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Investment management fee	–	21,879	**21,879**	4,495	13,484	**17,979**

Details of the Investment Management Agreement are disclosed on page 28. The annual management fee is 0.30% on the first £4 billion of total assets less current liabilities (excluding short term borrowings for investment purposes) and 0.25% thereafter and is calculated quarterly.

During the year to 31 March 2018, as reported in the 2018 Chairman's Statement, the Board determined it more appropriate to revise the allocation of management and borrowing costs to reflect better the split of returns between capital and income.

The investment management fee for the year to 31 March 2019 was charged 100% to capital (year to 31 March 2018 – 25% to revenue and 75% to capital).

4 Other Administrative Expenses

	2019 £'000	2018 £'000
General administrative expenses	4,061	3,644
Directors' fees (see Directors' Remuneration Report page 38)	230	240
Auditor's remuneration for audit services	50	44
Auditor's remuneration for non-audit services – certification of financial information for the debenture trustee	1	1
Other administrative expenses charged to revenue	**4,342**	**3,929**

5 Finance Costs of Borrowings

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	–	8,916	**8,916**	1,285	3,853	**5,138**
Debentures repayable wholly or partly in five years or less	–	7,738	**7,738**	643	1,929	**2,572**
Debentures repayable wholly or partly in more than five years	–	5,779	**5,779**	2,749	8,249	**10,998**
Loan notes repayable in more than five years	–	7,433	**7,433**	813	2,440	**3,253**
	–	**29,866**	**29,866**	**5,490**	**16,471**	**21,961**

During the year to 31 March 2018, as reported in the 2018 Chairman's Statement, the Board determined it more appropriate to revise the allocation of management and borrowing costs to reflect better the split of returns between capital and income.

The finance costs for the year to 31 March 2019 have been charged 100% to capital (year to 31 March 2018 – 25% to revenue and 75% to capital).

6 Tax on Ordinary Activities

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Overseas taxation	1,488	–	**1,488**	2,029	–	**2,029**
Overseas tax refunded	(1,312)	–	**(1,312)**	(1,981)	–	**(1,981)**
	176	**–**	**176**	**48**	**–**	**48**

	2019 £'000	2018 £'000
The tax charge for the year is lower (2018 – lower) than the standard rate of corporation tax in the UK of 19% (2018 – 19%)		
The differences are explained below:		
Net return on ordinary activities before taxation	883,455	1,211,271
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018 – 19%)	167,856	230,141
Capital returns not taxable	(173,157)	(232,651)
Income not taxable (UK dividends)	(199)	(443)
Income not taxable (overseas dividends)	(4,967)	(5,144)
Current year management expenses and non-trade loan relationship deficit not utilised	10,467	8,097
Overseas withholding tax	1,488	2,029
Overseas withholding tax refunded	(1,312)	(1,981)
Tax charge for the year	**176**	**48**

At 31 March 2019 the Company had surplus management expenses and losses on non-trading loan relationships of £295 million (2018 – £266 million) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

7 Net Return per Ordinary Share

	2019 Revenue	2019 Capital	2019 Total	2018 Revenue	2018 Capital	2018 Total
Net return per ordinary share	**1.64p**	**59.58p**	**61.22p**	**1.20p**	**85.80p**	**87.00p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £23,669,000 (2018 – £16,701,000), and on 1,442,733,808 (2018 – 1,392,180,470) ordinary shares, being the weighted average number of ordinary shares (excluding treasury shares) during the year.

Capital return per ordinary share is based on the net capital return for the financial year of £859,610,000 (2018 – net capital return of £1,194,522,000), and on 1,442,733,808 (2018 – 1,392,180,470) ordinary shares, being the weighted average number of ordinary shares (excluding treasury shares) during the year.

There are no dilutive or potentially dilutive shares in issue.

8 Ordinary Dividends

	2019	2018	2019 £'000	2018 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 2 July 2018)	1.68p	1.61p	23,766	22,264
Interim (paid 30 November 2018)	1.39p	1.39p	20,229	19,402
	3.07p	**3.00p**	**43,995**	**41,666**

Also set out below are the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £23,669,000 (2018 – £16,701,000).

	2019	2018	2019 £'000	2018 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 30 November 2018)	1.39p	1.39p	20,229	19,402
Proposed final dividend per ordinary share (payable 2 July 2019)	1.74p	1.68p	25,652	23,766
	3.13p	**3.07p**	**45,881**	**43,168**

9 Fixed Assets – Investments

As at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities/funds	6,680,183	–	–	**6,680,183**
Unlisted ordinary shares	–	–	268,956	**268,956**
Unlisted preference shares†	–	–	1,138,169	**1,138,169**
Unlisted convertible note	–	–	11,511	**11,511**
Total financial asset investments	**6,680,183**	**–**	**1,418,636**	**8,098,819**

As at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities/funds	5,604,854	37,666	–	**5,642,520**
Unlisted ordinary shares	–	–	168,083	**168,083**
Unlisted preference shares†	–	–	835,412	**835,412**
Total financial asset investments	**5,604,854**	**37,666**	**1,003,495**	**6,646,015**

† The investments in preference shares are not classified as equity holdings as they include liquidation preference rights that determine the repayment (or multiple thereof) of the original investment in the event of a liquidation event such as a take-over.

9 Fixed Assets – Investments (continued)

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 102, the preceding tables provide an analysis of these investments based on the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

Fair Value Hierarchy

The fair value hierarchy used to analyse the fair values of financial assets is described below. The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The valuation techniques used by the Company are explained in the accounting policies on page 52.

During the year investments with a book cost of £284,681,000 (2018 – £72,494,000) were transferred from Level 3 to Level 1 on becoming listed and investments with a book cost of £nil (2018 – £16,292,000) were transferred from Level 3 to Level 2 on becoming listed. Investments with a book cost of £16,292,000 were transferred from Level 2 to Level 1 following conversion to a different share class (2018 – £nil).

	Listed Securities * £'000	Unlisted Securities † £'000	Unlisted Bonds £'000	Total £'000
Cost of investments at 1 April 2018	2,315,512	938,433	–	**3,253,945**
Investment holding gains at 1 April 2018	3,327,008	65,062	–	**3,392,070**
Value of investments at 1 April 2018	5,642,520	1,003,495	–	**6,646,015**
Movements in year:				
Purchases at cost	676,706	575,594	11,480	**1,263,780**
Sales – proceeds	(654,454)	(80,057)	–	**(734,511)**
– gains on sales	327,926	23,292	–	**351,218**
Changes in investment holding gains and losses	402,804	169,482	31	**572,317**
Changes in categorisation	284,681	(284,681)	–	**–**
Value of investments at 31 March 2019	**6,680,183**	**1,407,125**	**11,511**	**8,098,819**
Ordinary share investments*	6,680,183	268,956	–	**6,949,139**
Preference share investments	–	1,138,169	–	**1,138,169**
Convertible note investment	–	–	11,511	**11,511**
Value of investments at 31 March 2019	**6,680,183**	**1,407,125**	**11,511**	**8,098,819**
Cost of investments at 31 March 2019	2,950,371	1,172,581	11,480	**4,134,432**
Investment holding gains at 31 March 2019	3,729,812	234,544	31	**3,964,387**
Value of investments at 31 March 2019	**6,680,183**	**1,407,125**	**11,511**	**8,098,819**

* Includes funds and Level 2 equity investments.

† Includes holdings in preference shares and ordinary shares.

The purchases and sales proceeds figures above include transaction costs of £531,000 (2018 – £332,000) and £100,000 (2018 – £383,000) respectively.

Of the gains on sales during the year of £351,218,000 (2018 – gains of £459,100,000), a net gain of £314,604,000 (2018 – gain of £335,688,000) was included in the investment holding gains/(losses) at the previous year end.

	2019 £'000	2018 £'000
Net gains on investments designated at fair value through profit or loss on initial recognition		
Gains on sales	351,218	459,100
Changes in investment holding gains	572,317	744,248
	923,535	**1,203,348**

9 Fixed Assets – Investments (continued)

Significant Holdings

Details of significant holdings are detailed below in accordance with the disclosure requirements of the Companies Act 2006 and paragraph 82 of the AIC Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (updated in February 2018), in relation to unlisted investments included in the thirty largest holdings disclosed on page 18. As required, this disclosure includes turnover, pre-tax profits and net assets attributable to investors, as reported within the most recently audited financial statements of the investee companies.

