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**SAINTS**  
*The first*  
**150 YEARS**



A history of  
The Scottish American  
Investment Company P.L.C.  
1873–2023

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## IMPORTANT INFORMATION

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# FOREWORD

INVESTMENT TRUSTS ARE A SCOTTISH SUCCESS STORY, providing capital to support investment across the globe and an attractive savings vehicle to modest and large investors alike.

It is a great pleasure to celebrate the 150th anniversary of one of the oldest and most effective: The Scottish American Investment Company P.L.C., widely known as SAINTS. And the Company's board is very grateful to John Newlands, who has written this history from SAINTS' formation in Edinburgh 150 years ago to the present day.

His account lays out how, over a century and a half, in good times and bad, through wars, depressions, booms and busts, SAINTS has done more than survive: it has prospered. That it has done so is down to the combined efforts and decisions of its managers and board.

Based in the heart of the Scottish capital throughout the Company's life, SAINTS was born in the legal offices of William (later Sir William) Menzies in Hill Street, part of the city's Georgian New Town.

Not only has the Company been run within a radius of less than a mile of its origins ever since 1873, but our investment manager today, Baillie Gifford & Co, was founded on the premises of Fletcher & Baillie WS, at 12 Hill Street. This was mere steps away from number 22, where Menzies had sketched out his plans for the formation of SAINTS 36 years earlier.

As this compelling narrative makes clear, since its foundation SAINTS has evolved and modernised over a century and a half. Key among the changes was the decision, taken just over 100 years ago, to alter the Company's memorandum and articles of association to permit "business

as an investment company in any part of the world". It was this change that enabled the Company to take full advantage of the subsequent century of extraordinary global transformation.

Alongside progressive change, continuity is also noticeable in one central aspect of the Company's operations: the objective of providing a valuable and growing income from a diversified investment portfolio of the highest quality. This is reflected in SAINTS' proud record of dividend reliability and growth. I am optimistic that 2023 will see the Company raising its dividend for the 50th successive year.

This optimism is, I believe, based on firm foundations, not just on SAINTS' pioneering structure as an investment company, but also on the fact that both of our investment managers (Baillie Gifford and, for the Company's direct property investments, OLIM) continue to focus on supporting the dependability and the future growth of the dividend.

I hope you will enjoy this story of Scottish enterprise and prudent investment over the past 150 years.

## Lord Macpherson of Earl's Court

Chairman  
March 2023



# INTRODUCTION

FOR A MILESTONE IN BRITISH FINANCIAL HISTORY, the foundation of the Scottish American Investment Company in March 1873 has received surprisingly little attention.

Before the Company (SAINTS as it's usually known) came along, Victorian private investors seeking safe and rewarding returns had few choices. In the unregulated financial world of the time, most chose to put their money in government securities such as 'consols' (consolidated annuities, a type of perpetual government bonds). These may have been safe as houses, but they generated only 3 per cent annual interest.

Higher returns were available from overseas investments such as new US railroad stocks, but only the wealthiest could afford the necessary spreading of risk, let alone sufficient research into what they were buying. To make it worse, investors could face unlimited liability, potentially losing everything should a company fail.

Edinburgh-based SAINTS was the first to offer ordinary investors the quadruple benefits of portfolio diversification, professional management, an attractive income and a protective structure. In those uncertain times, the reassurance of an independent board of trustworthy, respected directors was worth a great deal. Coming from various professional backgrounds, they were prepared to fight for investors' interests, a principle that has stuck fast for 150 years.

Unlike other early investment schemes such as Foreign & Colonial Investment Trust (F&C), formed in London in 1868, and Robert Fleming's Dundee-based investment trusts launched from 1873 onwards, SAINTS was structured from the start as a limited liability investment company.

That made it different from F&C, the undisputed initiator of the trust aimed at the 'investor of moderate means'. F&C's model was then reapplied by Fleming's Tayside trusts. But the genius of the Scottish American founder, William Menzies, was to improve the F&C model by introducing the structure of a limited company.

The wisdom of Menzies' modification was borne out when F&C and all the other early legal trusts were forced to abandon their original structures and convert to the limited company form. This followed the High Court's ruling in *Sykes v Beadon* (1879), when a disgruntled shareholder (Mr Sykes) had successfully challenged its legal basis.

As all the funds that comprise today's roughly £270bn UK investment company sector use the limited company form, it is fair to say that SAINTS is the UK's first and longest-standing investment company as we recognise the term today.

Speed readers should proceed to the history itself. For those with specialist interest, some background on the terminology, chronology and evolving managerial arrangements relevant to SAINTS follows this introduction. For others, suffice it to say that in this account the terms "the Company", "Scottish American" and "SAINTS" all refer to the same thing, the subject of our tale.

I hope you enjoy reading this history as much as I have enjoyed researching it. It draws heavily on Ronald B Weir's invaluable centenary volume *A History of The Scottish American Investment Company Limited, 1873–1973*. While my approach is less formal, Weir's account is a mine of information on early capital changes, debentures, loans and related information.

I should like to thank all the Baillie Gifford, OLIM, First State, Stewart Ivory staff, past and present, who helped me to piece together the story of SAINTS. This list includes Richard Burns, Anthony Dickson, James Dow, James Ferguson, Sir Brian Ivory, Jean Matterson, Matthew Oakeshott, Teddy Tulloch and David Shaw Stewart. I am also grateful to Josephine Dixon, Assistant Registrar at the National Register of Archives for Scotland; Emma Yan, Archivist at Archives and Special Collections, University of Glasgow; and my research assistant, University of Oxford history undergraduate Bruno Armitage, son of one of my former lecturers at University of Edinburgh Management School (now University of Edinburgh Business School), for their help.

Colin Donald and colleagues in the editorial team at Baillie Gifford also deserve thanks for turning my ponderous drafts into something more readable. Any errors, on the other hand, are very much my own.

Lastly, I am extremely grateful to the Chairman and Board of SAINTS, and of course to Baillie Gifford, for the opportunity to place on record the story of a remarkable and enduring venture.

John Newlands



*John is a financial historian and investment trust analyst. He was formerly head of investment companies research at Brewin Dolphin. John graduated from the University of Edinburgh Business School in 1995 and also served in the Royal Navy as a weapon engineer officer and chartered engineer.*

**TERMINOLOGY.** The Scottish American Investment Company Limited was, to quote the Company's founding documentation, "Incorporated 29<sup>th</sup> March 1873 under The Companies Act, 1862 and 1867".

The wording is important, partly because the new company's name was so confusingly close to that of another venture, The Scottish American Investment Trust, formed in Dundee three weeks earlier, and partly because of the references to the Companies Acts.

The Act of 1862 was a milestone in UK financial history. It consolidated earlier acts and simplified procedures for forming limited liability companies, including finance companies. The Act of 1867 clarified the legislation further. Before that, any scheme to pool money and invest in other companies, each imposing unlimited liability, would make today's cryptocurrency speculation look as safe as UK government bonds.

The same 1862 Act, incidentally, required companies to make public a specimen balance sheet. This would have seemed a gross intrusion of commercial confidentiality to that era's men of business. Who would willingly give such information to competitors?

Similar outrage greeted the principle of limited liability itself. Now any old interloper could start a company on the basis that they could only lose what they put in. Gilbert and Sullivan were to make fun of this invitation to irresponsibility in *Utopia Limited* (1893), one of their least popular operettas.

There's a vital distinction to make between The Scottish American Investment Company Limited – the subject of this history – and Robert Fleming's aforementioned Scottish American Investment Trust, confusingly also launched in March 1873 but 60 miles away in Dundee, and in the form of a legal trust.

Happily, there is no risk of similar confusion today. The Dundonian version of Scottish American, another great survivor, is now known as Dunedin Income Growth Investment Trust, and is managed from London and Edinburgh as part of abrdn.

SAINTS, on the other hand, is still going strong as The Scottish American Investment Company, with P.L.C. having replaced Limited as a suffix in 1980.

Adding to the potential for confusion is the fact that, from its earliest days, the investment company sector has usually been referred to as the investment trust sector, and its constituent companies known as ‘investment trust companies’ or just as ‘trusts’.

**MANAGEMENT.** From the 19th century until well after the Second World War, virtually all investment companies were managed by their own employees and directors, whose duties included the selection of portfolio holdings.

This arrangement, known as independent- or self-management, became increasingly rare as the idea of retaining a separate investment management company gained traction after the war. Companies sought not just to economise by pooling office costs but to permit the funding of detailed investment research in an increasingly complex world.

In time, this system of outsourcing came to dominate, though Dundee’s Alliance Trust only contracted the role to a third party as recently as 2016.

In the case of SAINTS, the Company was run from 22 Hill Street from 1873 to 1883, 123 George Street from 1883 to 1938, 45 Charlotte Square from 1938 until 2000 and from St Andrew Square from 2000 to 2004.

In the Charlotte Square years, the then managers took the initiative to launch Stewart Fund Managers (SFM),

appointing the firm to manage the Company’s investments with effect from July 1970. Over time, SFM gained both an identity and a value of its own as it gained assets under management, ultimately to the benefit of SAINTS as one of its founding stakeholders. SFM would merge with Ivory & Co in July 1985 to become Stewart Ivory & Co.

In March 2000, in a rather tortuous further development, Stewart Ivory was acquired by Colonial Limited of Australia, the latter company itself bought by The Commonwealth Bank of Australia (CBA) the same year. When the dust settled, the manager of SAINTS had become First State Investment Management (UK), the UK investment management division of CBA.

**PROPERTY.** In the 1980s, the quest to diversify the portfolio led SAINTS to make a small investment in a real estate investment company, Value & Income Trust, which, Chairman Sir John Shaw noted in 1996, “has given us a very successful interest in UK property”. Thus began a relationship with Value & Income’s managers, OLIM Limited, founded in 1986 by Matthew Oakeshott and Angela Lascelles. OLIM Property continues to manage the Company’s minority property portfolio, comprising around 7 per cent of SAINTS’ total assets as at 31<sup>st</sup> December 2022.

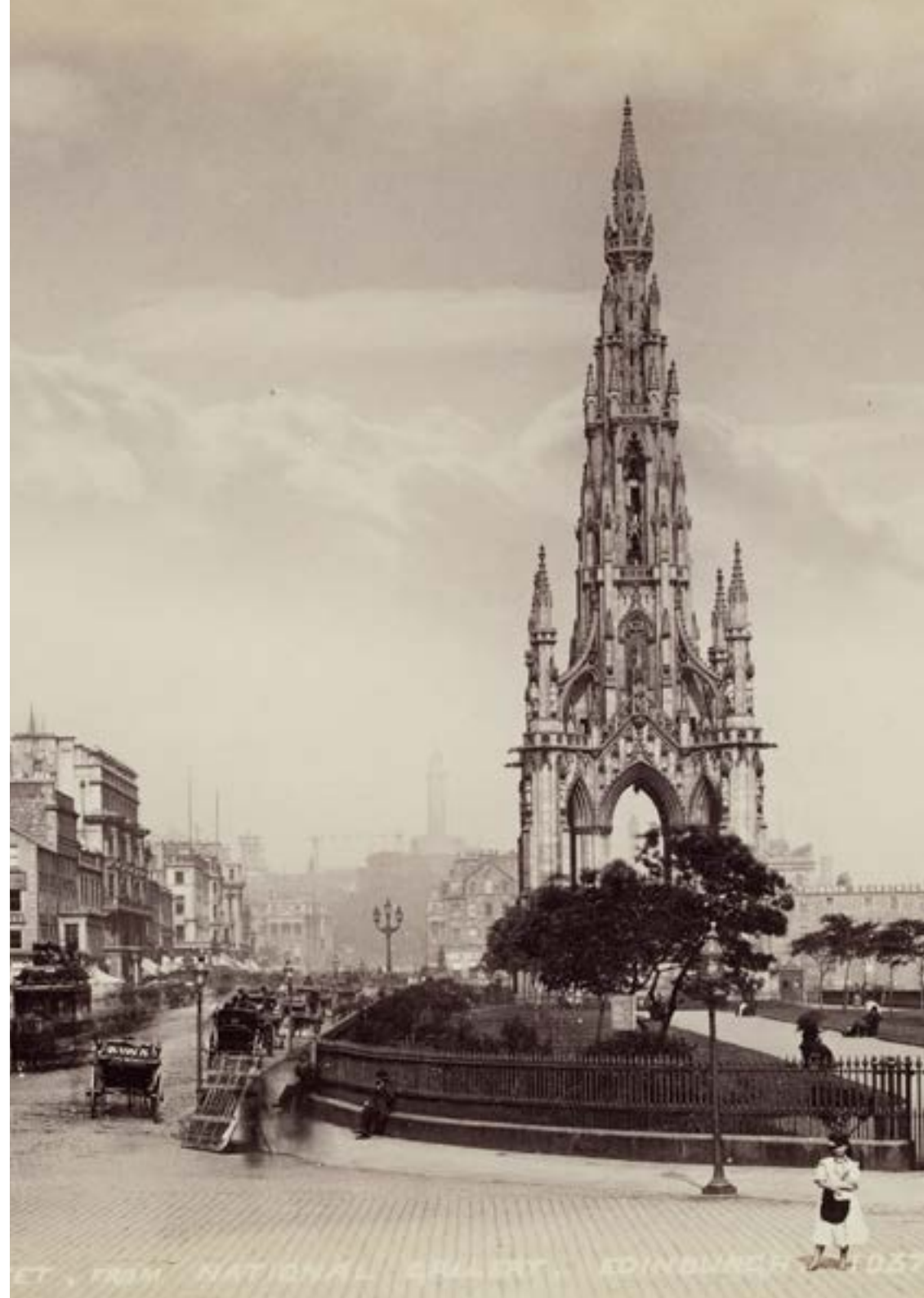
**BOARD MEMBERS.** Appendix I contains a table listing every Chairman and director of SAINTS since 1873. It is a short list for such a long time span, comprising only 53 directors in the 150 years, 13 of whom served as Chairman.

**ENTER BAILLIE GIFFORD.** In the early years of the new millennium, following an external review, the board appointed Baillie Gifford as the new manager, succeeding First State with effect from 1<sup>st</sup> January 2004.

The rest, as they say, is history. SAINTS has now been managed by the Edinburgh-based partnership for nearly 20 years.

# Chapter One

1873–1913





IN MARCH 1873, the capital of Scotland bustled with Victorian modernity. A new tram system, powered by heavy horses, clattered down Princes Street. Across the well-tended gardens, the shriek of steam engines and clanks of connecting rods echoed on the spring breeze as powerful locomotives entered and exited Waverley Station's railway tunnel.

Three miles to the north, in Leith docks, steamships took on passengers bound for Europe's ports. Transatlantic travel was best begun from Glasgow's docks, a short journey westward from Waverley. Countless cargo vessels also plied their trade in Scottish goods and imports of raw materials and luxuries from the continent, the Empire and beyond.

Edinburgh, in short, was basking in the benefits of the Industrial Revolution at the high tide of imperial Britain's global influence. The contribution to both by Scots inventors and entrepreneurs was a matter of intense national pride.

Yet these were still early days. Technology as we would recognise it today was in its infancy. The telephone, radio communications, the motorcar and even the lightbulb were yet to be invented. Commercial air travel lay half a century in the future.

## WILLIAM MENZIES

FIVE MINUTES' WALK FROM PRINCES STREET, a group of financial Edinburgh's most influential gentlemen met in the gaslit office of an early-middle-aged Scots lawyer. They were there to hear his proposals for a new investment scheme.

William Menzies was born in 1834, the eldest son of Alan Menzies, Professor of Conveyancing at the University of Edinburgh. He was educated at Edinburgh Academy from where he proceeded to the University of Edinburgh himself. Menzies finished his education in Germany before following his father into the law.

