Baillie Gifford™

The Scottish American Investment Company P.L.C. (SAINTS)

Philosophy and Process

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Potential for profit and loss

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Company information

The Scottish American Investment Company P.L.C. (SAINTS) is an investment trust listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

Company aims

SAINTS' objective is to deliver real dividend growth by increasing capital and growing income.

As with any investment, capital As with any investment, your clients' capital is at risk.

A Key Information Document is available by contacting us.

Company ambitions

- To target an income greater than that available from equity markets generally.
- To invest in a Company which aims to grow its dividends in real terms, and also offers the prospect of capital growth over time.
- To benefit from Baillie Gifford's global equity expertise.
- To utilise a structure which is free from capital gains tax, and a fund which is also able to invest in other asset classes.

Company details

SEDOL	0787369
ISIN	GB0007873697
Sector	Global Equity Income
Benchmark	FTSE All World Index (in sterling terms)
Comparative index	FTSE World Index (in sterling terms)
Launch date	March 1873 (Baillie Gifford took over management 1 January 2004)
Year end	31 December
AGM	April
Results announced	February and August
Dividends paid	April, June, September and December
Management details	Baillie Gifford & Co Limited are appointed as investment managers and secretaries to the company. The management contract can be terminated at six months' notice. The property portfolio is managed by OLIM Property Limited. The agreement can be terminated on three months notice.
Annual management fee	0.45% of the first £500 million of total assets and 0.35% of the remaining total assets, total assets being the value of all assets held (excluding the property portfolio) less all liabilities, other than any liability in the form of debt intended for investment purposes, calculated on a quarterly basis.In addition, OLIM Property Limited receives an annual fee of 0.50% of the value of the property portfolio subject to a minimum quarterly fee of £6,250.

Company history

Baillie Gifford was appointed to be SAINTS manager on 1 January 2004. However, the Company itself dates back to 1873 which makes it one of the oldest investment trust companies still in existence.

SAINTS was initially formed as The Scottish American Investment Trust Limited by William Menzies in March 1873. Menzies was an Edinburgh lawyer who had visited the United States on several occasions during the 1860s and was struck during those visits by the wealth of investment opportunities in that young and rapidly growing nation.

Initially, SAINTS invested solely in bonds issued by North American railroad companies. However, the investment portfolio broadened out over time to include shares as well as bonds and industrial, commercial and public utility companies.

SAINTS has survived numerous events and crises in its long history. Perhaps the most important, in terms of its influence on the future direction of SAINTS, was the First World War.

This conflict placed great strain on the nation's finances and companies such as SAINTS were required to sell some of their overseas investments and invest the proceeds in UK government debt. When the war ended, restrictions on new foreign investment encouraged the Company to invest in UK companies. From this point onwards, SAINTS investment portfolio has included both UK and overseas investments.

As well as adapting its investment portfolio to changing conditions, the Company has also had to be flexible in how it conducts its affairs. Until 1970, the Company managed its investments itself but this changed in 1970 when Stewart Fund Managers Limited was appointed to manage SAINTS. Stewart Fund Managers and various successor companies acted as SAINTS' manager from that point until 31 December 2003 when management of the portfolio passed to Baillie Gifford.

About Baillie Gifford

Baillie Gifford was founded in 1908 in Edinburgh. The firm is a private partnership, wholly owned by the current partners, all of whom work in the business. The partnership structure affords the firm significant stability and independence which enables us to focus purely on long-term investment. From the outset, our sole business has been investment management, and we have always had an international focus. Today, more than half of funds under management are invested in international and global equity portfolios for clients from around the world. We also have a long history of managing equity income portfolios and delivering income growth for clients, and manage global equity portfolios for growth-oriented clients with an interest in income.

Baillie Gifford has always had a strong focus on investment trusts: our first client over 100 years ago was a global investment trust which remains a client today.

We have a strong service culture and provide accounting and secretarial services in-house, and make every effort to ensure that the service to investment trust boards and shareholders is of the highest possible standard.

Investment Trusts managed by Baillie Gifford

Scottish Mortgage Investment Trust PLC	Global
The Monks Investment Trust PLC	Global
The Scottish American Investment Company plc	Global Equity Income
Edinburgh Worldwide Investment Trust plc	Global Smaller Companies
The Baillie Gifford Japan Trust PLC	Japan
Baillie Gifford Shin Nippon Trust PLC	Japan
Pacific Horizon Investment Trust PLC	Asia Pacific
Baillie Gifford US Growth Trust plc	North America
Baillie Gifford UK Growth Trust PLC	UK All Companies
Baillie Gifford European Growth Trust plc	Europe
Baillie Gifford China Growth Trust plc	China
Keystone Positive Change Investment Trust plc	Global
The Schiehallion Fund	Growth Capital

Our competitive advantages

01

People

Our people are fundamental to our success, and our partnership structure brings sustainable advantages in the recruitment, retention and motivation of staff.

Our selection policy is based on attracting intellectual individuals with enquiring minds, which leads to recruitment from a wide range of academic disciplines. We foster a common culture amongst our staff in an environment that encourages vigorous debate. The firm's values and beliefs are clearly communicated and, with low staff turnover, the firm's strong culture has been maintained through a sustained period of steady growth.