As at 31 March 2019 Name	Business	Latest Financial Statements	Proportion of capital owned %	Book cost £'000	Market Value £'000	Income recognised from holding in the period	Turnover ('000)	Pre-tax profit/(loss) ('000)	Net assets attributable to shareholders ('000)
Level E Maya Fund*	Artificial intelligence based algorithmic trading	31/3/18	55.7	5,611	4,846	Nil	(£376)	(£743)‡	**£6,284**#
WI Harper Fund VII*	Venture capital fund	31/12/18	88.2	3,740	9,885	Nil	US$2,595	US$2,412 ‡	**US$14,606**
Ant International Limited†	Operates an online financial services platform	n/a	0.3	186,185	191,858	Nil	Information not publicly available at company level		
Transferwise Ltd†	Online money transfer	31/3/18	3.5	36,712	93,173	Nil	£117,280	£7,860	**£107,450**
Indigo Agriculture Inc†	Analyses plant microbiomes to increase crop yields	31/12/18	3.1	48,770	77,425	Nil	US$36,760	(US$218,900)	**US$265,200**

As at 31 March 2018 Name	Business	Latest Financial Statements	Proportion of capital owned %	Book cost £'000	Market Value £'000	Income recognised from holding in the period	Turnover ('000)	Pre-tax profit/(loss) ('000)	Net assets attributable to shareholders ('000)
Level E Maya Fund*	Artificial intelligence based algorithmic trading	31/3/17	53.5	5,611	5,174	Nil	£1,283	£1,024 ‡	**£9,658**#
WI Harper Fund VII*	Venture capital fund	31/12/17	89.3	3,740	7,806	Nil	US$85	US$396 ‡	**US$12,263**
Transferwise Ltd†	Online money transfer	31/3/17	3.7	36,712	41,601	Nil	£66,300	(£801)	**£48,660**
Indigo Agriculture Inc†	Analyses plant microbiomes to increase crop yields	31/12/17	2.5	25,871	24,950	Nil	US$14,580	(US$74,800)	**US$209,100**

* Information provided in accordance with the Companies Act 2006 disclosure requirements where more than 20% of the capital is held. The registered address of the Level E Maya Fund is: Level E Capital SICAV p.l.c., 171, Old Bakery Street, Valletta, VLT 1455, Malta. The address of the WI Harper Fund VII is: 50 California Street, Suite 2580, San Francisco, California 94111, U.S.A.

† Information provided in accordance with paragraph 82 of the AIC Statement of Recommended Practice.

The Level E Maya Fund information represents the holding in Class A shares, in accordance with the Companies Act disclosure requirements. No other share classes are held by the Company.

‡ For the Level E Maya Fund and the WI Harper Fund VII the post-tax profit/(loss) is disclosed in accordance with the disclosure requirements.

10 Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Accrued income	267	777
Sales for subsequent settlement	27,388	–
Withholding tax reclaim outstanding	–	1,665
Other debtors and prepayments	237	322
	27,892	**2,764**

None of the above debtors is a financial asset designated at fair value through profit or loss. The carrying amount of debtors is a reasonable approximation of fair value.

11 Creditors – Amounts falling due within one year

	2019 £'000	2018 £'000
The Royal Bank of Scotland plc 1 year loan	–	28,514
The Royal Bank of Scotland plc 2 year loan	65,232	60,593
The Royal Bank of Scotland plc 3 year loan	61,394	–
National Australia Bank Limited 2 year loan	153,486	142,572
Purchases for subsequent settlement	15,683	–
Other creditors and accruals	13,224	10,282
	309,019	**241,961**

Included in other creditors is £5,583,000 (2018 – £4,671,000) in respect of the investment management fee.

Borrowing facilities at 31 March 2019

A 2 year US$85 million revolving loan facility has been arranged with The Royal Bank of Scotland plc.

A 2 year US$200 million revolving loan facility has been arranged with National Australia Bank Limited.

A 3 year US$80 million revolving loan facility has been arranged with The Royal Bank of Scotland plc.

At 31 March 2019 drawings were as follows:

The Royal Bank of Scotland plc	US$80 million (revolving facility) at an interest rate (at 31 March 2019) of 3.629% per annum
	US$85 million (revolving facility) at an interest rate (at 31 March 2019) of 3.410% per annum
National Australia Bank Limited	US$200 million (revolving facility) at an interest rate (at 31 March 2019) of 3.324% per annum

At 31 March 2018 drawings were as follows:

The Royal Bank of Scotland plc	US$40 million (revolving facility) at an interest rate (at 31 March 2018) of 2.255% per annum
	US$85 million (revolving facility) at an interest rate (at 31 March 2018) of 2.764% per annum
National Australia Bank Limited	US$200 million (revolving facility) at an interest rate (at 31 March 2018) of 2.623% per annum

During the year the US$40 million 1 year revolving loan with The Royal Bank of Scotland plc ('RBS') was replaced with a US$80 million 3 year revolving loan with RBS. Additionally, the US$200 million 2 year revolving loan with National Australia Bank Limited ('NAB') was refinanced with a US$200 million 2 year revolving loan with NAB.

The main covenants which are tested monthly are:

(i) Total borrowings shall not exceed 35% of the Company's adjusted net asset value.

(ii) Total borrowings shall not exceed 35% of the Company's adjusted total assets.

(iii) The Company's minimum net asset value shall be £1,000 million.

(iv) The Company shall not change the investment manager without prior written consent of the lenders.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2019 £'000	2018 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	20,448	20,704
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,858	74,821
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	52,842	53,093
£675,000 4½% irredeemable debenture stock			675	675
Unsecured loan notes:				
£30 million 2.91% 2038	2.91%	2.91%	29,960	–
£50 million 2.94% 2041	2.94%	2.94%	49,933	–
£45 million 3.05% 2042	3.05%	3.05%	44,896	44,890
£30 million 3.30% 2044	3.30%	3.30%	29,929	29,927
£30 million 3.12% 2047	3.12%	3.12%	29,929	29,926
£90 million 2.96% 2048	2.96%	2.96%	89,879	–
			423,349	**254,036**

Debenture Stocks

The debenture stocks are stated at the cumulative amount of net proceeds after issue, plus accrued finance costs attributable to the stepped interest debentures. The cumulative effect is to increase the carrying amount of borrowings by £3,148,000 (2018 – £3,618,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

Unsecured Loan Notes

During the year the Company issued the following private placement unsecured loan notes:

— £30 million at a coupon of 2.91% maturing on 4 June 2038
— £50 million at a coupon of 2.94% maturing on 4 June 2041
— £90 million at a coupon of 2.96% maturing on 4 June 2048

The unsecured loan notes are stated at the cumulative amount of net proceeds after issue. The cumulative effect is to reduce the carrying amount of borrowing by £474,000 (2018 – £257,000).

Borrowing Limits

Under the terms of the Articles of Association and the Debenture Trust Deeds, total borrowings should not exceed a sum equal to one half of the adjusted total of capital and reserves at the Company's year end.

13 Share Capital

	2019 Number	2019 £'000	2018 Number	2018 £'000
Allotted, called up and fully paid ordinary shares of 5p each	1,474,255,880	73,713	1,395,363,209	69,768
Treasury shares of 5p each	–	–	26,367,671	1,318
Total	**1,474,255,880**	**73,713**	**1,421,730,880**	**71,086**

The Company's authority permits it to hold shares bought back 'in treasury'. Such treasury shares may be subsequently either sold for cash (at, or at a premium to, net asset value per ordinary share) or cancelled. In the year to 31 March 2019 no shares were bought back (2018 – 14,006,276 ordinary shares with a nominal value of £700,000 were bought back at a total cost of £62,951,000 and held in treasury). At 31 March 2019 the Company had authority to buy back 210,484,065 ordinary shares.

Under the provisions of the Company's Articles the share buy-backs are funded from the capital reserve.