Like his father, Menzies had been admitted as a Writer to the Signet (WS), the 500-year-old society of senior solicitors in Scotland.

By the 1860s, Menzies had established his own legal practice, based in Hill Street in Edinburgh's New Town, the 'new' here contrasting the stately Georgian streetscape with the then odorous and ramshackle medieval Old Town.

By a nice coincidence, Baillie Gifford, which manages SAINTS today, traces its roots to the same street, to the offices of Fletcher & Baillie WS, where Baillie Gifford was founded 36 years later.

Hill Street, which is little changed today, was described in the centenary history of Baillie Gifford as "a narrow backwater running parallel to George Street and Queen Street... a suitable location, central but modest, for a small firm with a well-to-do clientele".

As was usual at the time, Menzies' firm took on a range of duties for clients, including investment guidance and administration. Prominent among his clientele was the General Assembly of the Church of Scotland, which appointed him as financial agent in 1868.

Menzies had first visited the US in 1864 on behalf of investment clients, and made further trips in 1867 and 1872.



SAINTS founder Sir William Menzies (1834–1904)

So excited was he by the potential he saw that, following his third visit, he decided to form a company, mainly to invest in the country then entering its Gilded Age of expansion and wealth.

Central to Menzies' vision was the opportunity to help fund a more connected, dynamic and prosperous United States, linked in particular to the transformative potential of the transcontinental railroad. The new infrastructure made it easier and cheaper to move goods and people, allowing for massive business expansion and facilitating development across the whole country. Like the internet today, it created new markets and industries and led to a boom in trade and employment. Thus railway hubs Chicago and Kansas City became thriving centres of the grain and beef industries, while Pittsburgh's steel mills prospered on better access to iron ore and coal.

As Menzies explained at a meeting on 14<sup>th</sup> March 1873, the idea of forming such a company occurred the previous autumn, during discussions with “the leading men in New York and Chicago, who thoroughly approved of the idea, and thought that any such company was likely to be successful”.

Menzies received strong support around the table, and two weeks later The Scottish American Investment Company Limited was launched. The founding prospectus eloquently set out the scale of the investment opportunity:

“The growth of America in population, resources and wealth, is too well known to require any statement... The wonderful fertility of the virgin soil, the multitude and variety of its production and manufactures, the rapid development of its railroad system... and the enormous immigration taking place in America all combine to the development of almost illimitable resources and the creation of material wealth.”

The new company's chosen investment areas were railroad mortgages and government, state and municipal stocks. But it was its capital structure that broke new ground. The other early investment funds of the era, including Foreign & Colonial, launched in 1868, and the contemporaneous Robert Fleming trusts in Dundee, had all been set up as legal trusts, not limited companies. Menzies was doing something entirely novel: combining the benefits of a diversified investment portfolio with the more secure legal status, as well as the flexibility, of a limited company.

The benefits of Ltd after the name included the possibility of varying capital structure to match the market conditions of the day and the ability (but not the obligation) to borrow money to enhance investment returns. Crucially, the structure meant that in the event of failure, shareholders were no longer liable for unlimited losses.

SAINTS was launched with a nominal capital of £1m, although initially only 50,000 shares were for sale at the part-paid price of £2 per £10 share. The Company also proposed to issue debenture stock paying 5½ per cent interest. Ronald Weir, who wrote the centenary history of SAINTS in 1973, notes:

“Laid bare in this form, the scheme amounted to an especially acute perception of what the investor in Scotland was seeking... substantial capitalists could buy the ordinary shares, whilst people who wanted a safe and steady return on their money, yet at the same time a higher yield than was available at home, could purchase debentures with double security...

All of this debenture capital could then be invested in the United States where interest rates were running at 7 per cent and over. The difference between the home and overseas interest rates would then make up the income from which to pay the ordinary shareholders.”



Transatlantic traffic: the White Star Liner SS *Adriatic*, 1871

The offering proved so popular that the ordinary shares had been fully subscribed within a month, without “our having resorted to any pushing such as in common in London,” as William Menzies pointedly put it. Nor had the shares yet been quoted on the stock exchange.

It took a little longer for demand for debentures to build up. Menzies, or ‘WJ’ as friends called him, attributed the delay to the Company having been floated close to Whitsunday, then one of the days marked in the Scottish calendar for settling accounts and paying loan interest.

Eventually, demand for the debentures gained momentum. By the last week of June 1873, over £100,000 had been loaned to the Company. A year later, SAINTS had virtually reached the limits of its borrowing powers.

## EARLY INVESTORS

WHAT SORT OF PEOPLE DECIDED TO SUBSCRIBE TO this new venture? SAINTS' original share registers are fascinating time capsules offering an insight into the social diversity of the high Victorian Scottish investor.

By occupation, the largest proportion of shareholders were men of the law: Writers to the Signet, solicitors to the Supreme Court and lawyers' clerks. Merchants formed the second largest group, followed by bankers, ministers of religion and manufacturers.

Yet, as today, all walks of life were attracted to the idea of a well-diversified, professionally managed investment company, as the examples on the next page illustrate. Note that no 'occupation' was required from gentlemen of property – or of course from ladies.

Most subscribers were local to Edinburgh and not all were from the landowning or professional elite. Richard Adie practised as an optician on Princes Street close to today's Marks & Spencer. The largest shareholder was Mrs Wahab, widow of a general in the Madras Army. Her 1,200-share holding and fashionable Edinburgh New Town address indicate a lady of substantial means. But the presence of fish curers, plasterers and non-commissioned officers on the register attests to the appeal of this new, more egalitarian investment vehicle across the Victorian social spectrum.

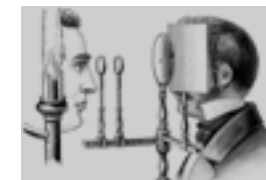
Less is known about those who subscribed for the Company's debentures. The only surviving letter book of the Company for its first year of operation suggests that the debentures with their 5½ per cent interest appealed to bankers, family trust managers and insurance companies as well as to numerous spinsters, widows and wives. Many were likely to be seeking a safe and steady income with a better return than that available elsewhere.



William Younger,  
*Gentleman*  
Haggerston Castle, Beale,  
Northumberland  
**1,000 shares**



Mrs Janet Wahab,  
*Widow*  
38 Royal Terrace,  
Edinburgh  
**1,200 shares**



Richard Adie,  
*Optician*  
50 Princes Street,  
Edinburgh  
**500 shares**



George Liechtenstein,  
*Professor of music*  
2 Great Stuart Street,  
Edinburgh  
**180 shares**



John Bonthron,  
*Fish curer*  
Anstruther,  
Fife  
**12 shares**



Alexander Anderson,  
*Manufacturer*  
Newburgh,  
Fife  
**12 shares**



William Mackenzie,  
*Sergeant major*  
9 St John Street,  
Stirling  
**20 shares**



William Baird,  
*Plasterer*  
26 Danube Street,  
Edinburgh  
**82 shares**



James Paterson,  
*Factor*  
Whitehouse, Lamlash,  
Arran  
**30 shares**

## PURCHASING POWER

HOW MUCH WERE THESE INVESTED SUMS REALLY WORTH? For comparison, *The Scotsman* of Saturday 29<sup>th</sup> March 1873, the day of the Company's launch (Saturday being a normal working day at that time), gives us some clues. Take for example the 82 shares purchased for £2 per share by Edinburgh plasterer William Baird for a total cost of £164.

On the day of SAINTS' launch, Kay & Company, a wine and spirit merchant (still!) based in Jamaica Street, Edinburgh, was offering "Celebrated Old Islay and Glenlivet whiskies" at 19 shillings (95 pence in today's terms) per gallon. Alternatively, champagne of various qualities was available, averaging about £3 per dozen bottles.

Annual pay rates, especially for jobs 'in service', admittedly usually coming with free board and lodging, contrast even more starkly with today's pay scales. In the same edition of *The Scotsman*, an agency in Broughton Street advertised "several good housemaids with long characters [good references]" willing to accept salaries of between £12 and £18 a year.

So for his £164, the thrifty Mr Baird could have employed a cook, a maid and a gardener for two years and still have had enough left over for a gallon or two of the finest malt whisky.

Even the fish curer's modest 12 shares represented a goodly outgoing equivalent to investing perhaps £3,600 in the 21st century.

By the same yardstick, William Menzies' own subscription for 1,000 shares was equivalent to in the region of £300,000 in today's money. In other words, WJ had a healthy amount of what we would now call 'skin in the game'.

## THE FOUNDING BOARD

ALONG WITH HIGHER INTEREST AND THE DIVERSIFICATION opportunity, one more thing helps to explain the ease with which Scottish American attracted its founding investors. This was the makeup of the board of directors.

Sir George Warrender, who became Chairman, was the head of a well-known Edinburgh family, the Warrenders of Lochend. As a baronet and a director of the Royal Bank of Scotland, he lent the new company social prestige as well as access to one of Scotland's big banks.

Two other board members, John Cowan and Thomas Nelson, controlled important local firms, respectively in paper making and publishing. Alexander Duncan represented an American banking firm, Edward Blyth was a consulting railway engineer and Alexander Hamilton was head of a firm of solicitors. Lastly, John Dick Peddie was a well-known architect as well as Liberal MP for Kilmarnock Burghs.

William Menzies, as the initiator and driving force behind the foundation of the Company, became Managing Director, while his brother, Charles Menzies, was appointed secretary.

Many years later, John Clay, one of the key business contacts who did much investigatory work in the US for the directors, left the following vivid record of the characters of the leading board members:

**SIR GEORGE WARRENDER**

“A shrewd, keen man of business, inclined to be purse-proud [ie smug about his wealth], but just in his ways and methods... If a shareholder proved unruly or was unduly prosy, Sir George could snuff him out in a very polite yet decided way.”

**THOMAS NELSON**

“The richest and most influential of the coterie who gathered round the board. Small in stature, physically rather weak, he was mentally a giant with a great bump of kindness in his nature.”

**EDWARD BLYTH**

“A big handsome man who had made a fortune as a civil engineer, and he was almost as well known in Edinburgh as Sir Walter Scott’s monument... He had a great bump of common sense. To use a Western [US] expression, he was never ‘stampeded’”

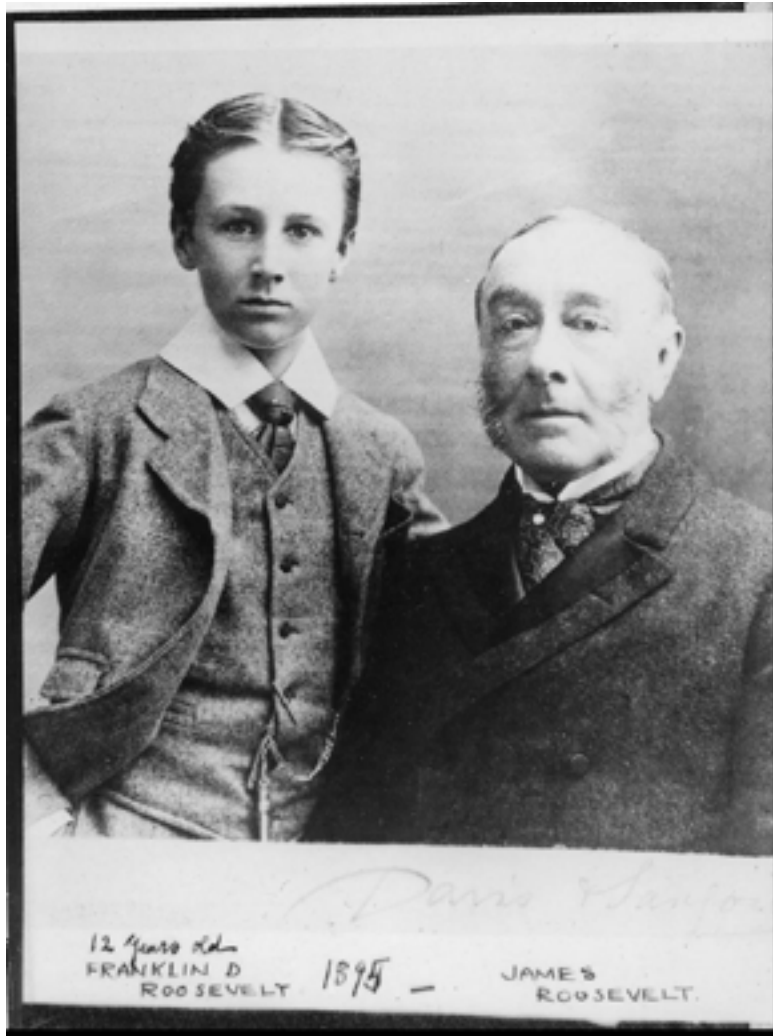
These men, along with Menzies, were, according to Clay, the real leaders and their experience was invaluable. For example, Blyth’s past as a railway consultant in Scotland enabled him to appraise developments in the US railroad. As for WJ himself, Clay remembered him in more personal and fulsome terms:

**WILLIAM MENZIES**

“A character. His forefathers had been leaders in the Kirk of Scotland... but his leanings were towards finance. Through his kind-heartedness, his judgement was often swayed, the pendulum turning the wrong way to help some friend. I lay this garland on his grave – that he had a heart of gold”.

While abroad Menzies had made many contacts among fellow Scots who had emigrated to the States. It was around these contacts that a US advisory board was created. John Paton, the New York agent of the British Bank of North America and one of the men who had been of service to Menzies during his trip in 1872, was the first to be invited to join. His employers refused permission and although he effectively became an unofficial member, it was JS Kennedy, a Glaswegian on Wall Street, who became the first agent. Although second choice, his advice proved so invaluable that within six months Menzies reflected that “the best thing we ever did was to appoint Kennedy our agent”.

Between them, Kennedy and Menzies persuaded three more high-calibre New York businessmen to join the US board. John Stewart, head of one of the largest institutions in New York, the United States Trust Company, claimed forebears from the Isle of Lewis. James Roosevelt (1828–1900), nicknamed Squire James, a well-heeled businessman and politician, is best known as the father of Franklin Delano Roosevelt. The last, Thomas Denny, was a prominent stockbroker.



US board member 'Squire' James Roosevelt (right) with his son, the future 32nd President

## THE PANIC OF '73

SAINTS' FIRST YEAR COINCIDED WITH THE PANIC OF 1873, in which the spooking of investors by the failure of several US railroad companies caused a frenzy of selling. In the event, the timing was fortuitous.

Although capital flowed into Company coffers over the summer, Menzies exercised extreme caution before investing the proceeds. Cabling the US-based Kennedy about the "rumours that a commercial crisis was pending in America", he pressed his colleague for news "because if it is impending, we would naturally wish to wait, and take advantage of any depression in prices which may occur."

The board decided that Menzies should go to the US himself to finalise the investments. In the meantime, funds were being transferred to New York, presenting another opportunity for a profitable deal. Nervous US investors were desperate to buy gold, which was therefore fetching a premium. With money raised in Scotland, gold could be bought with sterling and then sold in the US money market for depreciated American currency.

The plan was even more successful than had been hoped. Menzies stepped off the transatlantic liner in New York on 14<sup>th</sup> September, met by Kennedy who had investment-ready funds to hand. On 19<sup>th</sup> September, the market rumours were borne out. A tidal wave of selling washed down Wall Street.

First, the Stock Exchange firm of Jay Cooke & Company collapsed, followed by no fewer than 57 others. Armed with his agent's advice and with funds at the ready, Menzies was able to step in and purchase high-grade fixed-interest securities at knock-down prices.



The Panic of 1873 caused a tidal wave of selling

A typical example was the New York Central Railway bond issue, carrying a coupon of 6 per cent. In March 1873, \$100 of stock had been priced at \$93, but Menzies was able to buy it for \$78 in October.