Investment teams including the Global Income Growth Team which manages SAINTS, have clear responsibilities, accountability and focus, with a separate Clients Department ensuring that clients receive a high level of service.

02

Investment research information

It is how information is used, not the information itself, that generates value for our clients.

All market participants have access to the same information, and therefore it is our analysis of this information which adds value for our clients.
We focus our resources on gaining insights into the business models and the competitive advantages of companies. Our distinct bottom-up approach allows us to ignore transient market trends and to make independent and informed stockpicking decisions for the long-term benefit of our clients.

03

Location

Baillie Gifford's decision makers are primarily based in Edinburgh. This enables us to share views and ideas easily and efficiently. This culture of information sharing combines with our common approach to research to create an outstanding framework for effective stock selection on a global basis.

The investment approach

SAINTS' aim is to provide its shareholders with a dependable source of income, together with growth in income and capital that exceeds inflation over time. To achieve these goals, our strategy is to allocate the majority of the Company's assets to a portfolio of carefully selected global equities. History tells us that equities offer investors the best opportunity to enjoy inflation-beating growth in income and capital over the long term.

Within the equity portfolio, we focus solely on companies whose income and growth potential is aligned with SAINTS' goals. Our starting point for any equity investment is a company's long-term potential for earnings and cash flow growth above inflation. We believe share prices and dividends over the long term follow company earnings and cash flows. By investing only in companies whose earnings and cash flows are likely to grow ahead of inflation, we expect the shares held in the equity portfolio to deliver the growth in income and capital that we seek for SAINTS' shareholders.

Besides the potential for profit growth, we seek dividend dependability at any company in which we invest. By 'dependability' we mean the resilience of a company's dividend through business and economic cycles. We focus on companies whose dividends are likely to prove dependable over long periods of time, regardless of the prevailing market conditions or economic cycle. These resilient dividends help underpin the dependability of SAINTS' own distributions to shareholders.

Companies with the prospect of both dependable dividends and attractive profit growth are not common. However, we make full use of the global equity universe available to the Company, which consists of several thousand stocks. This allows us to construct a diversified portfolio of investments which meet our requirements. Typically the portfolio consists of around 50–80 companies. We believe this range strikes the right balance between diversification and focus.

SAINTS' portfolio is very different from conventional equity market indices. The income stream from such indices is often dominated by the dividends from a small number of companies, often in cyclical and capital-intensive industries. The result is that as a source of income they are unreliable. Our approach is consciously different, to ensure stability of the income we generate for the Company shareholders.

We are also only interested in truly sustainable income streams, which ultimately come from companies that are managed in a responsible way. Our approach therefore gives careful consideration to ESG factors; and we seek to engage constructively with the companies in which we invest in order to help promote their continued long-term success.

To identify the businesses we are looking for, we employ a disciplined research process that focuses on the dependability of a company's dividend and the growth potential of its earnings and cash flow.

Borrowed funds

Although the equity portfolio accounts for the majority of the Company investments, we also invest in portfolios of property, infrastructure equities and bonds. As an investment company, SAINTS benefits from the ability to use borrowings, up to a prudent amount. By investing these borrowings in the infrastructure equity and bond portfolios, we enhance the Company's ability to meet its investment objective.

SAINTS' borrowings currently take the form of long-term secured privately placed notes. The borrowed money is invested with the intention of beating the cost of these borrowings. Our asset allocation decisions aim to strike a balance between income contribution, income dependability and growth at the whole portfolio level.

A directly-held portfolio of UK commercial property, managed by OLIM Property Limited, has been a favoured investment for the borrowed funds for many years. The allocation to this property portfolio has varied over time, but the continuing attraction is OLIM Property Limited's focus on strong covenants and lease terms that typically include fixed or inflation-linked rent increases. Properties are selected for the portfolio on the basis of their income dependability and growth characteristics, much as in the equity portfolio.

Similarly, SAINTS global portfolio of infrastructure equities offer the prospect of dependable real income and capital growth overtime. We hold fixed income investments where we view the income as being resilient, and where the level of income significantly exceeds the case of borrowing.

Summary

Aim:
To provide shareholders with a dependable source of income, together with growth in income and capital that exceeds inflation over time.

- This aim is underpinned for the long term by investment in a portfolio of equities selected for their real income and capital growth potential.
- Equity investments are complemented through the opportunistic investment of borrowed funds:
  - A high-yielding directly-held UK property portfolio offering
    a dependable and growing rental income stream
  - A global portfolio of infrastructure equities to provide real growth in income and capital
  - Fixed income investments to enhance resources
- A robust dividend in even the most challenging of investment environments:
  - Underlying investments are selected for dependability of income alongside growth
  - The board and management team are committed to delivering real dividend growth sustainably into the future
  - Significant revenue reserves to support the smooth progression of dividends.

Outcome:
An investment for the long term which can generate a dependable income stream, with significant growth potential in both capital and income.

Philosophy

Growth credentials

Baillie Gifford has a long and very successful history of growth investing, with fantastic depth of research on a huge range of growth companies. This research comes both from regional teams with deep expertise on, for instance, Japanese companies, or global teams seeking different types of growth. All of this research is shared across the firm on our proprietary online library. Many of the companies the firm researches have a strong commitment to dividends.