In the year to 31 March 2019, the Company sold 26,367,671 ordinary shares from treasury at a premium to net asset value, with a nominal value of £1,318,000 raising net proceeds of £133,113,000 (31 March 2018 – 50,800,000 ordinary shares sold from treasury with a nominal value of £2,540,000 raising net proceeds of £207,559,000) and issued 52,525,000 ordinary shares, with a nominal value of £2,627,000, at a premium to net asset value raising proceeds of £269,777,000 (2018 – £nil). At 31 March 2019 the Company had authority to issue or sell from treasury a further 90,241,320 ordinary shares (no shares were held in treasury at 31 March 2019).

14 Capital and Reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 April 2018	71,086	352,375	19,094	5,741,352	3,849	**6,187,756**
Gains on sales	–	–	–	351,218	–	**351,218**
Changes in investment holding gains and losses	–	–	–	572,317	–	**572,317**
Exchange differences	–	–	–	8,032	–	**8,032**
Exchange differences on loans	–	–	–	(20,212)	–	**(20,212)**
Shares sold from treasury	–	91,044	–	42,069	–	**133,113**
Shares issued	2,627	267,150	–	–	–	**269,777**
Investment management fee charged to capital	–	–	–	(21,879)	–	**(21,879)**
Finance costs of borrowings charged to capital	–	–	–	(29,866)	–	**(29,866)**
Dividends paid in year	–	–	–	(40,146)	(3,849)	**(43,995)**
Revenue return on ordinary activities after taxation	–	–	–	–	23,669	**23,669**
At 31 March 2019	**73,713**	**710,569**	**19,094**	**6,602,885**	**23,669**	**7,429,930**

The capital reserve includes investment holding gains of £3,964,387,000 (2018 – gains of £3,392,070,000) as disclosed in note 9. The Revenue Reserve and the Capital Reserve (to the extent it constitutes realised profits) are distributable.

15 Shareholders' Funds

	2019 £'000	2018 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**7,429,930**	**6,187,756**

Total shareholders' funds have been calculated in accordance with the provisions of FRS 102.

	2019	2018
Shareholders' funds attributable to ordinary shares (as above)	£7,429,930,000	£6,187,756,000
Number of ordinary shares in issue at the year end*	1,474,255,880	1,395,363,209
Shareholders' funds per ordinary share	**504.0p**	**443.5p**

* Excluding shares held in treasury at 31 March 2018. No shares were held in treasury at 31 March 2019.

16 Related Party Transactions

The Directors' fees for the year and Directors' interests are detailed in the Directors' Remuneration Report on pages 38 and 39.

No Director has a contract of service with the Company. During the year no Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

17 Contingencies, Guarantees and Financial Commitments

At the year end the Company had capital commitments amounting to US$15,623,000 (2018 – US$13,370,000) in respect of subscription agreements.

Subscription Agreement Capital Commitments

As at 31 March 2019	Expiry	Total commitment	Drawn down as at 31 March 2019	Remaining commitment at 31 March 2019
Innovation Works Development Fund, L.P.	21 May 2020	US$15.00 million	US$15.00 million	Nil
Sinovation Fund III, L.P.	31 December 2025	US$10.00 million	US$7.60 million	US$2.40 million
WI Harper Fund VII, L.P.	Expired 3 March 2019	US$10.00 million	US$9.58 million	Nil
WI Harper Fund VIII, L.P.	31 July 2024	US$10.00 million	US$8.70 million	US$1.30 million
ARCH Venture Fund IX, L.P.	6 July 2026	US$10.00 million	US$7.00 million	US$3.00 million
ARCH Venture Fund X, L.P.	3 December 2028	US$5.00 million	US$0.55 million	US$4.45 million
ARCH Venture Fund X Overage, L.P.	4 December 2028	US$5.00 million	US$0.53 million	US$4.47 million

17 Contingencies, Guarantees and Financial Commitments (continued)

As at 31 March 2018	Expiry	Total commitment	Drawn down as at 31 March 2018	Remaining commitment at 31 March 2018
Innovation Works Development Fund, L.P.	21 May 2020	US$15.00 million	US$15.00 million	Nil
Sinovation Fund III, L.P.	31 December 2025	US$10.00 million	US$6.00 million	US$4.00 million
WI Harper Fund VII, L.P.	3 March 2019	US$10.00 million	US$9.58 million	US$0.42 million
WI Harper Fund VIII, L.P.	31 July 2024	US$10.00 million	US$7.20 million	US$2.80 million
ARCH Venture Fund IX, L.P.	6 July 2026	US$10.00 million	US$3.85 million	US$6.15 million

Additionally, the Company has committed to purchase US$41.67 million of Sana Biotechnology Inc Series A-2 preference shares (2018 – commitment to purchase US$20 million for Vir Biotechnology Inc Series B preference shares by 31 March 2020) – see note 19 on page 67.

18 Financial Instruments

As an investment trust, the Company invests in listed and unlisted securities and makes other investments so as to achieve its investment objective to maximise total return from a portfolio of long term investments chosen on a global basis enabling it to provide capital and dividend growth. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise the short term volatility. Risk provides the potential for both losses and gains and in assessing risk, the Board encourages the Managers to exploit the opportunities that risk affords.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

Market Risk

The fair value of future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board reviews and agrees policies for managing these risks and the Company's Investment Managers both assess the exposure to market risk when making individual investment decisions and monitor the overall level of market risk across the investment portfolio on an ongoing basis. Details of the Company's investment portfolio are shown in note 9 and on pages 21 to 24.

Currency Risk

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results). Consequently, movements in exchange rates may affect the sterling value of those items.

The Investment Managers monitor the Company's exposure to foreign currencies and report to the Board on a regular basis. The Investment Managers assess 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. However, the country in which a company is listed is not necessarily where it earns its profits. The movement in exchange rates on earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the company is quoted.

Foreign currency borrowings can limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments.

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

As at 31 March 2019	Investments £'000	Cash and cash equivalents £'000	Loans, loan notes and debentures £'000	Other debtors and creditors £'000	Net exposure £'000
US dollar	5,761,829	28,147	(280,112)	(16,854)	**5,493,010**
Euro	1,346,429	–	–	159	**1,346,588**
Hong Kong dollar	599,200	–	–	–	**599,200**
Swedish krona	156,199	–	–	–	**156,199**
Indian rupee	92,568	–	–	–	**92,568**
Canadian dollar	41,338	–	–	–	**41,338**
Total exposure to currency risk	**7,997,563**	**28,147**	**(280,112)**	**(16,695)**	**7,728,903**
Sterling	101,256	7,440	(423,349)	15,680	**(298,973)**
	8,098,819	**35,587**	**(703,461)**	**(1,015)**	**7,429,930**

18 Financial Instruments (continued)

Currency Risk (continued)

As at 31 March 2018	Investments £'000	Cash and cash equivalents £'000	Loans, loan notes and debentures £'000	Other debtors and creditors £'000	Net exposure £'000
US dollar	4,235,597	25,986	(231,679)	(690)	**4,029,214**
Euro	1,335,236	–	–	159	**1,335,395**
Hong Kong dollar	500,986	–	–	–	**500,986**
Swedish krona	333,306	3,798	–	–	**337,104**
Indian rupee	84,710	–	–	162	**84,872**
Total exposure to currency risk	**6,489,835**	**29,784**	**(231,679)**	**(369)**	**6,287,571**
Sterling	156,180	5,190	(254,036)	(7,149)	**(99,815)**
	6,646,015	**34,974**	**(485,715)**	**(7,518)**	**6,187,756**

Currency Risk Sensitivity

At 31 March 2019, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the Financial Statement amounts. The analysis is performed on the same basis as it was for 2018.

	2019 £'000	2018 £'000
US dollar	274,651	201,461
Euro	67,329	66,770
Hong Kong dollar	29,960	25,049
Swedish krona	7,810	16,855
Indian rupee	4,628	4,244
Canadian dollar	2,067	–
	386,445	**314,379**

Interest Rate Risk

Interest rate movements may affect directly:

— the fair value of the investments in fixed interest rate securities;

— the level of income receivable on cash deposits;

— the fair value of the Company's fixed-rate borrowings; and

— the interest payable on the Company's variable rate borrowings.

Interest rate movements may also impact upon the market value of the Company's investments outwith fixed income securities. The effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The Board reviews on a regular basis the amount of investments in cash and fixed income securities and the income receivable on cash deposits, floating rate notes and other similar investments.