The same month, William's brother Charles Menzies wrote:

“Not one of the securities we have taken through Kennedy is in any way suspicious, and, though there is a possibility that some of the bonds we bought in London may pass their coupons [ie stop paying interest] they are all concerns which, when once fairly set going, cannot fail to be remunerative and safe. We can now look forward to a brilliant future and trust in a few years we will be able to pay an annual dividend of at least 10 per cent.”

## TAKING THE RAILROAD ROUTE

MINUTE BOOKS FROM 1874, reviewing SAINTS' first year of investment, make clear the management's decision to concentrate on railroad mortgages and bonds.

This approach differed from that of some of the other Dundee and Edinburgh companies, which sold mortgages to small farmers in the American West and elsewhere. According to the Chairman Sir George Warrender, Menzies “after visiting Chicago, St Louis, Cincinnati and other towns and making full enquiry,” had plumped for more manageable railway mortgages rather than land equivalents as “to do business in the latter form of Security would require a more extensive organisation in America, and the collection of the interests and management of the business would be attended with much more trouble”.

The 1874 AGM reported a very satisfactory first year. Between September and December 1873, more than £430,000 had been invested, almost entirely in US railroad securities.

Given that the subscribed share capital was only £100,000, the remainder being invested with borrowed money subscribed for the debentures, the level of gearing (borrowing to enhance investment) appears alarmingly high by modern standards.

In reality, the effective, or net, gearing was much lower. This was because the Company was not investing in ordinary shares but almost exclusively in fixed-interest securities less likely to fluctuate amid the vagaries of stock markets.

Today's readers may struggle to appreciate the desirability of such a significant investment in bonds. But at a time when there was little or no inflation or taxation, a real return of 7 or 8 per cent was highly attractive.

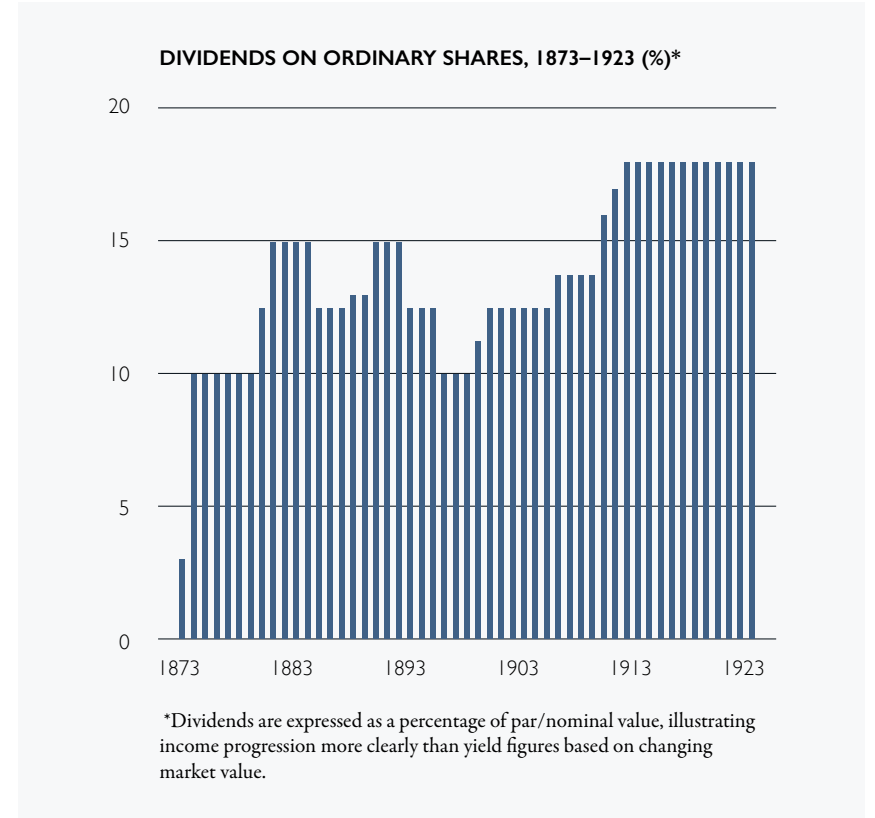




Celebrating the completion of the First Transcontinental Railroad, Promontory Summit, Utah, 1869

The even more alluring 10 per cent dividend that Charles Menzies had hoped for in a few years' time arrived in 1874. The chart on page 33 shows that although Scottish American did not quite meet the definition of a 'dividend hero' as coined by the 21st-century Association of Investment Companies (AIC) – it lacked a continuous uplift in annual distributions – shareholders nevertheless received an unbroken flow of valuable, gradually increasing payments for half a century.

This was despite eight rights issues (issues of shares at discounts to market price) during those years, not to mention major events including the City of Glasgow Bank failure in 1878, another US 'panic' in 1893, the 1907 San Francisco earthquake and the First World War.



The Company's tactics paid off in style, but, as Ronald Weir points out, buying into a falling market is not always wise. In the 1929 slump, it was to cost many investors dearly. But between 1873 and 1914 it was an approach that served Scottish American very well indeed.

It could be argued that the reasons for the Company's success over its first half-century were threefold.

First, many of the crises in the expanding American economy came from temporary overproduction in farming and manufacturing. These phases offered buying opportunities while prices were depressed, though the overall trend was always upwards. SAINTS put its faith in the continuing ability of the American economy to grow.

Second, active management was employed to great effect. Menzies and his management team continuously monitored the US market, reacted promptly to any developments and modified their strategy as required. Menzies visited the US so many times that when he retired in 1904 (as Sir William Menzies), he calculated that he had spent an entire year of his life on Atlantic liners.

Third, the use of borrowing, in a market that was continuously improving in the long term, enhanced shareholder returns. In time, gearing would become a standard weapon in the armoury of all investment companies, to be used at the discretion of managers and boards. Gearing was not used at all, however, in the early years of either the Foreign & Colonial or the Fleming trusts in Dundee before 1879, when they all emulated SAINTS and converted to the limited company form.



US railroad bond dated 1873

It helped also that the Company had set itself strict rules when considering railroad investment. The rail line in question should serve important towns rather than be a feeder or spur; the debt incurred for the development was to be “reasonable and less than the value of the property”; the net revenue of the [railroad] company should be sufficient to pay the mortgage interest; the mortgage itself should be “in proper terms and sufficiently constituted” and the line’s management should be “in the hands of competent and honest men”.

## 1879: SHAREHOLDER DISQUIET

NOWADAYS THE VALUE OF A COMPANY'S ASSETS MUST be disclosed in detail by law, and the company's net assets values are calculated, analysed and discussed from every angle. Detailed lists of the underlying portfolio holdings are also published for all to see.

In the late 19th century, boards and managers viewed this impertinent insistence on transparency with deep suspicion. Why reveal portfolio holdings when others would only copy them? Why tell the shareholders that their shares had gone up by 15 per cent? They would only expect that every year. Worse, in a poor year, the same investors would have to be told their shares had gone down by 15 per cent, making them fret. That wouldn't do at all.

Instead, the balance sheets in Company accounts listed a 'book value' of the whole investment portfolio. This figure, calculated entirely at the directors' discretion, was backed by an 'inner [ie hidden] reserve', known only to the board, the company secretary and the Company's auditors.

Take an investment costing £3,000. This would initially be recorded at cost price but typically would be gradually written down to a book value of zero. This would remain the case even if these shares had appreciated by, say, 50 per cent. The new true value of £4,500 would form part of the inner reserve.

In a bad year, while the reserves might have taken a hit, shareholders would merely be told, for instance, that although markets had been testing over the past 12 months, the Company's underlying (book) value was "more than covered by reserves". It's reminiscent of the smoothed-out annual returns reported by the issuers of 'with profits' UK endowment insurance and savings policies in the late 20th century.

As to the portfolio itself, apart from the reserve fund, shareholders had little idea where their money was being placed. From the outset, managers decided not to publish a list of investments. They did this on the rather contradictory grounds that it would give valuable information to competitors and anyway be meaningless as investments were always under review.

It is worth noting that this secretive policy was also followed by most other investment organisations. In the case of SAINTS, it remained little changed until 1969, though a broad classification of the portfolio was given in the Chairman's Annual Review from time to time from 1933 onwards.

By 1879, this lack of transparency had become too much for one investor, who raised the matter at SAINTS' sixth AGM.

Chairman Sir George Warrender had just read out Resolution Three (“to re-appoint the Auditors”) when, in a scene recalling *Oliver Twist*, a Mr AR Gray dared to stand up and ask for more information:

“I beg to ask the chair if there is any reason why the values of the securities should not be given? Why should that not be done by the Auditors, or by the Managing Director in the report? I cannot for the world see any objection to its being published in the report.”

The Chairman appears to have been taken aback by this humble request, blustering:

“It has never been done. The value fluctuates. For instance, this year, there is a fluctuation very much in our favour... unless the meeting thinks it ought to be put in, I think it best to pursue the course which has formerly been taken.”

But Mr Gray stuck to his guns:

“As I desire the information, I don’t see what harm it would do to the company.”

Sir George replied:

“All the information is practically given in the report.”

Things were getting heated when William Menzies, who had until now kept his counsel, intervened for his Chairman:

“We make a valuation of the securities every year and exhibit it to the Auditors. They certify that the present market value is greater than the sum taken credit for in the balance sheet, and that the entry is therefore justified. I think it is best to be satisfied with the present practice, as to do otherwise might lead to exaggerated hopes one year, and unreasonable disappointment another.”

Faced with such corporate solidarity, Mr Gray sat down. The Auditors were duly re-elected and the Chairman declared the meeting closed, presumably with relief.

But that was not the end of the matter. Things were to become even more heated just four years later.

## THE SHAREHOLDERS' REVOLT

BY 1883, the year that Krakatoa erupted and Karl Marx died, the dividend on ordinary shares had reached 15 per cent. It might be thought that investors would be basking in their ever more rewarding annual returns. Not so. A shareholders' revolt was brewing.

The first grievance raised was linked to the board's prudent decision to cap dividends, placing surplus earnings, as today, in a revenue reserve to be held back for a rainy day.

By 1883, this revenue reserve had reached a quarter of a million pounds, which was largely held in the form of 'consols' (consolidated annuities), Bank of England stock and British railway debentures. All were less rewarding than overseas investment would have been. The sum of £16,000 had also been used to purchase new offices for the Company at 123 George Street, Edinburgh's smartest thoroughfare.

What riled shareholders, however, was the decision to start investing revenue reserves in ordinary shares, an asset class they saw as unsuitable for a pool of money set aside to cover future shortfalls.

One such holding was of 5,000 ordinary shares in the Canada North West Land Company. Following opposition to the proposed route of the transcontinental Canada and Pacific Railroad, the shares fell sharply.

At the AGM held in March 1884, the SAINTS Board was blindsided by a barrage of objections. Sir George Warrender responded that "we have never studied the stock markets, we have merely studied the interests of the Company at large".

Not surprisingly, this less-than-reassuring statement failed to quell the gathering. Shareholders feared that, in the event of a slump, they would be on the hook for the uncalled portion of the shares they had bought at the outset. They also hinted that, as most of the directors were big private investors in North America, they might dump their foundering holdings on the Company.

A third objection, albeit politely phrased, was that the Managing Director had taken his eye off the ball. Eventually, after a grumpy meeting, shareholders' concerns appear to have been quelled by Menzies' assurance that he would devote himself full time to the affairs of the Company and drop outside activities.



Uncle Sam ascendant: 1898 war sees US supplant Spain in Cuba, Puerto Rico, the Philippines and Guam

More worrying than this spot of bother was the continuing depression in American railroad securities, which comprised nearly 60 per cent of the portfolio in 1885 (see table opposite). After 1884, the 15 per cent dividend was not maintained. This provoked more disquiet among shareholders. Charges of speculation made against the directors hit the value of Scottish American shares, knocking more than £125,000 off the value of the Company. This led to a survey of the full investment portfolio, showing that in 1885 it held assets worth £1.9m, distributed as follows:

**DISTRIBUTION OF SCOTTISH AMERICAN INVESTMENTS (1885)**

Railroad bonds	£1,112,493
Ontario municipal bonds	£172,954
Manitoba municipal bonds	£40,283
Railroad bonds in default	£121,821
Mortgages over real estate	£296,077
US municipal securities	£16,065
UK investments*	£123,950
Stock in NW Railroad of California	£2,442
<b>Total</b>	<b>£1,886,085</b>

\* This was the Reserve Fund

Although these securities strengthened in the closing years of the 1880s, the US economy then went into a downswing from which it was not to recover until after 1896.

By 1890, the interest received on Scottish American's investments had fallen to £97,600, the lowest figure since 1876. Despite this, the directors were able to restore the dividend cuts made in 1885 and pay out 15 per cent. This was made possible by the large profit made on realising securities before the downturn. With prices so low, Scottish American promptly moved back into the market, much as it had done in 1873. This time, however, conditions did not recover so rapidly. Instead, in 1893, crisis hit. Warrender described it as "the most severe and prolonged ever known in the United States".

## THE PANIC OF '93

IT ALL STARTED WHEN THE US TREASURY ATTEMPTED TO raise silver prices to support newly established mining states such as Colorado. The Sherman Silver Act of 1890 required the US Treasury to buy a specific amount of silver bullion each month and to issue banknotes against it, repayable in gold coin. The plan backfired because it raised doubts among overseas investors about the US's long-term commitment to gold as the standard on which to base the dollar.

SAINTS was not directly affected, having stipulated the repayment of loans in gold, but the controversy unsettled financial markets. By 1892, depression had swept the country, with railroad companies being among the worst hit.

In 1896 the Republican Party, which was committed to the gold standard, comfortably won the presidential election under former Ohio governor William McKinley. Sir George Warrender saw the result as “a great triumph for the cause of sound money”. In 1900 the Gold Standard Act was passed. The dollar was now defined solely in terms of gold, and other forms of money, silver and paper, were to be convertible into gold. With this Act, the US finally linked itself to the prevailing international monetary standard.

Sound money, together with the settlement of the US's short 1898 war with Spain over Cuba, settled business confidence and triggered an advance in the stock market as the new century approached.

By 1900, it had become clear that SAINTS' capital structure had become outdated. Even 27 years after its launch, the ordinary shares were still being categorised as “£10 shares,

part paid at £2”. Shareholders faced the prospect, however unlikely, that an apocalyptic event could require them to stump up the remaining £8 per share to pay the Company's debts.

The board felt this possibility, however remote, was holding down the shares' market price. In modern terminology, they were trading at a wide discount to net asset value and it was time to do something about it. They also felt that if the Company was to share in US prosperity as its economy grew, it needed to refresh its borrowing powers.

In 1900, SAINTS received special sanction from Parliament through The Scottish American Investment Company (Limited) Act to reorganise its capital and extinguish the uncalled liability on its ordinary shares. To carry out the reorganisation the directors made a call of £4 per ordinary share, which was converted into a new issue of preference stock. Holders were then free either to keep their allocation of ‘prefs’ or to sell them in the market if desired.

Simultaneously the £10 ordinary shares on which £2 had been paid were reduced to £6 and in 1904 the remaining liability was extinguished. Both ordinary and preference stock was now included in SAINTS' capital account of £1.5m (£1m preference stock and 250,000 ordinary shares of £2 each). As the Company preserved the right to borrow up to two-thirds of its paid-up capital, borrowings could now be greatly increased. This was one of the factors that explained the strong growth in dividends after 1900.