This provides a healthy flow of ideas to the eight-strong Global Income Growth Team who form the bedrock of SAINTS investment process. This allows us to be highly selective about which companies make it into client portfolios. It also provides a source of robust challenge. The team are regularly joined in stock discussions by colleagues from other teams.

We believe that being embedded within a firm of growth managers is particularly helpful when investing for income. In our view, income investors should think at least as much about the growth potential of a business as they do about its income potential.

This is for three reasons. Firstly, in our experience, a business which is growing healthily will prove to be a much more resilient dividend payer than one which is shrinking. Secondly, it is growth in cash flows that will allow a company to pay a growing stream of dividends – and the compounding effect of dividend growth can make a huge difference to how much income a long-term investor receives. Growth companies give an investor more income over the long run. Finally, if a business is growing in a sustainable way, then an investor is more likely to see the capital value of their investment grow over time. Businesses which generate high levels of income today but which can't keep up with inflation will see their capital value fall over time, reducing an investor's purchasing power.

Long-term horizon

As an independent, private partnership since its foundation in 1908, Baillie Gifford brings stability and a long-term time horizon to everything we do. The fact that the firm is wholly owned by partners who all work within the firm, is a great help in allowing us to focus only on our clients' needs, rather than be driven by the requirements of external shareholders.

This extends to every aspect of our approach to income growth investing. Before purchasing a portfolio holding, our research process considers whether it is attractive enough that we would still want to own it in 5–10 years time. We are happy to take a long time to get to know a business before making an investment decision. This makes sense to us, because once we own a business we can benefit from the power of compounding; our portfolio turnover is typically only 10–20% in any year, consistent with our five-plus year time horizon.

We target long-term income, not short-term yield. We avoid the temptation to invest in today's high-yielding 'value traps' and believe that their instant income gratification can only be achieved at the expense of long-term growth. We believe our approach will result in more income being delivered to clients over the long term.

We take the responsibilities of ownership seriously. We try hard to help companies get the balance between dividends and reinvestment right, and try to help them ignore the short-term pressures of the stock market.

Genuinely global

Having a global universe is helpful, for two reasons. Firstly, the companies we are looking for have the rare combination of a growth opportunity, a cash generative business model that allows them to seize this while paying dividends, and resilience. Having the broadest possible opportunity set is a big help in finding these unusual companies – we have a universe of around 6,000 dividend paying stocks to choose from.

Secondly, it allows us to diversify the income stream much more effectively than if we were restricted to, for example, the narrower UK stock market. We can get access to income from a wider range of industries and different economies.

We believe that it is critical for us to take full advantage of these opportunities. We therefore draw on the expertise of Baillie Gifford's regional equity teams to help us understand a wide range of income-growth opportunities, including in Asia and other Emerging Markets. We travel widely to understand what motivates management teams.

We also strongly believe in active investing, and a bottom-up approach to portfolio construction. We are happy to have a very different asset allocation from equity indices, as often that helps our clients to benefit from real diversification of income and capital.

Our observation is that many equity income funds that say they are 'global' on the face of it do not seize this opportunity as fully as they could. This might be benchmark hugging. Our own active share is typically around 90%, indicating low portfolio overlap with the benchmark.

SAINTS invests in businesses listed in approximately 20 countries around the world.

Research and process

SAINTS investment process is designed to use to the fullest effect the specialist income growth research produced by the Global Income Growth Team, whilst also harnessing the considerable research resource of Baillie Gifford, thereby translating our insights into a dependable and appropriately diversified portfolio.

Idea generation

The Global Income Growth Team focuses its own research on companies that may meet the strategy's requirements. Sources of ideas can vary widely and can include company meetings, conferences, trade shows, industry publications and quantitative filters. All members of the team are analysts and spend the bulk of their time on stock research.

In addition, the team draws on the experience of all of the firm's regional and strategy-specific teams, filtering their research output for ideas which might be suitable for the Global Income Growth Strategy, which is the underlying strategy for the Company. This is effective, as many of the firm's teams share a focus on identifying cash-generative businesses with a long-term growth opportunity.

The team is assisted in harnessing the firm's research both by the availability of a firm-wide online 'Research Library', which provides easy access to all company and sector research and by our culture of open internal communication.

Research

The qualitative examination of companies is critical to the process. We have an extensive program of company meetings and as a firm we aim to meet with all our major holdings at least once a year. We strongly believe that routine market 'information' is predominately noise and is over-analysed. Our research effort therefore de-emphasises the easily available and seeks out different sources of information.

To ensure consistency and repeatability the Global Income Growth Team uses a nine question research framework for all stocks under consideration.

There is particular emphasis on understanding the drivers of cash flow growth and dividend dependability (questions 7–8), with a separate 'Dependability checklist' completed for every stock under consideration. The checklist considers a range of parameters which we believe will have a strong bearing on dividend dependability. These range from objective measures such as operating margins and payout ratios, to more subjective considerations such as Board attitudes towards defending dividends, particularly when business conditions are challenging.

Governance oversight

As long-term owners of businesses, governance is key to our investment approach. We benefit from an integrated ESG analyst, who sits with the investment team and undertakes an independent sustainability assessment of every potential new equity holding and monitors performance of the existing portfolio. ESG scores and data providers may act as an input, but they are one of many.