The Company finances part of its activities through borrowings at approved levels. The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board. Movements in interest rates, to the extent that they affect the market value of the Company's fixed rate borrowings, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value at fair value.

18 Financial Instruments (continued)

Interest Rate Risk (continued)

The interest rate risk profile of the Company's financial assets and liabilities at 31 March is shown below:

Financial Assets

	2019 Fair value £'000	2019 Weighted average interest rate	2019 Weighted average period until maturity *	2018 Fair value £'000	2018 Weighted average interest rate	2018 Weighted average period until maturity *
Cash and short term deposits:						
Other overseas currencies	28,147	–	n/a	29,784	–	n/a
Sterling	7,440	0.3%	n/a	5,190	0.3%	n/a

* Based on expected maturity date.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the Interbank market rate.

Financial Liabilities

The interest rate risk profile of the Company's bank loans, debentures and loan notes (at amortised cost) and the maturity profile of the undiscounted future cash flows in respect of the Company's contractual financial liabilities at 31 March are shown below.

Interest Rate Risk Profile

The interest rate risk profile of the Company's financial liabilities at 31 March was:

	2019 £'000	2018 £'000
Floating rate – US$ denominated	280,112	231,679
Fixed rate – Sterling denominated	423,349	254,036
	703,461	**485,715**

The interest rates of the financial liabilities are disclosed in note 11 and 12 on pages 58 and 59.

Maturity Profile

The maturity profile of the Company's financial liabilities at 31 March was:

	2019 Within 1 year £'000	2019 Between 1 and 5 years £'000	2019 More than 5 years £'000	2018 Within 1 year £'000	2018 Between 1 and 5 years £'000	2018 More than 5 years £'000
Repayment of loans, debentures and loan notes	280,112	95,000	325,675 *	231,679	95,000	155,675 *
Accumulated interest on loans, debentures and loan notes to maturity date	24,680	79,369	184,090	18,799	62,141	91,284
	304,792	**174,369**	**509,765**	**250,478**	**157,141**	**246,959**

* Includes £675,000 irredeemable debenture stock.

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2019 would have had no significant impact on the net assets or net return after taxation (2018 – £nil) and would have increased the net asset value per share (with borrowings at fair value) by 7.68p (2018 – increased by 2.69p). A decrease of 100 basis points would have had an equal but opposite effect.

Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Managers. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore performance may well diverge from the short term fluctuations of the benchmark. The Board provides guidance to the Managers on the level of unlisted investments.

18 Financial Instruments (continued)

Other Price Risk Sensitivity

Fixed asset investments are valued at bid prices which equate to their fair value. A full list of the Company's investments is given on pages 21 to 24. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial sector and a list of the 30 largest investments by their aggregate market value are contained in the Strategic Report.

89.9% (2018 – 91.2%) of the Company's net assets are invested in quoted investments. A 3% increase in quoted companies equity valuations at 31 March 2019 would have increased net assets and net return after taxation by £200,405,000 (2018 – £169,276,000). A decrease of 3% would have had an equal but opposite effect.

19.1% (2018 – 16.2%) of the Company's net assets are invested in unlisted investments. The fair valuation of the unlisted investments is influenced by the estimates, assumptions and judgements made in the fair valuation process (see 1(b) on page 51). A sensitivity analysis is provided below which recognises that the valuation methodologies employed involve different levels of subjectivity in their inputs. The sensitivity analysis below applies a wider range of input variable sensitivity to the multiples methodology as it involves more significant subjective estimation than the recent transaction method (the risk of over or under estimation is higher due to the greater subjectivity involved, for example, in selecting the most relevant measure of sustainable revenues and identifying appropriate comparable companies).

As at 31 March 2019 Valuation Technique	Fair value of investments £'000	Key variable input*	Variable input sensitivity (%)	Impact £'000 †	Impact % of net assets
Recent Transaction/ Adjusted recent transaction	1,047,125	Selection of appropriate benchmark Selection of comparable companies Probability estimation of liquidation event‡ Application of valuation basis	±10	±104,713	±1.4
Multiples	315,048	Estimated sustainable earnings Selection of comparable companies Application of illiquidity discount Probability estimation of liquidation event‡ Application of valuation basis	±20	±63,010	±0.8
Net Asset Value#	56,463	Application of valuation basis	±10	±5,646	±0.1
Total	**1,418,636**			**±173,369**	**±2.3**

As at 31 March 2018 Valuation Technique	Fair value of investments £'000	Key variable input*	Variable input sensitivity (%)	Impact £'000 †	Impact % of net assets
Recent Transaction/ Adjusted recent transaction	748,271	Selection of appropriate benchmark Selection of comparable companies Probability estimation of liquidation event‡ Application of valuation basis	±10	±74,827	±1.2
Multiples	214,568	Estimated sustainable earnings Selection of comparable companies Application of illiquidity discount Probability estimation of liquidation event‡ Application of valuation basis	±20	±42,914	±0.7
Net Asset Value#	40,656	Application of valuation basis	±10	±4,066	±0.1
Total	**1,003,495**			**±121,807**	**±2.0**

† Impact on net assets and net return after taxation.

Unlisted fund investments held at net asset values produced by the relevant fund administrators using appropriate fair valuation principles.

‡ A liquidation event is typically a company sale or an initial public offering ('IPO').

*** Key Variable Inputs**

The variable inputs applicable to each broad category of valuation basis will vary dependent on the particular circumstances of each unlisted company valuation. An explanation of each of the key variable inputs is provided below and includes an indication of the range in value for each input, where relevant. The assumptions made in the production of the inputs are described in note 1(b) on page 51.

18 Financial Instruments (continued)

Selection of appropriate benchmarks

The selection of appropriate benchmarks is assessed individually for each investment. The industry and geography of each company are key inputs to the benchmark selection, with either one or two key indices or benchmarks being used for comparison.

Selection of comparable companies

The selection of comparable companies is assessed individually for each investment at the point of investment, and the relevance of the comparable companies is continually evaluated at each valuation. The key criteria used in selecting appropriate comparable companies are the industry sector in which they operate, the geography of the company's operations, the respective revenue and earnings growth rates and the operating margins. Typically, between 4 and 10 comparable companies will be selected for each investment, depending on how many relevant comparable companies are identified. The resultant revenue or earnings multiples derived will vary depending on the companies selected and the industries they operate in and can vary in the range of 1x to 10x.

Probability estimation of liquidation events

The probability of a liquidation event such as a company sale, or alternatively an initial public offering ('IPO'), is a key variable input in the transaction-based and multiples-based valuation techniques. The probability of an IPO versus a company sale is typically estimated from the outset to be 50:50 if there has been no indication by the company of pursuing either of these routes. If the company has indicated an intention to IPO, the probability is increased accordingly to 75% and if an IPO has become a certainty the probability is increased to 100%. Likewise, in a scenario where a company is pursuing a trade sale the weightings will be adjusted accordingly in favour of a sale scenario, or in a situation where a company is underperforming expectations significantly and therefore deemed very unlikely to pursue an IPO.

Application of valuation basis

Each investment is assessed independently, and the valuation basis applied will vary depending on the circumstances of each investment. When an investment is pre-revenue, the focus of the valuation will be on assessing the recent transaction and the achievement of key milestones since investment. Adjustments may also be made depending on the performance of comparable benchmarks and companies. For those investments where a trading multiples approach can be taken, the methodology will factor in revenue, earnings or net assets as appropriate for the investment, and where a suitable correlation can be identified with the comparable companies then a regression analysis will be performed. Discounted cash flows will also be considered where appropriate forecasts are available.

Estimated sustainable earnings

The selection of sustainable revenue or earnings will depend on whether the company is sustainably profitable or not, and where it is not then revenues will be used in the valuation. The valuation approach will typically assess companies based on the last twelve months of revenue or earnings, as they are the most recent available and therefore viewed as the most reliable. Where a company has reliably forecasted earnings previously or there is a change in circumstance at the business which will impact earnings going forward, then forward estimated revenue or earnings may be used instead.

Application of illiquidity discount

The application of an illiquidity discount will be applied either through the calibration of a valuation against the most recent transaction, or by application of a specific discount. The discount applied where a calibration is not appropriate is typically 10%, reflecting that the majority of the investments held are substantial companies with some secondary market activity.

Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is potentially significant but the majority of the Company's assets are investments in quoted securities that are believed to be readily realisable. The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

The Company has the power to incur borrowings, which give it access to additional funding when required.

18 Financial Instruments (continued)

Credit Risk

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

This risk is managed as follows:

- where the Managers make an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- the Board regularly receives information from the Managers on the credit ratings of those bonds and other securities in which the Company has invested (if any);
- the Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The Depository delegated the custody function to The Bank of New York Mellon SA/NV for the period to 3 April 2018 and, following the internal reorganisation at The Bank of New York, the custody function was also undertaken by The Bank of New York Mellon (International) Limited. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Manager monitors the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board;
- investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Managers. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations at the same time as any transfer of cash or securities away from the Company is completed;
- transactions involving derivatives, and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of continuing interest, are subject to rigorous assessment by the Managers of the creditworthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board; and
- cash is held only at banks that are regularly reviewed by the Managers.

The Company owns a number of unquoted preference share securities. Some of these may have been classified as debt by the issuer. There are no material amounts past due in relation to these securities. As these instruments (alongside the ordinary share securities) have been recognised at fair value through profit and loss, the fair value takes into account credit, market and other price risk.

Credit Risk Exposure

The maximum exposure to direct credit risk at 31 March was:

	2019 £'000	2018 £'000
Fixed interest investments	11,511	–
Cash and short term deposits	35,587	34,974
Debtors and prepayments	27,892	2,764
	74,990	**37,738**

None of the Company's financial assets is past due or impaired.

18 Financial Instruments (continued)

Fair Value of Financial Assets and Financial Liabilities

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the Balance Sheet with the exception of long term borrowing. Long term borrowings in relation to debentures are included in the accounts at the amortised amount of net proceeds after issue, plus accrued finance costs in accordance with FRS 102. The fair value of bank loans is calculated with reference to government bonds of comparable maturity and yield. A comparison with the fair value (closing offer value) is as follows:

	2019 Par/nominal £'000	2019 Book £'000	2019 Fair £'000	2018 Par/nominal £'000	2018 Book £'000	2018 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	20,448	23,335	20,000	20,704	25,339
6.875% debenture stock 2023	75,000	74,858	86,400	75,000	74,821	85,629
6–12% stepped interest debenture stock 2026	50,000	52,842	79,944	50,000	53,093	81,177
4½% irredeemable debenture stock	675	675	736	675	675	713
Total debentures	**145,675**	**148,823**	**190,415**	**145,675**	**149,293**	**192,858**
£30 million 2.91% 2038	30,000	29,960	30,339	–	–	–
£50 million 2.94% 2041	50,000	49,933	50,422	–	–	–
£45 million 3.05% 2042	45,000	44,896	46,082	45,000	44,890	47,762
£30 million 3.30% 2044	30,000	29,929	31,882	30,000	29,927	31,696
£30 million 3.12% 2047	30,000	29,929	31,003	30,000	29,926	31,819
£90 million 2.96% 2048	90,000	89,879	90,490	–	–	–
Total unsecured loan notes	**275,000**	**274,526**	**280,218**	**105,000**	**104,743**	**111,277**
Floating rate loans		280,112	280,112		231,679	231,679
Total borrowings		**703,461**	**750,745**		**485,715**	**535,814**

All short term floating rate borrowings are stated at fair value, which is considered to be equal to their par value.

Deducting long term borrowings at fair value would have the effect of reducing the net asset value per share from 504.0p to 500.8p. Taking the market price of the ordinary shares at 31 March 2019 of 512.0p, this would have given a premium to net asset value of 2.2% as against a premium of 1.6% on a debt at book basis. At 31 March 2018 the effect would have been to reduce the net asset value from 443.5p to 439.9p. Taking the market price of the ordinary shares at 31 March 2018 of 442.2p, this would have given a premium to net asset value of 0.5% as against a discount of 0.3% on a debt at book basis.

Deducting long term borrowings at par value would have the effect of increasing the net asset value per share from 504.0p to 504.2p. Taking the market price of the ordinary shares at 31 March 2019 of 512.0p, this would have given a premium to net asset value of 1.5% as against a premium of 1.6% on a debt at book basis. At 31 March 2018 the effect would have been to increase the net asset value from 443.5p to 443.7p. Taking the market price of the ordinary shares at 31 March 2018 of 442.2p, this would have given a discount to net asset value of 0.3% as against a discount of 0.3% on a debt at book basis.

Capital Management

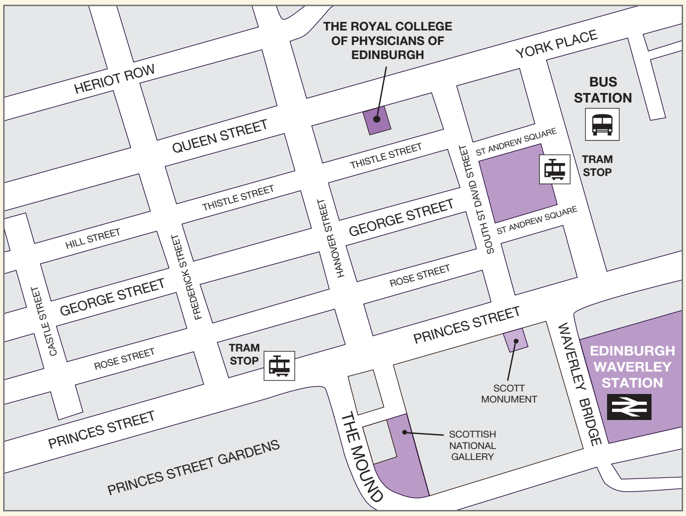
The capital of the Company is its share capital and reserves as set out in notes 13 and 14 together with its borrowings (see notes 11 and 12). The objective of the Company is to maximise total return from a portfolio of long term investments chosen on a global basis, enabling the Company to provide capital and dividend growth. The Company's investment policy is set out on page 7. In pursuit of the Company's objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern and details of the related risks and how they are managed are set out on pages 8 and 9 and on page 34. The Company has the authority to issue and buy back its shares (see page 7) and changes to the share capital during the year are set out in notes 13 and 14. The Company does not have any externally imposed capital requirements other than the covenants on its loans, loan notes and debentures which are detailed in notes 11 and 12.

19 Subsequent Events

Unlisted investments

Further to the commitment to invest a further US$41.67m in Series A-2 preference shares of Sana Biotechnology Inc (see note 17 on page 61), the Company purchased a further US$1.6m of Series A-2 preference shares on 3 May 2019.

Annual General Meeting



The Annual General Meeting of the Company will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ on Thursday, 27 June 2019 at 4.30pm.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 917 2112.

Baillie Gifford may record your call.

If you are unable to attend the Annual General Meeting, you may wish to consider registering for one of the Scottish Mortgage Investor Forums held throughout the year – see page 76 for details.

By Rail: Edinburgh Waverley

By Bus: Lothian Buses local services include:
1, 3, 4, 15, 19, 22, 25, 29, 30, 31, 33, 34, 37, 41

By Tram:
Stops at St Andrew Square and York Place

Notice is hereby given that an Annual General Meeting of Scottish Mortgage Investment Trust PLC (the 'Company') will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ on Thursday, 27 June 2019 at 4.30pm for the purposes of considering and, if thought fit, passing the following Resolutions, of which Resolutions 1 to 11, 13 and 15 will be proposed as Ordinary Resolutions and Resolutions 12 and 14 will be proposed as Special Resolutions. Resolutions 13 and 15 comprise the special business to be proposed and all the remaining Resolutions comprise the ordinary business:

1. To receive and adopt the Company's Annual Report and Financial Statements for the financial year ended 31 March 2019, together with the Reports of the Directors and the Independent Auditor's report thereon.
2. To approve the Directors' Annual Report on Remuneration for the financial year ended 31 March 2019.
3. To declare a final dividend of 1.74p per Ordinary Share.
4. To re-elect Ms FC McBain as a Director of the Company.
5. To re-elect Mr LJ Dowley as a Director of the Company.
6. To re-elect Professor JA Kay as a Director of the Company.
7. To re-elect Professor PH Maxwell as a Director of the Company.
8. To re-elect Professor P Subacchi as a Director of the Company.
9. To appoint PricewaterhouseCoopers LLP as Independent Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the Financial Statements are laid before the Company.
10. To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.
11. That:
    (a) the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the 'Act') to allot shares in the Company, or to grant rights to subscribe for or convert any security into shares in the Company, up to a maximum nominal amount of £7,393,529.40; and
    (b) the authority given by this Resolution:
        (i) shall be in substitution for all pre-existing authorities under section 551 of the Act; and
        (ii) unless renewed, revoked or varied in accordance with the Act, shall expire on 27 September 2020 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2020 save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require the allotment of shares in the Company, or the grant of rights to subscribe for or to convert any security into shares in the Company, after such expiry.
12. That, subject to the passing of Resolution 11 set out in the Notice of Annual General Meeting dated 24 May 2019 (the 'Allotment Authority'), the Directors be given power pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the Allotment Authority, and to sell treasury shares for cash, as if section 561(1) of the Act did not apply to such allotment or sale, provided that such power:
    (a) shall be limited to the allotment of equity securities or the sale of treasury shares up to an aggregate nominal amount of £7,393,529.40;
    (b) shall be in substitution for all pre-existing powers under sections 570 and 573 of the Act; and
    (c) shall expire at the same time as the Allotment Authority, save that the Company may, before expiry of the power conferred on the Directors by this Resolution, make an offer or agreement which would or might require equity securities to be allotted after such expiry.

13. That the Directors be authorised for the purposes of LR15.4.11 of the Listing Rules of the UK Listing Authority of the Financial Conduct Authority to allot ordinary shares and to sell treasury shares for cash at a price below the net asset value per share of those shares without first offering those shares pro rata to existing shareholders.
14. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) of the Act) of its ordinary shares, (either for retention as treasury shares for future reissue, resale, transfer or for cancellation), provided that:
    (a) the maximum number of ordinary shares hereby authorised to be purchased is 221,658,011 or, if less, the number representing approximately 14.99 per cent. of the issued share capital of the Company on the date on which this Resolution is passed;
    (b) the minimum price (excluding expenses) which may be paid for each ordinary share shall be the nominal value of that share;
    (c) the maximum price (excluding expenses) which may be paid for any ordinary share purchased pursuant to this authority shall not be more than the higher of:
        (i) 5 per cent. above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
        (ii) the higher price of the last independent trade of an ordinary share and the highest current independent bid for such a share on the London Stock Exchange; and
    (d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020, save that the Company may, prior to the expiry of such authority, enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract or contracts.
15. That, for the purposes of and in accordance with Article 108 of the Company's Articles of Association and with effect from 1 April 2019, fees paid to Directors for their services as Directors of the Company shall not exceed in the aggregate £400,000 per annum.

By order of the Board
Baillie Gifford & Co Limited
Company Secretaries
24 May 2019

General Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the Financial Statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com no later than 2 days (excluding non-working days) before the time of the meeting or any adjourned meeting.
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/or 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(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order 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 & 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 (ID 3RA50) no later than 2 days (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 timestamp 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 through other means.

5. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & 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/her 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 service by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. 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.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, the Baillie Gifford Children's Savings Plan or the Baillie Gifford Investment Trust ISA who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. 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.
10. Any person to whom this notice is sent who is a person nominated under section 146 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, 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.
11. 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.
12. The members of the Company 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. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent. of the total voting rights of the Company or at least 100 members who have a relevant right 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 your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
13. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at www.scottishmortgageit.com.
14. Members have the right to ask questions at the meeting in accordance with section 319A of the Companies Act 2006.
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. As at 13 May 2019 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 1,478,705,880 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 13 May 2019 were 1,478,705,880 votes.
17. Any person holding 3 per cent. or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his/her proxy will need to ensure that both he/she and his/her proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
18. No Director has a contract of service with the Company.

Explanatory Notes

Resolutions 4 to 8 – Directors standing for re-election

Ms FC McBain, Mr LJ Dowley, Professor JA Kay, Professor PH Maxwell and Professor P Subacchi are seeking re-election at this year's AGM. The performance of each Director has been reviewed as part of the Board effectiveness review; it is confirmed that each Director contributes effectively and continues to demonstrate commitment to the role. Through its Nomination Committee, the Board has undertaken appropriate due diligence on the Directors' other interests and external time commitments and has concluded that the Directors are able to commit fully to their roles and are free from any relationship or circumstances that could affect their judgement and are accordingly considered independent by the Board. The Chairman was considered independent on appointment.

Neither the UK Code of Corporate Governance nor the AIC Code of Corporate Governance (both published in 2016) imposes any limit on the tenure of Directors (including the Chairman) on the Board. The Company therefore remains fully compliant with the relevant provisions of each code in this respect.

Biographical details, in support of each Director's re-election are provided below. The Board includes two economists, two chartered accountants and a professor of clinical medicine. The Board believes that this broad range of experience is particularly valuable when supporting and challenging the Managers.

Fiona McBain is the former chief executive of Scottish Friendly Assurance, a mutually owned financial services group with over 1,000,000 policyholders. Fiona was appointed a Director in 2009 and became Chairman in 2017. She is also Chairman of the Nomination Committee. Before joining Scottish Friendly in 1998, Fiona, a chartered accountant, was employed by Prudential plc and Arthur Young (now EY) where she spent some time working across a number of industry sectors, both in the UK and in the United States. She is also a non-executive director of Dixons Carphone plc and Direct Line Insurance Group plc.

Justin Dowley is a former international investment banker and was appointed a Director in 2015. He qualified as a chartered accountant at Price Waterhouse in 1980. Subsequently he was a director of Morgan Grenfell & Co. Limited, Head of Investment Banking at Merrill Lynch Europe and a founder partner of Tricorn Partners LLP. Formerly the chairman of Intermediate Capital Group plc, he is currently a deputy chairman of The Takeover Panel, the chairman of Melrose Industries plc and a non-executive director of a number of private companies.

John Kay has a distinguished record as an economist, academic, author and commentator on business, government and economic issues. John was appointed a Director in 2008. He is a fellow of St John's College, University of Oxford and Investment Officer of the College and he is a non-executive director of Value and Income Trust PLC.

Patrick Maxwell is the Regius Professor of Physic and Head of the School of Clinical Medicine at Cambridge University. He was appointed a Director in 2016. Patrick has extensive knowledge and experience of the biotechnology sector and holds a Wellcome Trust senior investigator award for his research on oxygen sensing. He was elected a Fellow of the Academy of Medical Sciences in 2005. He is currently a member of the boards of Cambridge University Health Partners (CUHP) and Cambridge University Hospitals NHS Foundation Trust.

Paola Subacchi is an economist, writer and commentator on the functioning and governance of the international and monetary system. Paola was appointed to the Board in 2014. She is a professor of international economics at the Global Policy Institute, Queen Mary University London, a visiting professor at the University of Bologna, non-executive director of BlackRock Greater Europe Investment Trust PLC and the founding director of Essential Economics (e-economics.com). Her latest book, *The People's Money: How China is building a global currency*, was published by Columbia University Press. An Italian national, Paola studied at Universitá Bocconi in Milan and at the University of Oxford. In 2016 she received the honour Cavaliere dell'Ordine della Stella d'Italia.

Resolution 9 – Appointment of PricewaterhouseCoopers LLP as Independent Auditor

A statement of reasons connected with KPMG LLP ceasing to hold office as Independent Auditor is on page 79.

Further Shareholder Information

How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker or by asking a professional adviser to do so. If you are interested in investing directly in Scottish Mortgage you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting www.scottishmortgageit.com.

Sources of Further Information on the Company

The price of shares is quoted daily in the Financial Times and can also be found on the Scottish Mortgage pages of the Baillie Gifford website at www.scottishmortgageit.com, Trustnet at www.trustnet.co.uk and on other financial websites. Company factsheets are also available on the Baillie Gifford website and are updated monthly. These are available from Baillie Gifford on request.

Scottish Mortgage Share Identifiers

ISIN	GB00BLDYK618
Sedol	BLDYK61
Ticker	SMT

Legal Entity Identifier 213800G37DCS3Q9IJM38

The ordinary shares of the Company are listed on the London Stock Exchange and their price is shown in the Financial Times, Daily Telegraph and The Scotsman under 'Investment Companies'.