Chairman Patrick Campbell told shareholders in 1908:

“It is highly satisfactory to know that interest charges ranking prior to the dividend are so moderate. We pay 4 per cent on practically £1,200,000 of Preference Stock and 3½ per cent on £814,000 of Debenture Stock. In addition, we have £227,000 of Terminable Debentures, the average rate of interest on which is £3 14/- [3.7 per cent]. These low rates are, of course, a great advantage to the Ordinary Shareholder.”

By the early 20th century, great changes had taken place in a US economy no longer dependent on foreign capital to finance its development. Railroads too had undergone financial reconstruction and regrouping.

Yet despite the rising stock market, railroad securities were not quite the highfliers they once were. This trend caused the Scottish American board to look at industrial and public utility stocks and shares to broaden its investment base. This initiative demanded new techniques and skills.

SAINTS' management was also changing. By 1900 only four members of the original nine-man board of 1873 were still directors. Within four years, only Alexander Duncan was left from the original membership. Sir George Warrender died in June 1901, aged 76, having retained the chairmanship until his death. Edward Blyth succeeded him but died a year later, being replaced by the aforementioned Patrick Campbell, a director since 1891.



Boom times: building New York's Flatiron Building, 1901



## THE IVORY CONNECTION

JAMES IVORY, AN EDINBURGH CHARTERED ACCOUNTANT and co-founder in 1895 of the investment management firm Ivory & Sime, became a director in 1901, the last year of the Victorian era. The move linked the name of Ivory with the Company, a connection that would be revived with the appointment of his descendant Brian (later Sir Brian) Ivory to the board in 2000.

Sir William Menzies, knighted in 1903 for his services as financial agent to the Church of Scotland, continued as manager till that same year when ill health forced him to step down. He died the following year, aged 71. He was succeeded by his brother Charles Menzies, SAINTS' secretary since its foundation, and its investment manager until 1913.

Across the Atlantic, JS Kennedy, the original US agent, grew extremely rich and in 1884 retired early from business. He was succeeded as agent by his nephew John Kennedy Tod. Like his uncle, Tod made a substantial fortune and retired in 1902. Prosperity, it seems, encouraged a high turnover of Stateside agents.

Tod was replaced by JP Morgan & Company. John Pierpont Morgan (1837–1913), the supreme financial titan of America's Gilded Age, had been introduced to Scottish American shareholders as “the acknowledged head of the financial and banking world of New York”. He had played a vital part in the financial reconstruction of American industry during the depression of the 1890s and the appointment of his firm as agents gave SAINTS superb insight into the evolution of the American economy.

Meanwhile, far beneath the Earth's surface, natural forces were stirring that would bring a catastrophic end to one of the country's greatest growth phases.

## THE GREAT SAN FRANCISCO EARTHQUAKE

THE MOST SERIOUS TEST FOR US MARKETS AND economies before the First World War came in the wake of the San Francisco earthquake of 18<sup>th</sup> April 1906. More than 3,000 people died in the 8.0-magnitude quake, while fires raged for five days, destroying 80 per cent of the city. Insurance policies of the day covered fire damage but not earthquakes, incentivising San Franciscans to burn down their own houses. Many did.

The unforeseen consequence of such a localised event was a rush on gold, which was required to settle insurance claims estimated at \$255m, equivalent to many billions in today's money.

Even the depressed conditions that followed failed to shake the sanguinity of the SAINTS board: “Such depressions serve an excellent purpose,” one member argued dispassionately. “During their currency, the resources of the country are accumulating, economy is being practised and new ventures are being discouraged. Sooner or later confidence revives and fresh developments take place, but these occasional breathing times are beneficial.”

Such complacency in the face of depression and all that it implied in unemployment and bankruptcy might surprise modern readers, but until the ‘threadbare thirties’ the US economy always bounced back quickly. And on this occasion, so it proved again.



In the aftermath of the Great San Francisco Earthquake

SAINTS' fortunes picked up once more. By the spring of 1912, the mood of the once rebellious shareholders had lifted to the extent that a Mr Ebenezer Dawson stood up at the AGM and, earning cries of "Hear hear!", congratulated the Chairman and colleagues on a bumper year. "I say to him, go and prosper on the same lines as you have pursued in the past."

All went well – for a while. A capital issue in 1913 increased the borrowing powers of the Company and underlined the directors' continuing faith in its ability to invest successfully in North America. The Chairman summarised the board's view as to the importance of British lending when he said:

"It is now well recognised that it is necessary for this country to send a considerable portion of its saving abroad. It is in new countries and in partially developed countries that capital is most urgently required, and where, if judiciously expended, it is most likely to earn the high return."

Between 1870 and 1913 Britain had exported an estimated £3.5bn worth of capital, the return flow of income creating an immensely strong balance of payments position. Scottish American, with a little over £4m of investments in the US in 1913, had played its part in this diversion of savings abroad.

Soon, however, the world, and the British Empire's global dominance, would be changed for ever.

# Chapter Two

1914–1945



THE YEARS LEADING UP TO THE OUTBREAK OF WAR IN 1914 were notably prosperous ones for the United States. It had been the world's largest economy since 1890 and a bullish global power since snatching much of Spain's empire at the end of the Spanish-American War.

SAINTS shared in its success. The ordinary share dividend, which had stood at 11½ per cent in 1899, was increased to 12½ per cent in 1900. Six years later it was raised to 13¾ per cent, and in 1910 it reached 16 per cent. The following year it stood at 17 per cent, and in 1912 it was further increased to 18 per cent, a level it maintained throughout the Great War.

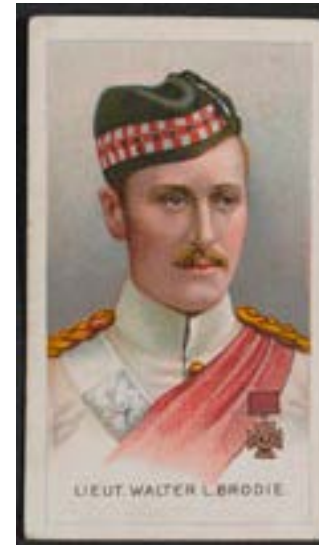
### EDINBURGH IN THE FIRST WORLD WAR

ON THE FACE OF IT, SAINTS might appear remote from the action in the First World War but this was not the case. The conflict came close to home just before midnight on 2<sup>nd</sup> April 1916 when a Zeppelin raid shocked the Scottish capital.

One of the first hits was on a bonded whisky warehouse on Commercial Street in Leith. The resulting inferno created "a beacon for the Zeppelin to advance", not to mention a £44,000 uninsured loss for spirit merchants Innes & Grieve.

Other bombs fell near George Watson's College, then off Lauriston Place, just a mile away from SAINTS' offices, smashing most of the school's windows but without loss of life. Over the next 35 minutes, 24 bombs were dropped on the capital killing 13 and injuring 24.

Scotland, with its proud military tradition, suffered along with the rest of the UK in the tragic conflict. To take just one Edinburgh-headquartered regiment, The Royal Scots, as an example, 11,000 were killed and 40,000 wounded between 1914 and 1918. Across Scotland as a whole, well over 100,000 men lost their lives in the war.



One heroic casualty was the son of SAINTS director J Wilson Brodie, an Edinburgh chartered accountant who would serve as Chairman from 1922 to 1926.

At the 1915 AGM, Mr Brodie was given "the congratulations of the meeting on the distinction which had fallen to his son in winning the Victoria Cross and in bringing honour to his family and to the community in which he had spent his boyhood".

Lieutenant Walter Brodie of the 2nd Battalion Highland Light Infantry had been awarded the VC by King George V at Windsor Castle in July that year. The citation detailed his "conspicuous gallantry

near Becelaere on the 11<sup>th</sup> November [1914], in clearing the enemy out of a portion of our trenches which they had succeeded in occupying. Heading the charge, he bayoneted several of the enemy, and thereby relieved a dangerous situation. As a result of Lieutenant Brodie's promptitude, 80 of the enemy were killed, and 51 taken prisoners". In a letter to his parents, he had merely described this action as "a bit of a scrape".

By 1918, he had also been mentioned in dispatches and awarded an MC. Tragically, he was killed in action near Béhagnies, France, on 23<sup>rd</sup> August, while commanding the second battalion of the HLI, as an acting Lieutenant Colonel, aged 34.

## THE PRICE OF WAR

IN 1913 BRITAIN HAD BEEN THE LARGEST CREDITOR NATION in the international economy. By 1918 that position was held by the United States. At the start of the war, virtually all SAINTS' total assets of some £4m were invested in North America, except for the reserve fund. That position was to change drastically as the British government first asked and then demanded that dollar-denominated securities be placed on deposit with the Treasury.

The dollar holdings were then either retained and used to secure credit in New York or sold to pay for war supplies, the proceeds being remitted back to the Company in the form of sterling. This money was often then re-invested in UK government securities to further support the war effort. Even before the compulsory American Dollar Mobilisation Scheme of 1916, SAINTS had deposited £1.6m worth of dollar holdings securities with the government as well as investing a further £1.3m in British government war issues.

Though the Company was guided by the best patriotic motives, it turned out that the realisation of many of the US holdings was well timed, as sales were made while valuations in New York were still high. By 1917 the dollar requisition scheme was past its peak and the US's entry into the war led to sharp falls in prices on Wall Street.

At 5am on 11<sup>th</sup> November 1918, Germany signed the Armistice in a railway carriage at Compiègne in northern France. At 11am the same day, a ceasefire came into effect. While it took a further seven months for the new world order to be formalised with the Treaty of Versailles, the worst conflict in history was over.



Chairman Patrick Campbell noted at the 1919 AGM:

“Happily we meet today under conditions more like those which prevailed prior to 4<sup>th</sup> August 1914... meantime we can thankfully acknowledge the conclusion of active hostilities. Financial burdens have been laid upon the back of Great Britain... there is nothing for it but to do as those went before us did in their day, and ‘set a stout heart to a stiff brae.’”

SAINTS, like many but not all its peers, had survived a cataclysmic conflict, the effect of which on the intricate workings of the global financial system has been likened by the historian Alan Jenkins to “a bludgeon descending on a watch”. The Company’s capital reserves, though still not disclosed in any detail, had undoubtedly taken a battering. But the Company’s shareholders could reflect on the fact that not only was it still standing but also they had received consistently high dividends throughout the war.

## AFTERMATH

AS THE DUST SETTLED AFTER THE ARMISTICE, the question was how best to position the Company’s portfolio in the post-war world. With restrictions on overseas lending still in place, the subject led to heated discussions between the manager and the board.

Charles Munro, previously company secretary, had replaced Charles Menzies as investment manager in 1913. It appears that, driven by the exigencies of war to take sole personal charge of investment policy, Munro had become rather too settled in the role.

At its infrequent meetings, the board had simply been presented with a list of the Company’s investments as selected by Munro. These were approved, usually without much question. But now that market liquidity was returning to normal and regular board meetings were back on the agenda, Munro proved reluctant to loosen his grip.

Matters came to a head shortly after the war when Munro, having reviewed the portfolio, proposed to sell off all shares not paying a dividend. The board, now back in force, thought otherwise.

To the veteran Alexander Duncan, the sole survivor of the founding board of 1873, with a mind-boggling half-century of directorship behind him, the idea was anathema. How could American railroad companies be expected to pay a dividend, he argued, when they had been under government control during the war? To sell them now, before any sort of postwar recovery had taken place, was madness. It would mean disposing of valuable assets far below their real worth.

This challenge to managerial discretion appears to have jolted his colleagues into reasserting their right to scrutiny over managerial actions. In this case, the collegiate will seems to have won the day, as most of the Company’s US holdings seem to have been retained. But the urgent question remained: what to do with the large sums invested in government securities?

Official restrictions made renewed US investment impossible and, when the controls were lifted, American taxation on foreign companies made it much less attractive than it had been before the war. This just left domestic securities. But, as Patrick Campbell wrote in January 1919, quoting Ecclesiastes in support:

“Their prices are high, and at present markets are rising, but, of course, if we are to do any business at all we must take a certain amount of risk. ‘He that observeth the wind shall not sow, and he that regardeth the clouds shall not reap.’”

Even before the war, the early distrust of ordinary shares had begun to wane, and by 1913 the portfolio was divided between (mainly US) ordinary shares and fixed interest in the proportion 20:80. The way ahead now, the board concluded, was to widen the Company’s investment powers and to begin a switch into domestic debenture stocks, preference shares and even, perish the thought, ordinary shares.

## TOWARDS EQUITIES

TO MAKE THE DESIRED CHANGES POSSIBLE, in 1922 the board decided to alter the Company’s memorandum and articles of association to permit “business as an investment company in any part of the world”. The century between then and now has largely borne out the far-sighted wisdom of that decision.

During the 1920s, SAINTS gradually made the switch towards companies such as Babcock & Wilcox (energy technologies), Stewarts & Lloyds (steel tube manufacturer), Lever Brothers (soap), Brunner Mond (chemicals) and Burmah Oil (energy). On the whole, the switch was successful. Although the Company’s income fell in 1919, 1921 and 1922, its investments appear to have outperformed the stock market. The problem of transition was made easier by the fall in the value of the pound against the dollar. Instead of a pre-war value of \$4.86 to the pound, by 1919 the rate had fallen to \$3.38. The implication of this was clear, according to Patrick Campbell:

“If we were to realise our British government securities at this stage and attempt to send back to the United States £1.25m we should only receive \$4m against \$6m at the par of exchange. This makes any such operation impossible in the meantime.”

Exchange rates, however, cut both ways. As the UK government released its holdings of the Company’s dollar securities, some were sold and converted back into sterling to profitable effect. Even so, by 1923 more than half of SAINTS’ total assets of £4.4m were still invested in the US.

The range of holdings within the US portfolio was now wider than before the war, Wilson Brodie, now Chairman, noted in 1924, comprising 60 per cent of the total funds invested, made up of “24 per cent in Railway Bonds and Stocks, 8 per cent in Public Utility Bonds and Stocks and 28 per cent in Industrial and Miscellaneous Bonds and Stocks”.

The directors had thought it desirable, he continued, to dispose of the last of its UK government securities, so that “of the 40 per cent in Home Investments, I may state that Debenture and Debenture Stocks and Preference Shares amount to about 25 per cent and in various other Investments to about 15 per cent”.

It is worth noting that none of these numbers featured anywhere in the annual report and accounts, the contents of which could still fit on two sheets of today’s A4. Only those who took notes from, or obtained a copy of, the Chairman’s speech would be aware of these statistics. Even then, the actual portfolio holdings were still not disclosed. Moreover, the Chairman’s opaque passing reference to “various other investments” implies that some investors regarded ordinary shares with suspicion, though few would be old enough to remember the shareholders’ revolt of 1883.

In 1923, 10 years had elapsed since the last significant expansion of the Company’s capital. In 1924 the ordinary share capital of £700,000 was increased to £1.1m by capitalising £400,000 out of the reserve fund of £950,000.

This new ordinary capital was then divided into 400,000 ordinary ‘A’ shares of £1 each and £700,000 of 10 per cent non-cumulative ‘B’ ordinary shares of £1 each. In essence the A share became the new ordinary shares, geared by the presence of the B shares, which had the characteristics of what would now be called preference shares.

By the mid-1920s, the pound had strengthened as the UK’s economy recovered. The UK had left the gold standard in 1914 to finance the war. In April 1925, Chancellor Winston Churchill, acting on Bank of England advice, announced the return of sterling to the gold standard at the pre-war rate of \$4.86 to the pound.

Economist JM Keynes had advised against such a move in a letter to *The Times* the previous month, writing “we would make a big mistake... for the convenience, for really it was little more, of a fixed rate of exchange with the dollar”.

Events were to bear out Keynes’s concerns. At the time of the announcement, the pound’s value in the foreign exchange markets was only \$4.40, meaning that British goods immediately became 10 per cent more expensive to foreign buyers.