Debate

Weekly stock discussion

Whether an idea originates within the team or from elsewhere, where appropriate we invite 'guests' from other investment teams to our weekly stock discussion. Taking the valuable output from the nine question research framework the discussion then examines four critical factors:

- **Growth potential**
  Will the company deliver sustainable real cash flow growth?
- **Income**
  What will the stock contribute to the portfolio's income over five years?
- **Dependability**
  How willing and able is the company to maintain its dividend, particularly in times of stress?
- **Total return**
  Does the stock offer the potential for compelling total returns?

Decision

Stock selection and portfolio construction

We impose no minimum yield constraint in our stock selection; we invest in below-market yield companies when justified by the expected pace of cash flow and earnings growth. However, our portfolio typically has a yield 20–40% above the market.

The Global Income Growth Team's investment managers, James Dow and Ross Mathison have clear responsibility for portfolio construction and performance. All buy and sell decisions are made by a vote, and position sizes at initiation are typically between 1% and 3%. Sizing, whether at outset or thereafter, reflects each stock's attractiveness against our four critical factors and overall considerations at the portfolio level such as conviction, and diversification of income and capital.

We typically take such decisions at our weekly **portfolio review meeting**, which is deliberately separate from the team's weekly stock discussion meeting in order to allow for a period of reflection.

Ownership/engagement

We have a clear summary of the investment case for every stock we own, which the entire team can access.

The focus of our ongoing stock monitoring is on fundamental developments in the investment case for each stock we own. Notable events are discussed weekly, and stock reviews may be triggered if an event has the potential to undermine our investment case. However, in our view, most short-term 'news' tend to be noise.

Once we own a business we put significant ongoing effort into engaging with management teams and boards on their capital allocation priorities, including dividends.

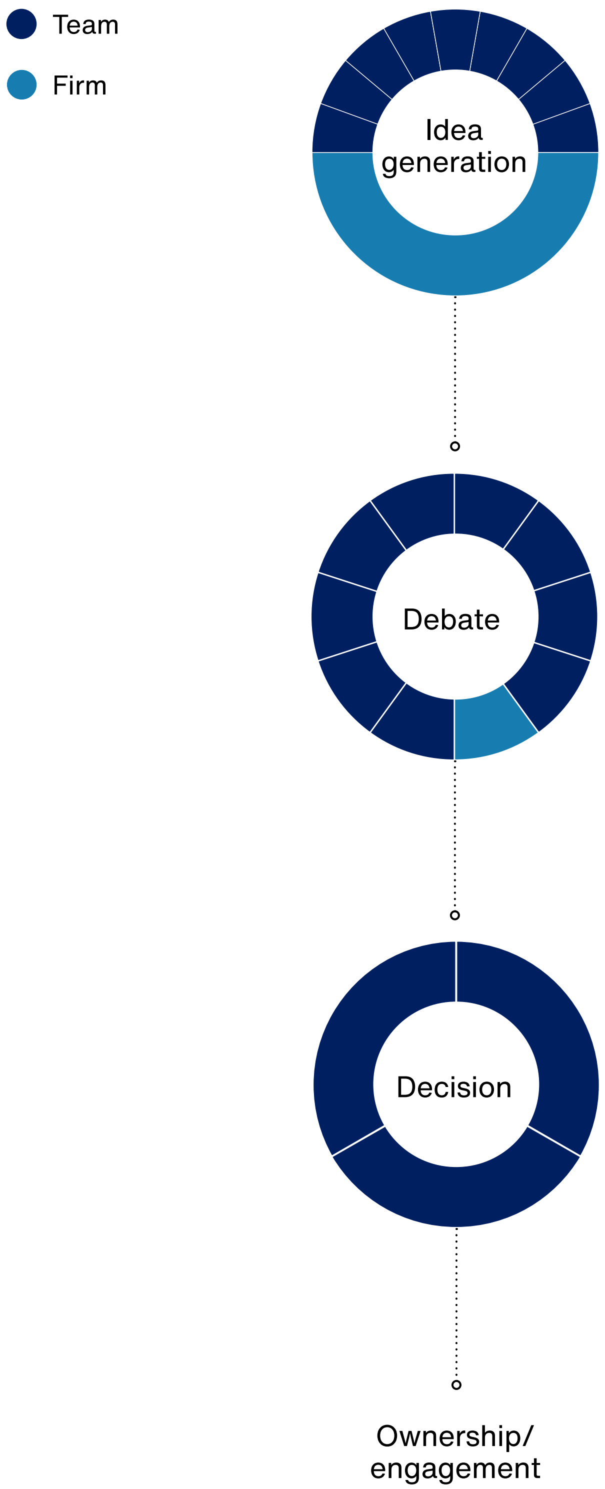
As part of the monitoring process our in-house Investment Risk, Analytics & Research Department conducts a quarterly review of Global Income Growth portfolios, including SAINTS and carries out ad hoc research on areas of interest identified by the Global Income Growth Team.

Sell discipline

Our process is oriented around owning stocks for as long as possible, including through inevitable periods of share price weakness. However, if a stock no longer meets our criteria for ownership, we will sell.