AIC

Scottish Mortgage was one of the founding members of The Association of Investment Companies in 1932. The AIC's website www.theaic.co.uk contains detailed information about investment trusts, such as factsheets and statistics on the investment trust industry.

Key Dates

Ordinary shareholders normally receive two dividends in respect of each financial year. An interim dividend is paid at the end of November/early December and a final dividend is paid in early July. The Annual General Meeting is normally held in late June or early July.

Capital Gains Tax

For Capital Gains Tax indexation purposes, the market value (adjusted for the bonus issue of 4 for 1 and the stock split of 5 for 1) of an ordinary share in the Company as at 31 March 1982 was 6.12p.

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0370 707 1300.

This helpline also offers an automated self-service functionality (available 24 hours a day, 7 days a week) which allows you to:

- hear the latest share price;
- confirm your current share holding balance;
- confirm your payment history; and
- order Change of Address, Dividend Bank Mandate and Stock Transfer forms.

By quoting the reference number on your share certificate you can check your holding on the Registrar's website at www.investorcentre.co.uk.

They also offer a free, secure share management website service which allows you to:

- view your share portfolio and see the latest market price of your shares;
- calculate the total market value of each shareholding;
- view price histories and trading graphs;
- register to receive communications from the Company, including the Annual Report and Financial Statements, in electronic format;
- update bank mandates and change address details;
- use online dealing services; and
- pay dividends directly into your overseas bank account in your chosen local currency.

To take advantage of this service, please log in at www.investorcentre.co.uk and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate).

Dividend Reinvestment Plan

Computershare operates a Dividend Reinvestment Plan which can be used to buy additional shares instead of receiving your dividend via cheque or into your bank account. For further information log in to www.investorcentre.co.uk and follow the instructions or telephone 0370 707 1694.

Electronic Communications and Proxy Voting

If you hold stock in your own name you can choose to receive communications from the Company, and vote, in electronic format. This method reduces costs, is environmentally friendly and, for many, is convenient too. The paragraphs below explain how you can use these services.

- **Electronic Communications** If you would like to take advantage of this service, please visit our Registrar's website at www.investorcentre.co.uk and register. You will need your shareholder reference number (which is on your share certificate and tax voucher) to hand. If you then agree to the terms and conditions, in future, on the day that documents are sent to shareholders by post, you will receive an e-mail providing the website address link to the documents. After you register, paper documents will be available on request.
- **Electronic Proxy Voting** You can also return proxies electronically at www.eproxyappointment.com. If you have registered for electronic communications you will be issued a PIN number to use when returning proxies to the secure Registrar website. You do not need to register for electronic communications to use electronic proxy voting, paper proxy forms will contain a PIN number to allow you to return proxies electronically.

If you have any questions about this service please contact Computershare on 0370 707 1300.

Scottish Mortgage is an investment trust. Investment trusts offer investors the following:

- participation in a diversified portfolio of shares;
- constant supervision by experienced, professional managers; and
- the Company is free from capital gains tax on capital profits realised within its portfolio although investors are still liable for capital gains tax on profits when selling their investment.

These accounts have been approved by the Directors of Scottish Mortgage Investment Trust PLC.

Analysis of Shareholders at 31 March

	2019 Number of shares held	2019 %	2018 Number of shares held	2018 %
Institutions	274,535,666	18.6	282,366,999	20.2
Intermediaries*	964,008,624	65.4	898,672,010	64.4
Individuals	57,513,087	3.9	48,886,697	3.5
Baillie Gifford Share Plans/ISA	166,055,595	11.3	163,737,099	11.7
Marketmakers	12,142,980	0.8	1,700,404	0.2
	1,474,255,880	**100.0**	**1,395,363,209**	**100.0**

* Intermediaries include wealth managers and execution-only platforms.

Automatic Exchange of Information

In order to fulfil its obligations under UK tax legislation relating to the automatic exchange of information, Scottish Mortgage Investment Trust PLC is required to collect and report information about certain categories of shareholders.

The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly, Scottish Mortgage Investment Trust PLC must provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders https://www.gov.uk/government/publications/exchange-of-information-account-holders.

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors.

AIFM Remuneration

In accordance with the Directive, the AIFM remuneration policy is available at www.bailliegifford.com or on request (see contact details on the back cover) and the numerical remuneration disclosures in respect of the AIFM's relevant reporting period are available at www.bailliegifford.com.

Leverage

The Company's maximum and actual leverage levels (see Glossary of Terms and Alternative Performance Measures on pages 77 and 78) at 31 March 2019 are shown below:

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.09:1	1.10:1

Cost-effective Ways to Buy and Hold Shares in Scottish Mortgage

Information on how to invest in Scottish Mortgage can be found at www.scottishmortgageit.com.

Risks

— Past performance is not a guide to future performance.

— Scottish Mortgage is listed on the London Stock Exchange. The value of its shares and any income from them can fall as well as rise and investors may not get back the amount invested.

— Scottish Mortgage'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.

— Scottish Mortgage 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.

— Scottish Mortgage invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

— Scottish Mortgage has borrowed money to make further investments (sometimes known as 'gearing' or 'leverage'). The risk is that when this money is repaid by the Company, the value of the investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company's investments fall in value, any borrowings will increase the amount of this loss.

— Scottish Mortgage can buy back its own shares. The risks from borrowing, referred to above, are increased when a Company buys back its 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 Company might receive upon their sale.

— Scottish Mortgage can make use of derivatives which may impact on its performance.

— Scottish Mortgage charges, with effect from 1 April 2018, 100% of the investment management fee and 100% of borrowing costs to capital which reduces the capital value.

— You should note that tax rates and reliefs may change at any time and their value depends on circumstances.

— The favourable tax treatment of ISAs may change.

— Details of other risks that apply to investment in these savings vehicles are contained in the product brochures.

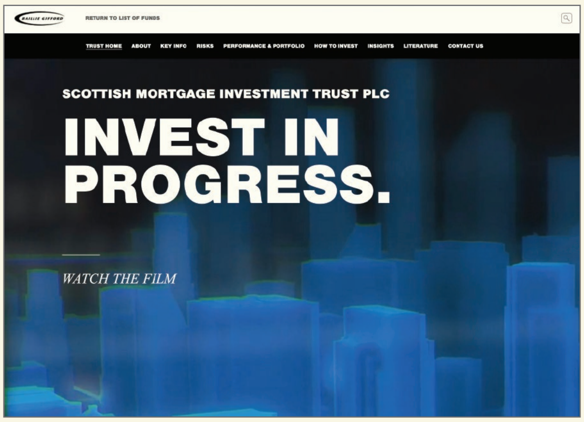
Scottish Mortgage Investment Trust is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

Further details of the risks associated with investing in the Company, including how charges are applied, can be found at www.scottishmortgageit.com, or by calling Baillie Gifford on 0800 917 2112.

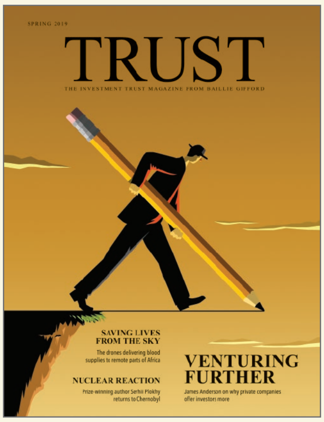
The information and opinions expressed within this Annual Report and Financial Statements are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co Limited, the Managers and Secretaries, and does not in any way constitute investment advice.

The staff of Baillie Gifford and the Directors of Scottish Mortgage may hold shares in Scottish Mortgage and may buy or sell such shares from time to time.

Communicating with Shareholders



A Scottish Mortgage web page at www.scottishmortgageit.com



Trust Magazine

Promoting Scottish Mortgage

Baillie Gifford carries out extensive marketing activity to promote Scottish Mortgage to institutional, intermediary and direct investors.

Scottish Mortgage on the Web

Up-to-date information about Scottish Mortgage is on the Scottish Mortgage pages of the Managers' website at www.scottishmortgageit.com. You will find full details of Scottish Mortgage, including recent portfolio information and performance figures.