At this point, 67 per cent of SAINTS’ investments were in the US. With the UK economy thus burdened by an overvalued currency and depressed export industries, the Company’s big move back into US securities during the twenties was to pay off in style.

In 1925, a dividend of 20 per cent was paid on the A shares. This was maintained until 1931, an impressive achievement given that, along the way, shareholders benefited from three bonus issues and a generous rights issue.





Anxious investors gather on Wall Street, October 1929

## THE ROARING TWENTIES CRASH TO A HALT

OVER THE NEXT THREE YEARS, the 1920s began to roar. In the US, production and employment were high and rising. Wages were not increasing excessively fast and prices were stable. In most industries, corporate earnings were rising. By 1927, stock market prices on Wall Street began to surge at what, to observers in faraway Scotland, began to look like an alarming rate. At the shareholders' meeting held early in 1928, AW Robertson Durham, an Edinburgh chartered accountant who had succeeded Wilson Brodie as Chairman in 1926, described the "buoyant" New York stock market as reflective of "the great trade prosperity of the United States".

But SAINTS' assessment was to change within weeks. By the early summer, the board and management had become suspicious of the bull market. Reared in the days of fixed-interest investment, they retained an innate caution. For them, when prices rose and yields fell, thoughts should turn to selling and harvesting capital gains.

Charles Munro, still SAINTS' manager despite his postwar run-in with the board, was duly despatched to the US to see for himself, disembarking in October 1928. He kept detailed notes of his findings, worth quoting at length.

"90 million shares were traded during September and the business for the nine months of 1928 exceeds the whole year 1927. These are remarkable figures and we saw the other day from the gallery of the Stock Exchange what it means on the floor of the House. A vicious scramble and infernal noise; the nervous exhaustion and strain on the dealers cannot be conducive to a healthy and peaceable life...

Perhaps they know nothing else and thrive on it just as sewer men or miners do underground... it is difficult to go on measured step in such an atmosphere."

His conclusion? “Our friends seem to be all at sea and nervy... profits are a grand thing to take just now.”

The board took this early warning seriously. Nine months later in July 1929, following a survey of the portfolio, it decided that as yields “even based on earning power” had dropped so low, the time was ripe for selling. Thus, before stock market prices broke in October, SAINTS had sold £2m worth of American securities, of which £670,000 was turned into cash and the balance reinvested in bonds and the safer areas of the US market.

The stock market failed to recover after the initial collapse, and although the board regretted that “in some cases we sold rather soon,” the Company had shrewdly realised part of its US investment portfolio at excellent prices. Prompt actions in response to deteriorating market conditions had helped it to survive the worst financial storm of the 20th century.

Given the prolonged slide in values which followed, this was very good fortune. By selling at a time when money was still flowing out of the UK to participate in the stock market boom, the Company was able to put the cash into British government Treasury Bills, then carrying a high rate of interest to protect the pound. These bills combined security and liquidity with that good interest rate so that if market conditions improved, the Company could rapidly move into other investment fields.

The episode illustrated two key points, as relevant today as they were nearly a century ago. First, that on-the-ground research gives a far more accurate picture than that made from afar and enables decisive action ahead of the herd.

Second, those at the coalface are often not best placed to assess the overall picture. In 1929 that meant nervous and over-hyped Wall Street brokers. In 1999 it meant trend-driven buyers of internet stocks. Over the years,



shareholders have been well served by the ability of many Scottish investment company boards and managers to remain one step removed from the noise of major markets.

For a contemporary view of the Company’s achievements, we can turn to the historian George Glasgow. In 1932, he published *The Scottish Investment Trust Companies*, a companion to *The English Investment Trust Companies* of three years earlier. Glasgow’s observations on SAINTS are short enough to quote in their entirety, overleaf.

# 58 YEARS OF OUTPERFORMANCE

One of the oldest Scottish companies is the Scottish American Investment Co. Ltd (1873).

In 1931 that company was fifty-eight years old. It is a matter of arithmetic to calculate the service rendered by that company to its proprietors during the past half-century.

A calculation has been made, not by me, but by another Scot, who shall be nameless, of what would have been the case of a man who in 1873 had invested £1,000 in the ordinary stock of that company. Assuming that he held his stock, never adding another penny to it; that he took up and kept his bonuses; that he exercised his rights to new capital by borrowing from his bank and then selling enough of the resultant new stock to repay the bank – assuming, in short, that he did not put any of his benefits into his waste-paper basket (a contingency not unknown to experience, surprising as it may be), that happy investor's original £1,000 would in 1929 have been worth about £70,000, and his income would have risen from an original £40 a year to £3,000 a year in 1929. Not a negligible half-century's reward for a man who did nothing more than invest his money wisely in the first place and refrain from changing his investment thereafter.

The achievement reflects the quality of the work done by the Scottish American Investment Co. Ltd. In that half-century the weather was mixed as it always was, and always will be.

George Glasgow,  
*The Scottish Investment Trust Companies*  
(1932)

## THE GREAT DEPRESSION

THE DOW JONES INDUSTRIAL AVERAGE INCREASED a mind-boggling sixfold from 63 in August 1921 to 381 in September 1929. SAINTS, conditioned by past success in moving back after a sharp price fall, reinvested too soon, resuming in New York in 1930 when the Dow Jones Industrial Average had approximately halved from its peak.

To quote from the official history of the US Federal Reserve:

“The epic boom ended in a cataclysmic bust. On Black Monday, October 28<sup>th</sup>, 1929, the Dow declined nearly 13 per cent. On the following day, Black Tuesday, the market dropped nearly 12 per cent. By mid-November, the Dow had lost almost half of its value. The slide continued through the summer of 1932, when the Dow closed at 41.22, its lowest value of the twentieth century, 89 per cent below its peak.”

This was not just a case of a numerical fall in a stock exchange index, the effects of which might be confined to investors and perhaps to the collapse of a bank or a brokerage house. What began as a purely financial phenomenon spread to every level of US society, leading to bankruptcies, farm sales, huge unemployment and not infrequently, suicide.

By 1933, American national income had dropped by a third from its 1929 level. Not until 1937 did production recover to its 1929 level and then it promptly slid back again. Between 1930 and 1940, only in the upswing of 1937 did the level of US unemployment fall below eight million.

In 1932, SAINTS' dividend was reduced to 15 per cent. It was the first cut in dividend since the depression of the 1890s. Further sharp falls in income reduced it to 6 per cent in 1933 and 5 per cent in 1934.

That the cuts were not more severe was probably due to three factors. First, as noted above, the Company had banked substantial profits before the market reversed. Second, in 1931 Britain, itself close to bankruptcy, was forced to leave the gold standard once again. As the pound dropped, SAINTS, as the possessor of high-grade dollar bonds, was able to sell them and remit proceeds at a favourable rate of exchange. Third, although SAINTS had changed its constitution to allow for an unrestricted field of investment, it had not invested heavily outside the US. Only 4 per cent of the Company's investments were in European bonds, many of which proved unable to make any coupon payments at all during the depression years.

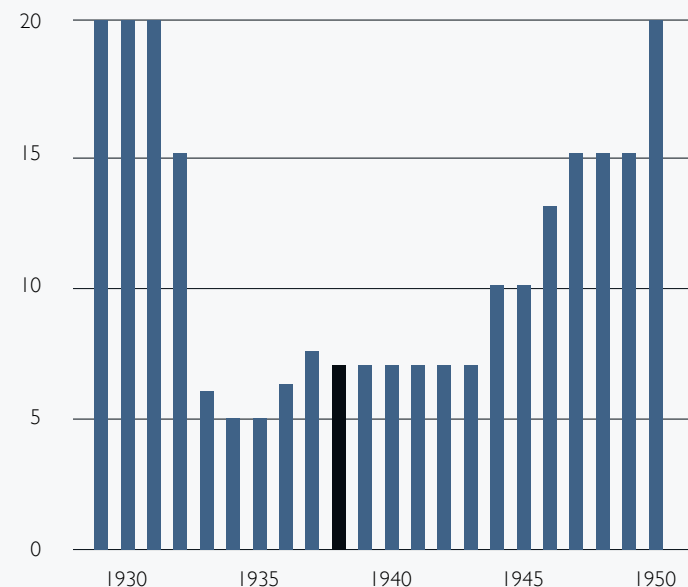
Despite these advantages, from 1931 the Chairman's report began to record annual depreciation in the market value of the Company's investments. In 1933, the depreciation against cost went as high as 22 per cent, and in only one year between 1931 and 1941 was no fall reported.

The chart opposite shows how the dividends were cut significantly, though never entirely foregone, during the Depression years, before picking up once more towards the end of the Second World War.

In their book *Investment and Unit Trusts in Britain and America*, Burton and Corner estimate that between 1924 and 1931, 64 new investment trust companies were launched in England and 44 in Scotland as a stock exchange boom gathered pace on both sides of the Atlantic.

Those who entered the market in the later stages of the boom had no time to accumulate decent reserves and some went to the wall. Even among the companies that survived,

DIVIDENDS ON ORDINARY SHARES, 1929–1950 (%)



Dividends are expressed as a percentage of par/nominal value.  
Black bar denotes last year to date dividend was cut  
Source: SAINTS archive

a third of those formed after the First World War were unable to declare any dividend at all in the wake of the 1929 crash.

Strong reserves built up over almost six decades gave SAINTS greater freedom of manoeuvre to maintain dividends, albeit at depressed levels, while starting to run down exposure to the US market. The combination of poor near-term prospects for US investment and the fall in sterling after the 1931 gold standard debacle led to a reduction in US weighting from 61 per cent to 45 per cent a year later.

This opportunist move ended when the dollar was devalued in 1933. Little fresh capital was sent to the US during the remainder of the thirties but, as the stock market recovered during the second half of the decade, the residual US holdings increased in value at last. Most of the money brought home in 1932 went into government gilt-edged securities, which helped liquidity but meant accepting a reduction in income.

## A NEW MANAGER

WITH SAINTS AGAIN SEARCHING FOR INVESTMENTS AT home instead of in the traditional US market, the time was ripe for a change in management. Charles Munro, who had steered the Company through the debacle of 1929–33, was nearing retirement age. In 1934, he stood down in favour of Frank Walker. Formerly assistant investment secretary to the Scottish Widows' Fund, Walker joined Scottish American having accepted the role of company secretary in February 1934.

Amid the prevailing gloom, the domestic UK market offered one advantage over the US: it recovered much earlier from the Depression. This was important to SAINTS' performance during the 1930s. Although the picture of Britain in that decade often includes extreme hardship of the sort depicted by George Orwell in *The Road to Wigan Pier*, many parts of the UK enjoyed prosperity and rising living standards. As the decade progressed, industries such as construction, motor vehicles, electrical engineering and distribution became promising fields for investment.

For the bold of heart, there were opportunities for equity investment in the expanding industries, and the proportion of ordinary shares in the portfolio was gradually increased, reaching 60 per cent in 1939, at which stage the Company's total assets were approximately £6.5m.

As early as 1937, the board's dominant concern became the increased political uncertainty in Europe, not to mention the imposition of additional company taxation to fund the UK's rearmament in the light of sinister developments on the continent. Though the possibility of another war was still being talked down, SAINTS decided to use the proceeds from portfolio sales to reduce short-term loans and to start battening down the hatches for a possible conflict.

While uneasy peace still reigned, the Company moved offices for the first time in 60 years. In early 1938, the Church of Scotland, whose offices were next door, sought to expand and made an offer to buy 123 George Street, owned and occupied by the Company since 1880.

How much did the Kirk cough up? The annual report and accounts are as discreet as ever. "Satisfactory terms" is the extent of their transparency. SAINTS would be based around the corner in a grand Georgian townhouse at 45 Charlotte Square for the next 62 years.

Although not so apparent at the time, 1938, the year of the Munich Agreement, also marked a bigger milestone on SAINTS' journey. It was the last year that SAINTS reduced its dividend (see charts, pages 71 and 132).

## THE SECOND WORLD WAR

LITTLE MORE THAN A YEAR AFTER THE OFFICE MOVE, the country was at war once more. The city of Edinburgh, together with Leith docks and the nearby Rosyth dockyard, were the target of German air raids. More than 30 air raid shelters, one under Charlotte Square, were installed in the central areas of the city and a strict blackout was enforced. The city's largest air raid shelter, the Scotland Street tunnel, a short walk from Baillie Gifford's offices today, could contain up to 3,000 people.

SAINTS' board meetings continued to be held in the Charlotte Square offices throughout the war, as were the annual general meetings. At any moment a siren would require the board, the staff and the shareholders to grab gas masks and troop down to the shelter and wait to discover whether it was a genuine air raid or a drill.

Four of the Company's five directors in 1939 – Arthur Blair, Alexander Maitland, Kenneth (later Sir Kenneth) Murray and RL Gwilt – were relatively recent appointees. Someone who had seen it all before, however, was AW Robertson Durham, who had been Chairman since 1926 but also a director for more than a quarter of a century.

Although such a long innings would be unlikely under today's corporate governance practices, the Chairman's ability to provide continuity and experience proved invaluable. Measures such as the dollar requisition schemes and war loan issues that had applied during the First World War were dusted off.

As the Company had few investments in Europe, SAINTS' direct loss of income from the war was minimal. It did, however, become enmeshed once more in the emergency controls that followed the declaration of war. This time, the controls were not largely voluntary, as in the previous conflict, but covered every aspect of activities in the then-neutral US.

At the outbreak of the First World War, the Stock Exchange had closed for five months. In September 1939, it reopened within a week. Contingency planning had started three years previously.

A notable figure in the plans for the requisition of dollar securities – not just for investment companies but for the UK's entire holdings of US dollar securities – was Baillie Gifford co-founder Carlyle Gifford, "whose influence," according to the historian George Glasgow, "was to be found everywhere in the financial world".

Gifford spent two years of the War in New York where, Charles Ellis said in his book *Wall Street People*:

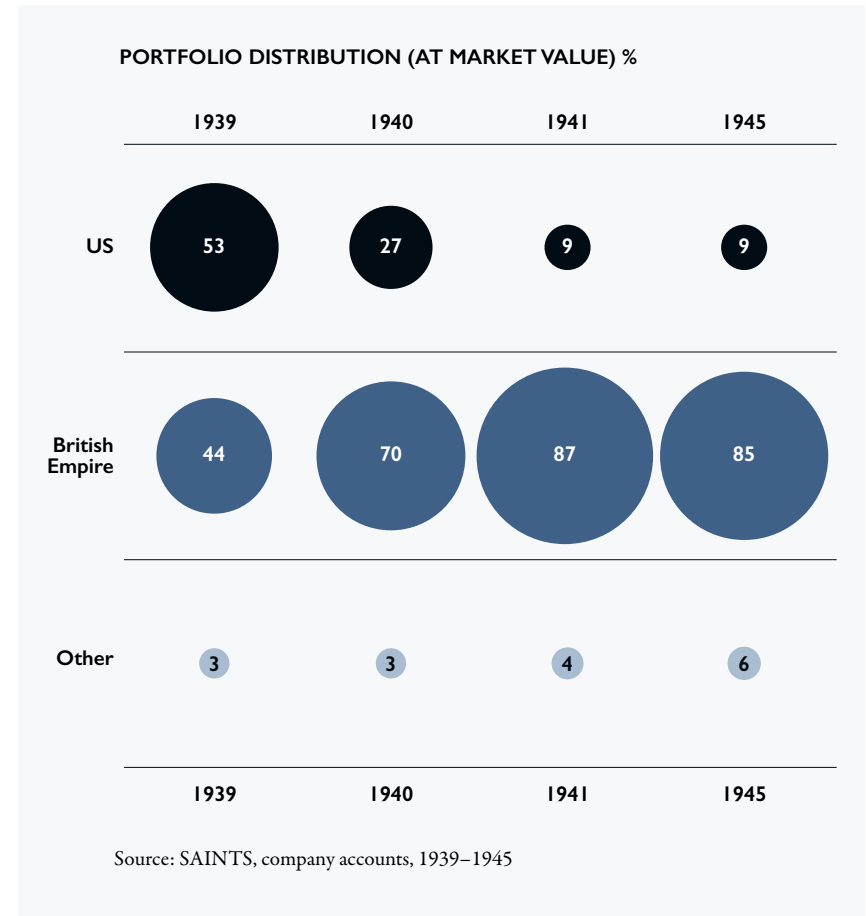
"He was entrusted by the British government with the formidable task of selling all the American shares and bonds of the British people... Today, the volume of selling to absorb fully that same number of trading days would total \$250bn... executed with enormous skill."