Developments which might give rise to a sale include:

- An adverse change in the fundamentals of the business, which undermines our investment case;
- A loss of confidence in the management (for example, in relation to capital allocation);
- An adverse change in dividend policy; and
- A material change in valuation which leads us to conclude that future capital growth prospects are lacklustre.



6,000 stock global universe

Ideas emerge from a wide range of areas

9Q research framework

- Dividend dependability checklist
- Management scorecard

IAT Analysis

Stock discussion focused on four factors:

01 Growth in long-term cash flow

02 Income level and growth

03 Dependability of dividends

04 Total Return potential

Monday portfolio review

Stock selection

- Collaborative decision-making

Portfolio construction

- Conviction
- Diversification of income and capital

Nine question research framework

01
Summarise the company's business model. How sustainable is this model in the long-term?

02
How large is the company's long-term growth opportunity? What rate of earnings growth should we expect over the next ten years?

03
What do the positive and negative tail outcomes look like?

04
Who are the principal competitors? Are they likely to get stronger or weaker from here?

05
Why does the company deserve to earn attractive returns? Are these likely to rise or fall over time?

06
How highly should we rate the management and board?

07
To what extent will growth in earnings flow through to cash flow and dividends?

08
Explain how dependable these dividends are likely to be over time?

09
Are the shares under-valued and if so what do we suspect the market is mis-pricing?

Risk

We aim to ensure that we are thoroughly aware of the level of risk that we are taking and its possible implications. We consider risk from several perspectives.

Fundamental risk

The key risk arising from our philosophy is incorrect analysis of company fundamentals, which may lead to bad investment decisions. We aim to avoid this by debating all new buy ideas at regular stock discussions where investment cases are rigorously challenged by the investment team. We believe that having clear investment cases is very helpful.

We continuously re-examine the fundamental performance of the companies in which we invest and the expectations upon which our investment decisions are based.

Income risk

We mitigate the risk of individual company dividends falling by basing our stock selection on fundamental analysis, which we believe is also the key to achieving sustainable income growth. We assess the dependability of each company's dividend policy, using our 'Dependability Checklist', and consider issues such as the cash coverage of the dividend, the level of cyclicality in the company's business, management attitudes, balance sheet strength and our expectations for the profile of future cash flows.

To further mitigate the income risk of any one stock, we cap every stock's contribution to overall portfolio income at 5%. When deliberating a stock's position size, we consider whether risks to the dividend are correlated with those of other holdings' dividends, and we regularly invite challenge on any income concentrations in the portfolio, from within the team and from our Investment Risk, Analytics & Research Department.

At the portfolio level, a principal risk to the level of income generated is a sudden and unanticipated re-alignment of certain global currencies. To partially protect against this risk, we invest in a portfolio which is broadly diversified and well balanced by currency. We believe that strong underlying dividend growth is one of the best defences we can have against currency gyrations. We do not hedge anticipated income receipts.

When considering income generation, we focus on the portfolio yield and its composition as well as the yield on individual stocks. The forecast yield on the portfolio is monitored regularly.

Portfolio risk

Our portfolios are constructed from the bottom up, by holding the stocks we wish to own in a size which reflects their fundamental attractions. A potential risk of such an approach is excessive concentration of income and capital. We do not consider tight, benchmark-relative rules to be helpful in reducing this risk. Instead, we have prudent guidelines (which are listed below) to ensure appropriate portfolio diversification.

Portfolio risk and adherence to the portfolio guidelines are monitored by a dedicated Investment Risk, Analytics & Research Department which reports to Baillie Gifford's Equity Investment Risk Committee. A broad range of tools and measures to analyse the risk within portfolios. As noted earlier, the Investment Risk, Analytics & Research Department conducts formal quarterly reviews of SAINTS and all the Global Income Growth portfolios as well as bespoke pieces of research, which are discussed with the investment team. If the Investment Risk, Analytics & Research Department's analysis identifies any extreme positions regarding, for example, style bias or macroeconomic risk, we ensure that they are understood and justified by our investment intentions.

Diversification parameters	**Capital**	**Income**
Stocks	Maximum 5% at time of purchase, maximum 6%	Maximum 5% per stock
Industry limits	Maximum 20%, no minimum	
Number of industries	Minimum 10	
Number of countries	Minimum 10	

Stewardship and engagement

We are long-term income investors. We don't just think about this year's dividends, but about the dividends a business will be capable of paying in 10–20 years' time.

Sustainability

Our long-term focus requires us to think hard about the sustainability of the business models we choose to invest in. It forces us to be rigorous in making sure the management teams we back are behaving in a responsible way, that is consistent with our long-term ambitions for the business. This focus on sustainability is embedded in our stock selection framework and so is at the very heart of our research process.

We strongly believe that a focus on sustainability needs to consider both the good that companies can do, as well as the possible harms. Many of the businesses we invest in are growing because they are leading in industries that we think will change society for the better.

The Global Income Growth team benefits from an integrated and dedicated ESG Analyst, who undertakes an independent sustainability assessment of every potential new equity holding and monitors performance of the existing portfolio. Using a proprietary framework called 'Impact, Ambition and Trust', the analyst rates companies on:

- The **Impact**, positive or negative, of a company's products and operations on society.
- Its **Ambition** to either further or address that impact.
- The level of **Trust** we should have in the management team and the board.