Trust Magazine

Trust is the Baillie Gifford investment trust magazine which is published twice a year. It provides an insight to our investment approach by including interviews with our fund managers, as well as containing investment trust news, investment features and articles about the trusts managed by Baillie Gifford, including Scottish Mortgage. *Trust* plays an important role in helping to explain our products so that readers can really understand them.

You can subscribe to *Trust* magazine or view a digital copy at www.bailliegifford.com/trust.

Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcome. Please contact the Baillie Gifford Client Relations Team (see contact details below) and give them your suggestions. They will also be very happy to answer any questions that you may have about Scottish Mortgage.

Literature in Alternative Formats

It is possible to provide copies of literature in alternative formats, such as large print or audio. Please contact the Baillie Gifford Client Relations Team for more information.

Client Relations Team Contact Details

Telephone: 0800 917 2112
Your call may be recorded for training or monitoring purposes.

E-mail: trustenquiries@bailliegifford.com
Website: www.bailliegifford.com
Fax: 0131 275 3955

Client Relations Team
Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

Scottish Mortgage specific queries

Please use the following contact details:
Website: www.scottishmortgageit.com
E-mail: scottishmortgage@bailliegifford.com

The Scottish Mortgage Investor Forums

The Scottish Mortgage Investor Forums seek to offer existing and prospective Scottish Mortgage shareholders the chance to hear presentations from the Managers, James Anderson and Tom Slater. The most recent of these events was held at Bristol in February and an event will be held in London in June (now closed for new registrations). As there has proven to be a high level of demand for these events from shareholders, we will be continuing to hold these in a variety of locations around the UK.

A further Scottish Mortgage Investor Forum will be held in the Autumn in Leeds (date and venue to be confirmed). At this event, James and Tom will be discussing their current investment enthusiasms and thoughts on the most exciting areas with potential for future growth. After the presentations attendees will have the opportunity to put their questions directly to the speakers.

Please visit www.scottishmortgageit.com to register for this event.

Details for all such Scottish Mortgage Investor Forums will be posted on this website as they become available.

Scottish Mortgage Investor Forums – Blue Sky Thinking for Tomorrow's World

Resolute Optimism

"We try to listen, to learn from those who are smarter than we are."

Technologies are developing at an increasing rate across a wide range of fields. Many of these advances are hugely positive and exciting, at the same time as being complex and often interrelated.

As investors in a wide range of companies at the forefront of changing the industries in which they operate, Scottish Mortgage Portfolio Managers James Anderson and Tom Slater believe their primary task is to listen and then use the insights gained from those responsible for driving these developments.

In order to help their understanding of such shifts, the Managers have sought to expand their information networks well beyond the traditional financial industry voices. The Resolute Optimism pages at www.resoluteoptimism.com share some of these thoughts and ideas which inform Scottish Mortgage, as well as their insights on the challenges and delights of long-term investing and capital markets.

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Glossary of Terms and Alternative Performance Measures (APM)

Total Assets

Total assets less current liabilities, before deduction of all borrowings.

Net Asset Value

Also described as shareholders' funds. Net Asset Value (NAV) is the value of total assets less liabilities (including borrowings). Net Asset Value can be calculated on the basis of borrowings stated at book value, fair value and par value. An explanation of each basis is provided below. The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue (excluding treasury shares).

Net Asset Value (Borrowings at Book)/Shareholders' Funds

Borrowings are valued at adjusted net issue proceeds. The value of the borrowings at book is set out on page 67.

Net Asset Value (Borrowings at Fair Value) (APM)

Borrowings are valued at an estimate of their market worth. The value of the borrowings at fair is set out on page 67 and a reconciliation to Net Asset Value with borrowings at book value is provided below.

	31 March 2019	31 March 2018
Net Asset Value per ordinary share (borrowings at book value)	504.0p	443.5p
Shareholders' funds (borrowings at book value)	£7,429,930k	£6,187,756k
Add: book value of borrowings	£703,461k	£485,715k
Less: fair value of borrowings	(£750,745k)	(£535,814k)
Net Asset Value (borrowings at fair value)	£7,382,646k	£6,137,657k
Shares in issue at year end (excluding treasury shares)	1,474,255,880	1,395,363,209
Net Asset Value per ordinary share (borrowings at fair value)	500.8p	439.9p

Net Asset Value (Borrowings at Par) (APM)

Borrowings are valued at their nominal par value. The value of the borrowings at par is set out on page 67 and a reconciliation to Net Asset Value with borrowings at book value is provided below.

	31 March 2019	31 March 2018
Net Asset Value per ordinary share (borrowings at book value)	504.0p	443.5p
Shareholders' funds (borrowings at book value)	£7,429,930k	£6,187,756k
Add: allocation of interest on borrowings	£3,805k	£4,098k
Less: expenses of debenture issue	(£1,131k)	(£1,198k)
Net Asset Value (borrowings at par value)	£7,432,604k	£6,190,656k
Shares in issue at year end (excluding treasury shares)	1,474,255,880	1,395,363,209
Net Asset Value per ordinary share (borrowings at par value)	504.2p	443.7p

Net Liquid Assets

Net liquid assets comprise current assets less current liabilities, excluding borrowings.

Discount/Premium (APM)

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, it is said to be trading at a premium.

Ongoing Charges Ratio (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value). The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

A reconciliation from the expenses detailed in the Income Statement on page 47 is provided below.

		2019	2018
Investment management fee		£21,879k	£17,979k
Other administrative expenses		£4,342k	£3,929k
Total expenses	(a)	£26,221k	£21,908k
Average net asset value (with borrowings deducted at fair value)	(b)	£7,051,629k	£5,849,630k
Ongoing Charges (a) ÷ (b) expressed as a percentage)		**0.37%**	**0.37%**

Gearing (APM)

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at book value less cash and cash equivalents (including any outstanding trade settlements) expressed as a percentage of shareholders' funds.

		31 March 2019	31 March 2018
Borrowings (at book value)		£703,461k	£485,715k
Less: cash and cash equivalents		(£35,587k)	(£34,974k)
Less: sales for subsequent settlement		(£27,388k)	–
Add: purchases for subsequent settlement		£15,683k	–
Adjusted borrowings	(a)	£656,169k	£450,741k
Shareholders' funds	(b)	£7,429,930k	£6,187,756k
Gearing: (a) as a percentage of (b)		**9%**	**7%**

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

		31 March 2019	31 March 2018
Borrowings (at book value)	(a)	£703,461k	£485,715k
Shareholders' funds	(b)	£7,429,930k	£6,187,756k
Potential gearing: (a) as a percentage of (b)		**9%**	**8%**

Leverage (APM)

For the purposes of the Alternative Investment Fund Managers (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 ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share (APM)

Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Total Return (APM)

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes ex-dividend.

		2019 NAV (book)	2019 NAV (fair)	2019 Share price	2018 NAV (book)	2018 NAV (fair)	2018 Share price
Closing NAV per share/share price	(a)	504.0p	500.8p	512.0p	443.5p	439.9p	442.2p
Dividend adjustment factor*	(b)	1.0067	1.0066	1.0063	1.0070	1.0077	1.0068
Adjusted closing NAV per share/share price	(c = a x b)	507.4p	504.1p	515.2p	446.6p	443.3p	445.2p
Opening NAV per share/share price	(d)	443.5p	439.9p	442.2p	358.7p	354.6p	366.1p
Total return	(c ÷ d)-1	**14.4%**	**14.6%**	**16.5%**	**24.5%**	**25.0%**	**21.6%**

* The dividend adjustment factor is calculated on the assumption that the dividends of 3.07p (2018 – 3.00p) paid by the Company during the year were reinvested into shares of the Company at the cum income NAV per share/share price, as appropriate, at the ex-dividend date.

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Our ref jw/fs

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16 May 2019

Dear Directors

Statement to Scottish Mortgage Investment Trust PLC (no. SC007058) on ceasing to hold office as auditors pursuant to section 519 of the Companies Act 2006

The reason connected with our ceasing to hold office is the holding of a competitive tender for the audit, in which we were not invited to participate, having been Auditor to Scottish Mortgage Investment Trust PLC for over twenty nine years.

Yours faithfully

KPMG LLP

KPMG LLP

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Audit registration address:
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Canary Wharf, London E14 5GL

Directors

Chairman:

FC McBain ACA

LJ Dowley FCA

Professor JA Kay CBE FBA FRSE

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