As in the First World War, the US stock exchange rose sharply at the outset, sterling fell against the dollar, and SAINTS was able to make substantial sales. Under the Defence Finance Regulations, the proceeds had to be handed over to the Treasury in exchange for sterling. This gave the board the choice of adding to its UK investments or reducing its indebtedness. With the uncertainty caused by the war, the Company decided to use the proceeds of the sale to pay off all remaining short-term loans.

The effect of the sales of 1940 and 1941 on the Company's mix of assets is shown in the illustration opposite.

Initially, the funds were placed in British government securities on the grounds that "a reduction of income as a result of investing in low-yielding British Government securities is a much less serious matter than a reduction due to defaults and cut dividends". Government securities could be quickly sold and the money reinvested when conditions improved.

By late 1941, the board was starting to feel that the British stock market had overreacted to the outbreak of war, even though industry, with the imposition of a heavy excess profit tax, "was not going to be allowed to make the large profits that were made in the last war". The gloomy prospects that lay ahead resulted in equity shares "virtually being handed out for nothing".





Rough seas: but share prices recovered and advanced as World War II raged on

On the basis that “things were bad, but they couldn’t get any worse”, the Company decided to begin buying. In retrospect, this was the most critical action taken by SAINTS during the war. By 1943, events proved the justification of this switch in strategy. In that year “for only the second time since 1930, we have been able to report an appreciation in the value of our investments”.

The appreciation of the equity portfolio had important implications for post-war investment policy, where inflation would prove to be a key factor in the quest for real investment returns. It became necessary to ensure that shareholders were protected against inflation and to achieve this equity investment would become essential.

The impact of the tumultuous events of wartime on Company personnel can only be guessed at from this distance. To cite one individual war story, company secretary (and later manager) John MacLaren had been called up in 1939 and was captured in 1942 after the Siege of Tobruk. He spent the latter half of the conflict in a German prison camp and received an understated hero’s welcome from the Chairman at the 1946 AGM, along with other comrades-in-arms.

The Company’s return to full strength was just as well. Ahead lay the austere post-war years, Labour’s vast nationalisation programme, the 1948 Companies Act and ‘the age of the equity’.



# Chapter Three

1945–1970



BY 1946, SAINTS had only 9 per cent of its funds invested in the US. Further sales and a decline in the US stock market, coupled with strict exchange controls, reduced the figure at its lowest point to 5 per cent in 1947.

Reviewing business conditions in the months after the war, Chairman Alexander Maitland said that “a prolonged industrial depression in the near future seems unlikely”, while “the prospect of inflation rendered the whole situation highly unstable”. He also recognised that inflation made investment in ordinary shares “the best means available of preserving real values in the long run”.

And so it proved. By the late 1940s investment companies were on the cusp of unrivalled prosperity. Industry was eventually able to return to normal peacetime production and to benefit from the post-war boom as the leading western economies made up for wartime shortages. Meanwhile, international trade expanded once again.

The Labour government’s IMF-approved devaluation of the pound in 1949 was another milestone, giving an immediate boost to American and Canadian dividend income and marking the start of the trek to dollar investments. By the beginning of the 1950s, SAINTS’ exposure to North America had increased to 17 per cent, as the first glimmerings of the great post-war equities boom began to shine.



Home turf: Edinburgh in the 1950s

## THE 1948 COMPANIES ACT

THIS GROWTH PHASE HAD BARELY TAKEN OFF WHEN investment companies including SAINTS gained a boost from government regulation, specifically the 1948 Companies Act. Before this, company reports and accounts tended to be vague at best, secretive at worst. Most importantly, companies did not have to reveal the market value of their investments and many chose not to. The first effect of the Act was to allow the calculation, at least twice yearly, of that universal modern financial statistic the net asset value (NAV) per ordinary share. This revelation alone uncovered massive undervaluation throughout the investment company sector as investors learned that market prices were standing at wide discounts to their true worth. Another important factor, the favourable treatment of US and Canadian dividends under the new post-war double taxation agreements, added to the attraction of investment in North America.

Last but not least, strict guidelines were laid down as to the presentation and content of annual reports, the conduct of annual general meetings, the professional qualification of audit teams, and the legal responsibilities and even ages of directors, especially the requirement to retire at 70.

This latter requirement caused a good deal of controversy, especially among directors of a certain age. While the legislation was going through parliament, HC Drayton, Chairman of the 117, Broad Street Group of investment

companies, wrote to the *Financial Times* saying that he could not see “that a director is any worse for being 70 or that the shareholders are any the better for knowing his age”, adding unanswerably “some directors are useless at 40, while others are still valuable at 90”.

A certain resistance to the Act can be inferred from SAINTS’ 1948 accounts which opened with the words: “The Accounts this year are presented in the form prescribed by the Companies Act. I think they are largely self-explanatory.”

However, no list of portfolio holdings was shown, whether as a ‘top 10’ list or as a tabular breakdown of exposure by region, sector or asset class. It would take several years before such information, declared today as a matter of course, would be disclosed.

As before, the balance sheet for that year’s accounts gave a value, or rather a book value, of “Investments, at or under cost, less capital reserve”, in this case for the sum of £6,295,081. Now, however, in small print below, two new figures were revealed: “Market value, 1947: £9,175,000. 1946: £9,654,000”.

For the first time in the Company’s 75-year history, shareholders and others could work out, in the absence of any change of capital structure, that the investment portfolio had decreased over the past financial year by £479,000 or 5.2 per cent. The age of transparency had arrived.

It was not until 1952 that a sustained rise in share prices got under way. SAINTS, aided by its appraisal of the market situation in the bleakest years of the war and its recognition of the importance of protecting shareholders against inflation, was well placed to benefit, with 74 per cent of its portfolio in equities in December 1950. In addition, the ‘cheap money’ era was not yet over and investment trusts were able to borrow at low rates of interest and gain immediate growth in income from investing in equities. Also in 1950, the Company’s income exceeded the peak established in 1930 for the first time. At last, the deadweight of global depression and war could be cast aside. A dividend of 20 per cent in 1950 restored the rate to that paid before the Crash of 1929 and all that followed.

If, in the immediate post-war years, the London stock market had seemed to stand still, the equity boom of the 1950s made up for lost time. The phrase most commonly used to describe the growth in the Company’s income and investments at the annual meeting was “by far the largest in any year in the history of the Company”. Each successive year of the decade saw a new peak established. Gross income for example, which stood at £331,862 in 1945, had more than doubled by 1953. In the next seven years it did so again, reaching £1.43m in 1960.

Turning to SAINTS’ own dividends, the unbroken record of annual distributions since 1873 was not just maintained without a break: dividends increased almost every year. The old pre-1948 ‘percentage of par value’ terminology now discarded, a dividend of one shilling (1/-, or five pence in today’s decimal currency – 20 per cent in old terms) per share was declared for the year ended 31<sup>st</sup> December 1950, rising to 3s 9d (3/9, or 18.75p) exactly 10 years later.

## ASSET GROWTH

AS WELL AS ACHIEVING SUSTAINED GROWTH IN INCOME and dividends, the market value of the Company’s investments rose from £9m to almost £26m between 1950 and 1960, while net assets per ordinary share increased more than fourfold over that period.

At least some figures had begun to appear by the late 1950s, giving a breakdown of where shareholders’ money was being invested. The table below is taken from the 1958 annual report.

### DISTRIBUTION OF INVESTMENTS

	British Commonwealth %	USA/ Canada %	Total %
EQUITIES			
Banking, Insurance and Finance	4.4	4.3	8.7
Public Utilities	–	8.4	8.4
Commercial and Industrial	45.0	15.6	60.6
Primary Producers	4.4	3.2	7.6
TOTAL EQUITIES	53.8	31.5	85.3
FIXED INCOME	13.8	0.9	14.7
<b>TOTALS</b>	<b>67.6</b>	<b>32.4</b>	<b>100.0</b>

Based on valuation as at 31<sup>st</sup> December 1958

All investment holdings at this time were held in the form of paper share certificates, a practice said to have been introduced by the Dutch East India Company almost 400 years previously. This system has far from disappeared today. Despite the ability to hold shares in electronic form having been available since the mid-1990s, the online broker Hargreaves Lansdown estimated that 10 million people in the UK continued to hold paper certificates in mid-2022.

In the case of SAINTS, until early 1959, every single share certificate had to be signed by the company secretariat – by hand. One small step forward, though hardly foreshadowing the “white heat of a technological revolution” mooted by Prime Minister Harold Wilson in 1963, at last rendered the laborious process unnecessary. An extraordinary general meeting held after the February AGM amended the articles of association to permit “the modern practice of mechanical signing of stock and share certificates”.

## THE 1960s

BY THE EARLY 1960s, although the prolonged post-war boom was slowing down, over the whole decade SAINTS sustained its speedy progress. At the end of 1969, the market value of investments was £56m and gross income had exceeded £2m. At the end of 1972 the respective figures were £91m and £2.4m, and the net asset value, now stated in the new post-1971 decimal currency, was 194 pence per share.

These bare numerical bones give few clues to the fluctuations of a volatile decade. Against the “never had it so good” mood music of Prime Minister Harold MacMillan were arrayed the Cuban Missile Crisis, domestic wage freezes and industrial unrest, increases in taxation, the 1967 devaluation of sterling, and – with all its implications for US investment – the Vietnam War.

In the background, the UK was taking tentative steps towards closer economic cooperation with Europe. “At the time of writing,” incoming Chairman Patrick Oliphant noted in 1963, “negotiations over our possible entry into the Common Market are at such a critical stage that I refrain from discussing the matter.”

Largely because of French objections, it would take another 10 years before the entry deal with Europe would be signed under Edward Heath’s Conservative government. The subject was so contentious, even then, that the matter would be put before the British public two years later, via the UK’s first-ever national referendum, which took place in June 1975. Some 67 per cent of votes cast were in favour of ‘staying in’.

For UK investment companies such as SAINTS, one of the strongest headwinds of the entire post-war era came in the form of the 1965 Finance Act introduced by Harold Wilson and his chancellor, James Callaghan. For investment companies, to quote AA Arnaud, an industry expert, the Act “plunged a three-pronged fork into the anatomy of the investment trust movement”. His “prongs” were corporation tax, capital gains tax and the reduction of double taxation relief on overseas investments.

But there was a fourth prong too: a 25 per cent levy on overseas currency premium surrender. This complex scheme was a throwback to the ‘dollar gap’ that occurred after the Second World War.

Following the Act, mind-boggling extra paperwork was required to log every single portfolio transaction as a capital gains tax ‘event’, while the removal of double taxation relief on overseas dividends was seen widely as simply unfair.

“Many of these measures were controversial and inadequately thought out,” SAINTS Chairman Arthur Blair noted, “and the resulting uncertainties, anomalies and additional burdens were gravely disturbing to confidence.” Labour’s impositions would in time be modified and their impact reduced, while all exchange control restrictions were swept away by the Conservative government under Margaret Thatcher after 1979.

Labour’s introduction of corporation tax, deliberately aimed at discouraging higher dividend distributions by British companies, was the main reason for the Company’s inability to raise its dividend rate from 1965 until 1970. This was just one way in which the Wilson government sought to discourage overseas portfolio investment. The 1966 budget went further and imposed restrictions on wages, salaries, prices and dividends. Any dividends



Going with a swing: London in the 1960s

which were now paid above a defined ‘standard amount’, linked to 7.5 per cent of the Company’s share capital in the financial year 1965, plus predefined permitted increases, were even more heavily penalised. The budget also included a ‘voluntary restraint programme’, which discouraged further investment in most of the overseas sterling area.

In 1967, Labour devalued the pound from \$2.80 to \$2.40 as a counter to what economists listed at the time as a trade deficit, a weak domestic economy and external pressures from creditors. In the near term, the devaluation of sterling contributed to a healthy 14 per cent increase in SAINTS’ net asset value per share, while ‘investments at valuation’, or total assets, rose from £32m to almost £45m during the year to 31<sup>st</sup> December 1967.

UK markets were still advancing at this stage but, with government measures to restrain public and private spending yet to take effect, the outlook was uncertain at best. “Looking at the prospects for the next 12 months,” Chairman Patrick Oliphant said in early 1968, “we must recognise the possibility that a recession could be triggered off by the British devaluation.”

Where else to invest? Not the US – or not now. For a start, the UK government’s arcane investment currency premium surrender scheme, too convoluted to detail here, was still in force. This had the effect of making fresh US investment prohibitively expensive, while any sales of dollar holdings meant handing over (‘surrendering’) a sizeable part of their value in premium surrender tax.

A second factor, the Chairman said in January 1969, was:

“The United States economy continues to be strongly influenced by the demands of the Vietnam War... we await further information about the policies and plans of the new President and his administration.”

The longest and least popular foreign war in US history, the Vietnam War is estimated to have cost \$189bn (approximately \$1tn in today’s terms) before a peace accord was finally signed by President Richard Nixon in 1973.

In response to such challenging conditions, as the ‘swinging sixties’ progressed, the board decided to increase SAINTS’ small allocation to fixed income securities to about 7 to 10 per cent to broaden the portfolio’s geographical reach. Furthermore, the time had also come to recognise the limitations of the Company’s managerial arrangements, largely unchanged since 1873. The era of the investment management company lay ahead.

## WIDENING THE NET

THE BOARD’S FIRST STEP WAS TO ENCOURAGE THE MANAGER to look further afield. Frank Walker had retired in 1962, having held the post since 1934. “The successful progress of the company since that critical and anxious time,” the Chairman told shareholders, “provides ample evidence of his skill and judgement.”

Walker had been replaced as manager by John MacLaren who had himself been hired in 1935. MacLaren remained manager until his own retirement in 1968. At that point his assistant Jack Shaw Stewart stepped into the lead role, becoming only the sixth manager since the Company was formed. His name, later together with that of Brian Ivory (Sir Brian since 2006) would become synonymous with the Company for the next 30 years.

The quest for new investment horizons took MacLaren to the other side of the world. Following a visit to Australia in 1966, MacLaren presented a favourable report on the vast country’s prospects for long-term economic expansion, not least the development of its immense natural resources. The board accepted his recommendation to the extent that by the end of 1969, the Company’s exposure to Australia had increased to more than 9 per cent of the portfolio, while Broken Hill Proprietary (now BHP Group Limited, formerly BHP Billiton, by 2017 the world’s largest mining company) had become SAINTS’ single largest holding, followed by a surprisingly long tail of 53 smaller positions in antipodean equities, ranging from Allens’ Confectionary to Woolworths Australia to Woodside Oil.

The final annual report of the 1960s, was the first in the Company's history that gave a full list of the portfolio holdings. As well as Broken Hill, the top five holdings by size included Shell Transport & Trading, Glaxo Group, Burmah Oil and Royal Insurance. In total the UK portfolio comprised 195 equities (46 per cent of total assets) of which 10, totalling 0.8 per cent of the whole, were in unquoted stocks.