We use this assessment to build an engagement plan for the coming year on the most pressing issues. We believe seeking improvement from within is often where we can add the greatest value. Therefore, our first priority is always to engage constructively with the companies in which we invest.

Capital allocation

Our long-term focus also means that the capital allocation choices that management teams and boards make are critical. Dividends are capital allocation decisions, and they are one among many that a management team and board have to make. As well as dividends, they will also be weighing up growth investments, acquisitions, investments in R&D, and buybacks. Therefore, a key part of our research is finding management teams who think about capital allocation in a thoughtful, long-term way, and have a clear sense of where dividends fit within the spectrum of opportunities.

We believe that dividends can often be a helpful, disciplining tool. The businesses we are seeking to invest in often have very cash-generative business models, and so one of the biggest challenges they face is effective deployment of capital. We think that a well thought through dividend policy can steer them away from, for example, poorly considered acquisitions.

However, there are also businesses where a commitment to an unsustainably high level of dividends may generate more income today, but at the cost of turning down valuable reinvestment opportunities. We put a lot of emphasis on constructive engagement with management teams, and our advice in these scenarios is always to prioritise the business's long-term needs. We believe that this will lead to better outcomes and higher dividends over the long run.

The emphasis we put on constructive engagement is a distinctive feature of our long-term approach, helped by our long-term time horizon.

We carefully consider stewardship and engagement at each stage of our investment process.

Research

Question 1

Summarise the company's business model. How sustainable is this model in the long-term?

Question 6

How highly should we rate the management and board?

Impact, Ambition and Trust

Challenge

Our dedicated ESG analyst provides views on the key ESG opportunities and challenges facing the portfolio holdings.

The Global Income Growth Team formulates an annual engagement plan to research and address these key questions.

Engagement

In our engagements we:

- Always prioritise a business's long-term needs over short-term considerations.
- Focus our efforts on where we can have most impact.
- Encourage each company to consider their broader impact on society.
- Support their strengths and achievements.

The benefits of dividend investing

We recognise that some clients may invest in the strategy not for the income it distributes, but as a diversifying source of attractive total returns. Below we summarise the benefits we believe dividend investors enjoy:

01

The importance of a dividend commitment in enforcing capital discipline.

02

The value of long-term compounding in cash flow and dividend growth.

03

The benefits of owning businesses whose cash flow is resilient during downturns.

04

The significance of dividends in the long-run returns from equities.

Capital discipline of a dividend commitment

Companies investing in projects with high returns on capital will create value for their shareholders. But management teams face many temptations with low returns: pet projects and over-priced acquisitions, to name two. Boards which commit to pay a regular dividend force management to think hard about the cash flow they have available, and focus on the strongest investments.

This capital discipline significantly improves the likelihood that shareholder value is created, not wasted. This is evidenced by the data below, which shows that consistent dividend payers deliver substantially higher returns on invested capital. We recognise this by focusing on companies which demonstrate a strong commitment to paying dividends.

Compound growth over long periods

As everyone from the economist and philosopher Adam Smith to renowned investor Charlie Munger has remarked, the impact of compounding on investment returns over long time periods is profound. But many of the incentives in the fund management industry revolve around time frames that are far too short to capture this effect. So while the average portfolio manager is fully aware of the power of compounding, there is little incentive for them to recognise it in the stocks they own. Our focus is different. We look at investment periods of at least five years, and our compensation is structured the same way. We expect the companies we invest in to outperform because their earnings and dividends are likely to compound higher for many years, allowing our clients to benefit.

$2.0 trillion

Total amount of equity issued during the Global Financial Crisis 2007–2009.[1]

Cash flow resilience in downturns

In a buoyant economy all companies appear to do well. But a marked differentiation occurs each time there is a downturn. Companies with resilient cash flows are able to continue investing for growth, whereas companies with volatile cash flows are often forced to cut back on their research and development or capital expenditure. Companies with volatile cash flows may even be forced to issue shares as is illustrated below, while resilient companies may be buying shares back. As the economy later rebounds, this differentiation becomes clear in cash flow and earnings growth. This is why we focus on companies that are likely to deliver resilient cash flow across cycles.

Dividends in equity total returns

The excellent total returns equities have delivered over time is widely recognised. Less well observed are the sources of those returns. As summarised below from the most reputable study of long-term data, the US experience has been that dividends have accounted for over 40% of equity total returns. The UK experience has been very similar. Our focus on companies that pay dividends recognises this vital contribution.

9.9% pa nominal total return from US equities since 1925[2], consisting of:

- 6.0% pa from capital growth
- 3.9% pa from dividends

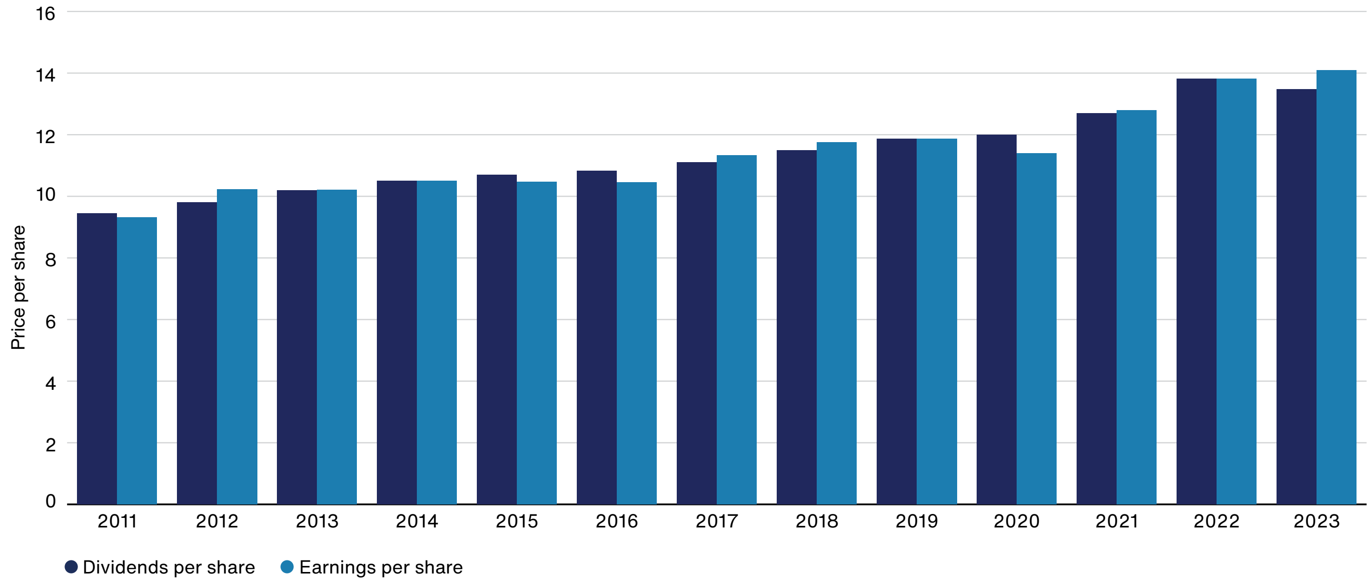
1. Source: Dealogic, Bank of America Merrill Lynch.
2. Source: Barclays Equity-Gilt Study 2021.

The benefits of SAINTS permanent capital

Making dividends more dependable

SAINTS investment company structure has enabled it to build up revenue reserves which can be used by the board to supplement the revenues earned in any given year when deciding how much to pay out as dividends, as illustrated below.

SAINTS earnings and dividends per share



Enhancing revenues

SAINTS revenues can be enhanced by the use of borrowed funds. Equities usually represent around 100% of SAINTS net asset value, but this can vary and SAINTS also uses borrowed funds to invest in additional assets. Where the additional income exceeds the cost of borrowing, this helps increase the revenues available for distribution as dividends.

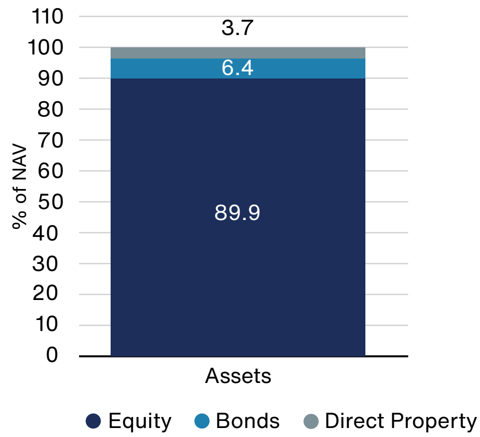
Investing in property

Property is a less liquid asset, and so the permanent nature of SAINTS' capital (as a closed end fund) makes it ideally suited to invest in property. It will never be a forced seller, and so is ideally placed to take advantage of property's 'illiquidity premium'. Property investment has been the principal use of SAINTS' borrowed funds for many years, and the portfolio offers an attractive current income and scope for capital and revenue growth.

Board independence

SAINTS has a board of directors who are independent from the Managers, Baillie Gifford. They monitor and guide the activities of the Managers, and are there to protect and advance the interests of SAINTS' shareholders. SAINTS board (whose members and responsibilities are detailed overleaf) has overall responsibility for the Company's affairs.

SAINTS asset allocation as at December 2023



Board

The Board has overall responsibility for the Company's affairs. A number of matters are reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy. The Board currently comprises five Directors, all of whom are non-executive.

Lord Macpherson of Earl's Court, GCB
Chair

Lord Macpherson joined the Board in 2016 and was appointed Senior Independent Director in 2019. He was Permanent Secretary to the Treasury from 2005 to 2016, leading the department through the global economic and financial crisis. Prior to that, he held a number of senior posts at the Treasury, including Principal Private Secretary to Ken Clarke and Gordon Brown. An economist by training, he worked for Peat Marwick consulting and the CBI before joining the Treasury. Lord Macpherson is currently chairman of C Hoare and Co, a director of British Land plc, and is a visiting Professor at King's College, London.

Karyn Lamont, CA
Director

Ms Lamont joined the Board in 2019. Karyn is a chartered accountant and former audit partner at PricewaterhouseCoopers. She has over 25 years experience providing audit and other services to a range of clients across the UK's financial services sector, including a number of investment trusts. Karyn is audit committee chairman of The Scottish Investment Trust plc, The North American Income Trust plc, The Scottish Building Society and Iomart Group.