One such unquoted UK investment merited special mention in the same set of accounts. In January 1969, SAINTS took part, along with three other Scottish investment companies, in funding the formation of a new merchant bank, Noble Grossart, which "we feel will not only be beneficial to the Scottish economy but also a profitable investment for your Company". Today, Noble Grossart, founded by Sir Iain Noble and Sir Angus Grossart, continues to provide corporate advice and support within the UK merchant banking sector and remains a well-recognised name in the Scottish financial world.

Returning to the SAINTS investment portfolio, US and Canadian equities accounted for another 141 holdings (30 per cent of the whole); Australia (9 per cent); "Other Sterling area", 10 holdings (2 per cent) while the unusual sub-grouping of "Europe and Japan" contained 11 holdings (5 per cent). Finally, the balance was made up of UK fixed income securities (government stocks and preference shares) amounting to 8 per cent of the whole.

Ronald Weir notes in his history:

"These moves served to heighten the awareness of the inadequacy of a small management structure, for rapid international communication had speeded up market reaction to changes in the political and economic



Mining in the Australian outback

climate and a small step into a new investment situation might be more dangerous than doing nothing at all. To do nothing was, however, to miss out on some of the most promising economic developments. Australia, both industrially and in its new mining ventures, was growing rapidly. In South-East Asia the old trading posts of Hong Kong and Singapore looked interesting, and nearer home the prospect of British entry into the European Economic Community was becoming a reality."



## STEWART FUND MANAGERS

THE OLD WAY OF DOING THINGS – employing a single manager and a deputy – was no longer adequate in a rapidly changing world. The need to pool costs and fund investment research led to the creation of Stewart Fund Managers (SFM), headed by Jack Shaw Stewart. SFM was appointed to manage the Company's investments with effect from July 1970. One youthful early recruit, fresh from an economics and politics degree at Trinity College Dublin, was James Ferguson. Then aged 22, he would go on to become Chairman of Stewart Ivory & Co (as SFM became when it merged with Ivory & Co in 1985). Ferguson would be joined by another new recruit, Teddy Tulloch, his future co-manager at SAINTS, two years later. As the years passed, SFM gained both an identity and a value of its own, ultimately to the benefit of SAINTS, one of its founding stakeholders.

These enhanced resources and expertise would be brought to the fore during what proved to be another volatile and difficult decade. The 1973–1974 'oil shocks', the three-day week and the worst bear market since the Wall Street Crash were on their way.

In the background, a new and exciting development had caught the attention of the Company's managers, into which they made a seed investment: North Sea oil.

The discovery had been made in the shallow waters of the southern North Sea, areas serviced by English ports such as Great Yarmouth. As technology improved, it became possible to drill in the deeper waters off the coast of Scotland. The Montrose field was discovered in 1969 and the massive Forties field a year later. By 1975, the UK's first oil pipeline began to flow, having been opened by Queen Elizabeth II pushing a gold-plated button in BP's control centre at Dyce near Aberdeen, with Prime Minister Harold Wilson and cabinet colleagues looking on.

The capital structures of UK investment companies were superbly placed for involvement in the new industry. The reason: their so-called 'closed-ended' fund structure allowed them to wait for illiquid investments to develop significant value. SAINTS and several others were to do just that.

# Chapter Four

1970–1990



SAINTS' NEW MANAGERIAL ARRANGEMENTS GOT OFF to a flying start. After two years of falling markets, a strong recovery produced an increase of 38 per cent per share over the 12 months to 31<sup>st</sup> December 1971, "a new record for us and above the previous peak valuation in December 1968".

Meanwhile, the Company invested further in unquoted companies operating in the North Sea, including Scottish Canadian Oil & Transportation, the Noble Grossart-sponsored Pict Petroleum and London & Scottish Marine Oils, later better known as the oil giant LASMO. By the beginning of the 1980s, LASMO had become the largest holding in the portfolio.

## CENTENARY YEAR

THE 100TH ANNIVERSARY OF SAINTS' INCORPORATION arrived on 29<sup>th</sup> March 1973, although that year's AGM was held two weeks earlier, on 14<sup>th</sup> March, exactly coinciding with the date on which William Menzies formally submitted proposals to his colleagues in the very different world of 100 years previously.

The centenary was celebrated not just with the single issue of one 'scrip', or bonus, share for every two ordinary shares but by an increase of 0.5p in the 3.75p total dividend paid the previous year. The payment of the extra 0.5p, badged as a "centenary dividend", was "for reasons of tax" postponed until it could be added to the interim dividend payable that July. The board also commissioned the history by Ronald Weir which has provided a rich fund of material for this later account.

1972 had been an excellent year for the Company, in which the net asset value per share rose by 35 per cent, performance having been boosted by "the prospect of possible peace in Vietnam War and President Nixon's election victory which brought renewed strength". Total assets, increased both by market moves and by the gearing effects of multi-currency loans to top \$20m, had also soared to a new peak of £91m, as against £66m a year earlier.

## RIDING THE ROLLER COASTER

THE COMPANY STILL HAD SIGNIFICANT BORROWINGS in place the following year, when the worst bear market since 1929 struck. Driven by the 1973 oil shock and by widespread strikes and soaring inflation, the pile-on of crises led to a sharp fall in markets across the world.

The numbers are stark. The FTSE All-Share Index, which had begun in 1965 at 100, had reached just over 220 in 1972. By 1974, two years later, it had fallen to 66.

These two years were without doubt the most painful in the Company's entire history. By the end of 1974 total assets had slumped to £28m, barely a third of their value 24 months previously. "Unfortunately," confessed Chairman Patrick Oliphant, "the gearing effect of our prior charges, and in particular of our foreign currency loans, made the fall very much worse."

The rebound, when it came, was spectacular. City legend tells that the financial markets rebounded after Prudential, one of the UK's largest investing institutions, held a lunch at its Holborn headquarters in early 1975. "These falls have gone too far," the insurer's spokesman said. "With the FT30 yielding 13 per cent and selling on a price/earnings ratio of 3.8, I don't know about you, but we are starting to buy."

In the case of SAINTS, despite a partial move into cash in case of further falls, during 1975 net asset value increased by no less than 95 per cent. The US portfolio had risen by 48 per cent, compared with a rise of 32 per cent in the S&P 500 Index. The UK on the other hand had increased by a hefty 112 per cent and yet had underperformed the scarcely credible 136 per cent rise in the FTSE All-Share Index.

As the table opposite shows, the Company would continue to prosper during a remarkable 10 years of continuous growth in both asset and dividend terms.



Queen Elizabeth II inaugurates the giant Forties Field, 3<sup>rd</sup> November 1975

### SAINTS: 10-YEAR RECORD, 1974–1983

Years ended 31 <sup>st</sup> December	Value of Investments £000	Ordinary Shareholders' Funds	Gross Income £000	Net Assets per Share p	Share Price p	Earned per Share (gross) p	Paid per Share (gross) p
1974	27,893	19,582	3,436	35.0	24.0	2.65	2.61
1975	47,916	38,160	2,751	68.2	58.0	2.83	2.77
1976	54,440	43,809	3,104	78.4	60.0	3.05	3.00
1977	73,464	59,514	3,593	106.5	86.0	3.94	3.79
1978	69,423	60,292	4,453	107.8	80.0	4.57	4.40
1979	72,740	66,493	4,624	118.9	87.0	5.07	5.00
1980	97,46	91,031	5,238	162.8	130.0	5.90	5.71
1981	101,559	97,146	5,202	179.7	132.0	6.37	6.29
1982	137,617	116,949	5,723	209.2	155.0	6.79	6.60
1983	184,439	145,274	7,221	259.9	192.0	6.51	6.93

Source: Annual Report & Accounts to 31<sup>st</sup> December 1983

Investment reports from these years frequently reference growing revenues from the burgeoning North Sea oil industry, especially as early unquoted ventures gained momentum and listed on the London Stock Exchange.

The 1978 annual report, for example, noted:

“Our holding in London & Scottish Marine Oil moved from the unquoted to the quoted section of the portfolio in July 1977... we took the opportunity to sell some 25 per cent of our shares, realising more than the total original costs... leaving us with a holding in the company now valued at £3,459,000.”

The ‘North Sea effect’ made a significant impact on companies that had made bold early calls before the oil had even begun to flow. At its peak, SAINTS’ exposure to oil stocks, quoted and unquoted, had exceeded 23 per cent of the overall portfolio by early 1981.

The turn of the decade saw some changes in governance. Patrick Oliphant died in 1979 and was succeeded as Chairman by Patrick Turcan, formerly senior partner in the legal firm of Dundas and Wilson.

Other directors at the dawn of the 1980s were William Berry, a lawyer and partner in Murray, Beith & Murray; The Earl of Crawford and Balcarres, First Commissioner of the Crown Estate and a former Minister of State for Foreign Affairs; Sir Hew Hamilton-Dalrymple, Vice-Chairman of Scottish Breweries and a director of other companies, as well as being Captain-General of the monarch’s bodyguard in Scotland, the Royal Company of Archers; and Sir Alastair Down, Chairman of Burmah Oil.

In 1981 the last of the pre-war old guard left the Company, including William Forsyth, who had joined in 1934 and been Company Secretary since 1962 a “remarkable record of 46 years of service,” as the Chairman’s tribute put it.

The investment climate changed dramatically after the 1979 general election in which Margaret Thatcher’s Conservative party was returned to power with a parliamentary majority of 43 seats. As well as the removal of exchange controls, the top rate of income tax was reduced from 83 per cent to 60 per cent and the basic rate from 33 per cent to 30 per cent.

For many investment companies, even though some dollar holdings had been sold in anticipation of a legislative change, this meant accepting a one-off hit. The investment currency premium, an important feature of exchange controls, lost its value. In the case of SAINTS, heavily invested in dollar securities, it meant the painful loss of 8 per cent of net asset value at a stroke. This was a small price to pay, it was argued, as “for the first time in 40 years the Company is able to deploy its assets freely in any market of the world”.

By the early years of the ‘roaring eighties’, the equities portfolio comprised UK holdings (30 per cent of total assets), US and Canada (29 per cent), Japan (5 per cent), Australia (4 per cent), Europe (3 per cent) and ‘Other’, 1 per cent. Another 20 per cent was accounted for by unquoted companies, many linked to oil exploration in the UK and North America, with the balance of 8 per cent being invested in fixed income securities such as UK government stocks.



End of an era:  
The London  
Stock Exchange  
before the  
Big Bang

## A CONNECTION RESTORED

IN JULY 1985, Stewart Fund Managers merged with Ivory & Co, also based in Edinburgh, specialising in the management of pension funds and private client portfolios. “The merger,” incoming SAINTS Chairman Sir Hew Hamilton-Dalrymple said, “has strengthened the team at 45 Charlotte Square. It brought in two experienced directors, James and Ian Ivory, grandsons of Mr James Ivory who was a director from 1901 to 1912.” The family connection would be bolstered still further when their younger brother, Brian Ivory, became a director of SAINTS in 2000 and its Chairman a year later. Brian Ivory was also a director, and later Managing Director and Chairman, of Highland Distillers Group. Following the merger, the newly formed Stewart, Ivory & Co controlled total assets under management of more than £400m.

## BIG BANG

THE FINAL STAGES OF THE ‘BIG BANG’, in which fixed commissions were abolished on the London Stock Exchange and brokers were allowed to become market makers as well as agents, were completed in October 1986. “The real significance,” Hew Dalrymple-Hamilton suggested, “lies in the setting up of some very large organisations which are prepared to take positions in and to deal in very large amounts... and international flows of investment are now far larger than before. All this makes for greater volatility in markets, and the overturning of established ways of doing business.”

This wariness led SAINTS to take action. By the mid-eighties, the investment portfolio, already widely diversified across the globe, had been edged towards a more defensive position. “The risk,” Jack Shaw Stewart said in his manager’s report, “is that any further slowing of economic activity could cause a setback in share prices, particularly after the large gains in many markets.”

The move to a cautious stance meant the Company was effectively only 78 per cent invested in quoted equities by the time the Great Storm of October 1987 struck southern England, presaging Black Friday, Black Monday and battered equity markets on both sides of the Atlantic, as well as in Asia.

In the wake of the storm, the FTSE 100 Index, having been at the 2,400 level, dipped below 1,600 before gradually moving forward again – a familiar pattern. Yet, notwithstanding the speed and the severity of the crash, the major UK indices were little changed at the end of 1987 from where they were at the year’s start. As Robin Angus, the Scottish investment expert and commentator later quipped, 1987 had been “a year of illusory gains – as insubstantial as froth, steam, or support for the Conservative party in Scotland”.

Aided by its portfolio positioning SAINTS' net asset value actually increased over the year to 31<sup>st</sup> December 1987, albeit only by 1 per cent, while the Company's UK equity portfolio had risen by 21 per cent as against 4.5 per cent for the FT Index. It also proved possible to increase the dividend once again, now for the 13th consecutive year since 1974.

## TAKING STOCK

IN THE BOARDROOM, new directors included Barry Sealey, formerly Managing Director of transport and logistics giant Christian Salvesen, joining in 1984; Sir John Shaw, Deputy Governor of the Bank of Scotland and a former president of the Institute of Chartered Accountants in Scotland (1986); and the diplomat Sir James Mellon, past UK Consul-General in New York and the Chairman of Scottish Homes (1989).

At the end of June 1989, Jack Shaw Stewart retired as Chairman of Stewart Ivory. As Hew Hamilton-Dalrymple said, he had given "unstinting and enthusiastic service" since coming to 45 Charlotte Square in 1961 as assistant manager of SAINTS. He was succeeded by James Ferguson who, the Chairman noted, "has had, for many years, a close association with SAINTS".

The investment management kept growing over the years and now included many who would become familiar names within the Edinburgh financial community. At the start of 1990, the UK team was made up of James Ferguson, Jean Matterson and Barry McCorkell; North America: Teddy Tulloch and Karen Chapman; Europe: Anne Barker and David Shaw Stewart, son of Jack; Asia Pacific: Angus Tulloch, John Wright and James Alexandroff; Unquoted: Pat Campbell Fraser and John Murray.



All involved had much to be proud of as the 1980s came to an end. SAINTS' bold run of consecutive increases in both net asset value and annual dividends since 1975 had continued throughout the decade. Their upwards path had not missed a beat even when the 1987 crash, an 'unknown unknown' if ever there was one, sent global indices into freefall.

It was excusable therefore for the cover of the annual report to 31<sup>st</sup> December 1989 to boast: "Since 1945, SAINTS' share price has risen by 122 times and our dividend by 125 times."

As to total assets, the Company had begun the 1980s with £73m (£66m net) but reached a new high of £338m (£308m net) as the last decade of the millennium began.

# Chapter Five

1990–2023





THE EARLY YEARS OF THE 1990s WOULD PROVE MORE problematic. Markets soon faced troubled times, triggered by Saddam Hussein's invasion of Kuwait, the first Gulf War, the UK's undignified exit from the European Exchange Rate Mechanism and the onset of the longest recession in the UK since the Great Depression, in which GDP struggled to recover to its pre-recession peak for nearly three years.

In 1990, UK equities fell for the first time in a decade. Then in August 1991, global stability received another blow when Soviet hardliners attempted to seize power from Mikhail Gorbachev and prevent the break-up of the USSR. "The collapse of communism and the disintegration of the Soviet Empire," incoming Chairman Sir John Shaw said, "are unleashing economic and social forces which are as yet little understood." Tragically, the same remains true today.