Christine Montgomery
Director

Ms Montgomery joined the Board in 2022. She has over 30 years of investment management experience, most recently as Head of Global Equities for AustralianSuper in Melbourne from 2016-2019. She previously held senior global equity roles at Fidelity Worldwide Investments, Franklin Templeton Investments and Aegon. She is currently a non-executive director of Dunedin Income and Growth Investment Trust and True Potential Administration LLP.

Bronwyn Curtis, OBE
Senior Independent Director

Ms Curtis joined the Board in 2014. An economist, she was Head of Global Research and Senior Adviser to the Head of Global Banking and Markets at HSBC Bank plc. Her previous positions included Head of European Broadcast at Bloomberg LP, Chief Economist for Nomura International and Global Head of Foreign Exchange and Fixed Income Strategy at Deutsche Bank. She is chairman of JP Morgan Asian Investment Trust plc.

Padmesh Shukla
Director

Mr Shukla joined the Board in February 2024. He is the Chief Investment Officer of the Transport For London Pension Fund, and has over 25 years of investment experience, including 12 years in his current role at TFL. He was formerly head of Climate Change Financing at the London Development Agency, and prior to that he had worked at the World Bank, as a Researcher at Harvard and in real estate. He is currently a member of the Church of England Pensions Investment Committee.

Dame Mariot Leslie
Director

Dame Mariot Leslie joined the Board in 2019. She was a member of the Diplomatic Service from 1977 until her retirement in 2014. In the course of her career she represented the UK overseas in Singapore, Germany, France and Italy, ran the FCO's Policy Planning Staff, and was a member of the British Government's Joint Intelligence Committee. She was the British Ambassador to Norway from 2002–2006 and the UK's Permanent Representative to NATO from 2010 to 2014.

Team

Management of the investment portfolio is led by joint managers James Dow and Ross Mathison supported by the Global Income Growth Team.

James Dow
Head of Global Income Growth, Partner

James is head of Global Income Growth and co-manager of the Scottish American Investment Company. He joined Baillie Gifford in 2004 and became a partner in the firm in 2023. Prior to this he was an investment manager in our US Equities Team. Before joining the firm, he spent three years at The Scotsman, where he was economics editor. James is a CFA Charterholder. He graduated MA (Hons) in Economics and Philosophy from the University of St Andrews in 2000 and MSc in Development Studies from the London School of Economics in 2001.

Ross Mathison
Deputy Manager

Ross joined Baillie Gifford in 2019 as an investment manager in the Global Income Growth Team and became Deputy Manager of The Scottish American Investment Company PLC (SAINTS) in August 2023. Previously, he spent a year at Aviva Investors and prior to that nine years at Standard Life Investments as an investment manager, first in the European Equity Team and latterly in the Global Equity Team. Ross is a CFA Charterholder and graduated MA (Hons) in Business and Finance from Heriot-Watt University in 2008. He also sits on the board of directors at Aberlour, a Scottish children's charity.

Michael Wylie
Partner, Operations

Michael is a Partner in the firm and has oversight of a variety of operational areas, including Fund Operations and Client Operations. Prior to joining Baillie Gifford in September 2015, he was a Corporate Partner in a UK commercial law firm, where he was head of the firm's Financial Sector and led the Investment Funds Team. Michael graduated MA (Hons) in English Literature from the University of Edinburgh in 1993 before qualifying as a Corporate Lawyer in 1997, having attended the College of Law, London.

Anthony Dickson
Board Liason

Anthony joined Baillie Gifford in 2001 and is a Director in the Clients Department with responsibility for UK clients. Prior to joining Baillie Gifford, Anthony worked at Abbey National Asset Managers and prior to that, at the stockbrokers Bell Lawrie White. Anthony graduated LLB in Law from the University of Glasgow in 1988.

Property managers

The management of the property portfolio has been delegated to OLIM Property Limited, co-founded by Matthew Oakeshott.

Matthew Oakeshott
Chair

Joint founder of OLIM where he managed UK commercial property and equity portfolios from 1986 to 2006 and purely commercial property since then. S.G. Warburg & Co 1976, Director of Warburg Investment Management 1978. Investment Manager of Courtaulds Pension Fund 1981 to 1985. He led a management buyout of OLIM Property in 2012.

Louise Cleary
Managing director

Qualified as a Member of the Royal Institution of Chartered Surveyors in 1996. She has over 20 years' experience of commercial property investment at Hermes Real Estate Investment Management, Land Securities and Asda Property Holdings and joined OLIM in 2009 and OLIM Property in 2012.

Sarah Martin
Director

Qualified as a Member of the Royal Institution of Chartered Surveyors in 2008. She has over 15 years' experience at the Estates Gazette, JLL/King Sturge and joined OLIM Property in 2019.

Jo West
Investment analyst

Qualified as a Member of the Royal Institution of Chartered Surveyors in 1992. She has 20 years of commercial property valuation and investment experience at Donaldsons, Gooch & Wagstaff, CBRE and British Land and joined OLIM Property in 2018.

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