Against this recessionary backdrop, SAINTS resumed its upwards path as early as 1991, followed by two more years of positive net asset value returns. With the sole exception of a decline of 9 per cent in asset value in 1994, the Company was able to post consecutive years of positive returns in all the other years from 1991 to 1999, at which point the distortions of the dotcom 'bubble' began to show.

Total annual dividends were paid, recession or no recession, at gradually increasing levels throughout the decade and beyond.

Three new directors joined the board during the 1990s. In 1991, Dr Janet Morgan, a director of Cable & Wireless and a former member of the Cabinet Office's Central Policy Review Staff, became the first female director. Sir Colin McColl was appointed to the board in January 1996. His background in MI6, the Chairman noted, "provides him with a deep understanding of the broad tides of political and economic movement". Lastly, David Price, Chairman of Foreign & Colonial Management, was appointed in 1997.

The portfolio management team had evolved too, no longer the male bastion of years gone by. The 1994 annual report lists Jean Matterson as managing UK equities; Frances Mullen, North America: and, on the Japanese desk, Anja Balfour, who, her regional report disclosed, was assessing the impact of the devastating Kobe earthquake that had struck Japan in January 1995, as the accounts were going to print.

Their male counterparts on SAINTS' regional desks were Jimmy Burns, covering Europe and Angus Tulloch, responsible for the clumsily titled Pacific Rim and Emerging Markets Portfolio.

## COLLABORATION WITH OLIM

IN THE MID-1980s, James Ferguson helped establish a link between Stewart Fund Management and OLIM Property, an investment boutique formed in 1986 and managed by its co-founders, Matthew, later Lord, Oakeshott, a prominent Liberal Democrat peer, and Angela Lascelles, who had worked together managing Courtaulds' pension fund.

Their connection with Stewart Fund Management led to the formation in 1985 of Value and Income Trust (now Value and Indexed Property Income Trust). It provided specialist access to the burgeoning UK property market by transforming Stewart Enterprise Investment Trust into this new vehicle.

SAINTS invested initially to gain direct diversified exposure to industrial and retail property.

“We'd got to know Stewart Fund Management well,” Matthew Oakeshott recalls, “and set up Value & Income Trust with their support and with SAINTS as a shareholder. We later began to manage a property portfolio directly for SAINTS.” By 1996 a managerial agreement between SAINTS and OLIM was specified in the SAINTS annual report, an arrangement that remains in place today.

“It has always been our intention to fund the properties with a debenture,” Chairman Sir John Shaw said, “and this we did in April [1997]”. The said debenture was created to provide a separate pool of capital for property investment. The debenture had a life of 25 years through to April 2022 and a coupon, or interest rate, of some 8 per cent.

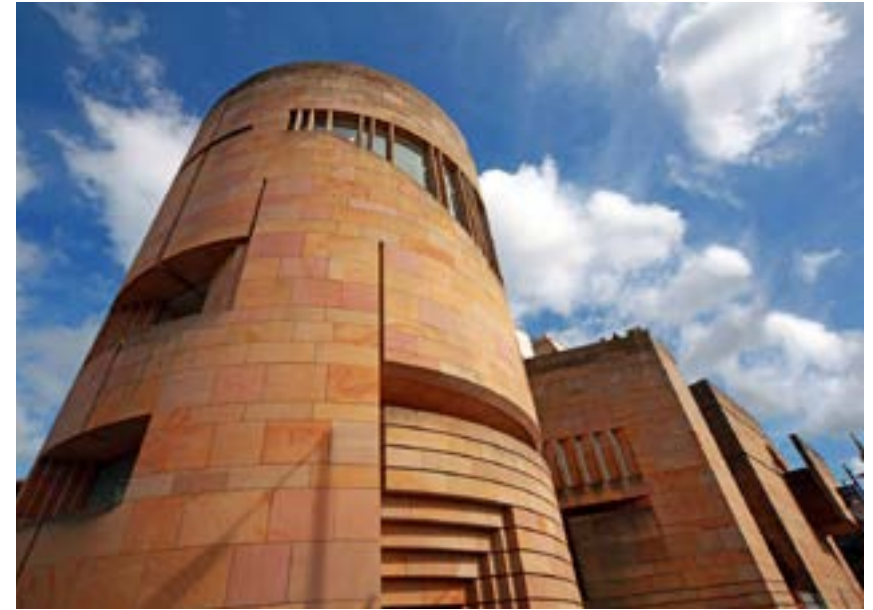
With hindsight, this looks like an expensive form of borrowing, especially as it remained in place throughout the UK's 'cheap money' era from approximately 2010 to 2022. Against this, however, it made sense to fund additional investment in illiquid assets through long-term borrowings, and since then SAINTS' property portfolio has not only provided 'ballast', dampening the volatility of equity markets, but has also generated healthy annualised total investment returns of just under 11 per cent per annum since appointment, well above the cost of even this expensive debt.

## 125 YEARS ON

SAINTS' 125TH ANNIVERSARY IN 1998 WAS MARKED WITH a special dividend of 1p per share, paid out of accumulated reserves, plus a contribution to the newly extended National Museum of Scotland in Edinburgh, opened by Queen Elizabeth II the previous September. SAINTS sponsored the Scottish Homeland section. "In addition," Sir John Shaw noted, "we are making a modest donation to replace some elderly trees in Charlotte Square, where we have long had our office."

The years on each side of the millennium proved frustrating for many investors, given the seemingly unstoppable march of the internet and technology boom. Even the most prestigious blue-chip companies with real assets and dividends found their shares being discarded in favour of internet-based start-ups with no track record, no profits and, in some cases, no more of a business plan than a few scribbled lines on paper ripped out of an exercise book.

In the case of SAINTS, asset values were still rising as the 21<sup>st</sup> century approached. In 1999, net asset value per share increased by 24 per cent and the share price by almost 28 per cent. Notable contributions to asset growth had come from investments in Japan and the Pacific rim, which increased respectively by 115 per cent and 106 per cent in that single year, as Asian economies bounced back from the regional financial crisis that started in 1997.



Supported by SAINTS: the National Museum of Scotland (Scottish History and Archaeology Building)

Other positive contributions had come from the UK portfolio, returning 21 per cent, just behind the FTSE All-Share Index; Europe, up 26 per cent, bettering the FTSE Europe (ex-UK) Index's return of 18 per cent on the same basis; and North America, with a capital return of 9 per cent, well behind the S&P Composite Index's uplift of 23 per cent.

## TOWARDS THE MILLENNIUM

A PROPORTION OF THE GAINS IN ASSET VALUE WERE attributable to something else: share buy-backs. Now routinely used, share buy-backs have the effect of soaking up shareholder demand, which can help to support the share price and narrow any discount to net asset value, thus reducing discount volatility. A further effect, especially when bought at a wide discount, is to increase the net asset value of the shares that remain in issue.

In 1999, having gained the necessary powers, the SAINTS board and managers elected to buy back just short of 25 per cent of the share capital for cancellation. As well as narrowing the discount, albeit modestly from 19 per cent to 16 per cent, this action increased the Company's net asset value by 7.4 pence per share.

On the other hand, although SAINTS' net assets per share had risen substantially over the year, with fewer shares left in issue, the Company's total assets had fallen significantly from £577m to £540m as the millennium dawned.

Less than 48 hours before the 20th century came to an end, the benchmark FTSE-100 Index peaked at a little above 6,930, a level it would not regain for another 15 years. Within months, following the collapse of the dotcom bubble, a stream of negative news relating to the global economy and falling corporate earnings, the bear market of 2001–2003 had dawned. The shocking attacks on the US on September 11<sup>th</sup>, 2001 led to further market falls.



The Millennium Dome, Greenwich

## ACQUISITION OF STEWART IVORY BY FIRST STATE

AMID ALL THE MARKET TURMOIL, big changes lay ahead for SAINTS. In March 2000, news leaked out that Stewart Ivory was to be acquired by Colonial of Australia. Shortly thereafter and quite separately, Colonial was acquired by the Commonwealth Bank of Australia. The Sydney-based lender thus became the ultimate parent of Stewart Ivory, which now operated as Colonial First State Investments.

“The new Australian group brings enhanced resources to our managers,” Sir John Shaw said in his farewell address to shareholders. He added that the acquisition had “already enabled a move to larger, more modern premises while remaining in the centre of Edinburgh.”

As part of the transaction, SAINTS sold its minority interest in the share capital of Stewart Ivory for £10.3m, compared with a balance sheet valuation of £3m as of 31<sup>st</sup> December 1999. The deal also meant a departure from 45 Charlotte Square, the Company’s home since 1938. For those staying on after the acquisition, this meant upping sticks and finding new desks in First State’s Edinburgh offices on the north side of St Andrew Square. For others, it meant pastures new.

More resources, however, did not lead to better performance. Brian Ivory, who had joined the board in September 2000, succeeded Sir John Shaw as Chairman when the latter was appointed Governor of the Bank of Scotland in 2001. The new Chairman was faced with lacklustre performance, low morale and increasingly restive shareholders.

Shortly before the finalisation of the Colonial deal, the SAINTS board had agreed a performance-related management fee with the managers, with one unusual feature: as well as

rewarding good performance the scheme imposed a penalty on the investment manager in the event of performance falling short. The basic management fee was also slightly reduced.

Over the next two years, these changes began to bite as the Company’s new investment managers struggled to cope with sharply falling equity markets as the end of the technology, media and telecommunications bubble took its toll. In both 2000 and 2001, markets fell significantly but the performance of SAINTS’ investment portfolio was worse.

By the end of 2002, total net assets had dipped to £223m (£283m gross) while SAINTS’ discount to net asset value had widened once more, from 15 per cent to 18 per cent. These results, incoming Chairman Brian Ivory said, were “very disappointing... the primary cause [being] our emphasis on growth companies at a time when such companies were out of favour... your Board is committed to taking whatever measures are required to improve our performance.”

In September 2002, the board asked Cazenove, the Company’s brokers, to review options. In October, the Chairman wrote to First State putting the firm on notice that the underperformance was “unacceptable” and that a formal review would take place mid-2003.

The following year, SAINTS’ Board appointed Noble Grossart as advisers and began looking for new managers.

While the results for 2003 were positive in absolute terms, with a rise of 15 per cent in the net asset value per share, the increase had not kept pace with the recovery in wider markets. The relative underperformance this time, the Chairman said, had been caused by stock selection, adding that “the reason for this was an unduly cautious approach by our investment managers”. The time had come to take stock and set a fresh course for the years ahead.

## THE MOVE TO BAILLIE GIFFORD

FOLLOWING AN EXTENSIVE SEARCH PROCESS, involving presentations in November 2003 from numerous City and Scottish firms, including the incumbent, the board unanimously appointed Baillie Gifford & Co as managers of SAINTS with effect from 1<sup>st</sup> January 2004 in place of First State Investment Management. “We have chosen Baillie Gifford,” Brian Ivory declared, “because they shared most closely the board’s views on asset allocation, they have an excellent record as stock pickers, a good track record in terms of performance and a stable of high calibre people.” The next phase of the Company’s life had begun.

The new managers put Patrick Edwardson, a senior fund manager in the Baillie Gifford UK equities team, in the hot seat. The combined number of UK and global stocks was trimmed from 133 to 92 so that, the new portfolio manager noted, “the portfolio is sufficiently concentrated for our views on individual stocks to be reflected in final portfolio performance”.

The Company’s property portfolio remained the responsibility of OLIM after the move. Since then Matthew Oakeshott has been joined in managing the SAINTS property portfolio by OLIM Property directors Louise Cleary and Sarah Martin.

In the boardroom, meanwhile, Sir Colin McColl retired after the 2004 AGM, as did William Berry a year later. Future SAINTS Chairman Peter Moon, Chief Investment Officer of the Universities Superannuation Scheme and a director of MBNA Europe, became a director in July 2005.

Sir Menzies Campbell KC, former Leader of the Liberal Democrats, joined the board in December 2007. He would remain there until 2014. Other new directors joining during the ‘noughties’ were Lord Kerr of Kinlochard, Head of the Diplomatic Service from 1997 to 2002 and Deputy Chairman of Royal Dutch Shell; Eric Hagman, former Managing Partner of Arthur Andersen in Scotland; and Rachel Lomax, Deputy Governor of the Bank of England between 2003 and 2008 and head of the Economic and Domestic Secretariat to the Cabinet Office. Finally, Bronwyn Curtis, former Head of Global Research and Senior Adviser to the Head of Global Banking and Markets at HSBC Bank and earlier Chief Economist for Nomura International, would join the board in 2014. John Kerr and Eric Hagman both served the board for many years, the former as Senior Independent Director and the latter as Audit Committee Chair. They retired in 2019 and 2021 respectively.

By spring 2007, Sir Brian was able to report that SAINTS had outperformed its benchmark for the third year in a row, while the contribution made by the directly-held property portfolio had been “exceptionally good... with an average annual return of 14.5 per cent since its inception”. The discount to net asset value had also narrowed to approximately 12 per cent, having been around 18 per cent three years earlier.

## THE BANKING CRISIS

MARKETS NEVER PROGRESS IN A STRAIGHT LINE.

The next chicane lay ahead in the form of the international banking crisis which erupted in late 2007. An early sign of trouble was the decision by the French bank BNP Paribas in August 2007 to suspend three funds with exposure to the US subprime mortgage market. A month later the story broke that the UK bank Northern Rock, at that time a FTSE 100 company, had asked for emergency support from the Bank of England.

Northern Rock's troubles turned out to be the tip of the iceberg, heralding a collapse in confidence and liquidity on both sides of the Atlantic. The pressure escalated to the point where Lehman Brothers, the US's fourth largest investment bank, filed for bankruptcy in September 2008. Only widespread and massive government intervention prevented a 1930s-style global recession.

By 2009, if not earlier, market conditions and trading volumes had begun to normalise once more. "The severity of the crisis," Sir Brian Ivory said as the tide began to turn, "is without precedent in the post-war period...[but] governments and central banks are working with great urgency and vigour... already there are signs that interbank lending markets are operating more normally."

The bounce-back, when it came, was emphatic, with a net asset value total return of 49 per cent for 2009, compared to a 25 per cent return from the benchmark index (50 per cent FTSE All-Share Index, 50 per cent FTSE All-World Index in sterling terms) over the same interval.



Leaving Lehman Bros:  
the bankruptcy of 2008

Further good news came in 2008 and 2009 in the form of refunds to the Company totalling £2.5m of value added tax (VAT) and associated interest. This followed a decision in the European Court of Justice that management fees should be exempt from VAT.

As the banking crisis subsided, a long bull market developed, boosted by a vast quantitative easing programme or, as Sir Brian put it in plain English, “printing money”. This continued until the onset of the Covid-19 pandemic almost 10 years later.

After 10 years as SAINTS’ manager, Patrick Edwardson stepped aside in 2015, being succeeded by his deputy Dominic Neary, supported by colleagues James Dow and Toby Ross from 2017. Dow and Ross themselves became joint managers in 2018, when Neary moved on from Baillie Gifford. The duo also succeeded Neary as co-heads of Baillie Gifford’s Global Income Growth team, which had been formed several years previously to manage all Baillie Gifford’s equity income mandates on a global basis. In the period since the team was formed, SAINTS has benefited significantly from its analytical resource, and the advantages of a single, holistic global equity portfolio.

James Dow joined Baillie Gifford in 2004, later becoming an investment manager in the US Equities team and a global sector analyst. Before joining the firm, he spent three years working at *The Scotsman*, where he was the Economics Editor. A CFA charter holder, he is a graduate in economics and philosophy from the University of St Andrews and gained a master’s in development studies from the London School of Economics in 2001.

Toby Ross joined Baillie Gifford in 2006. Having graduated MA in English literature from the University of Cambridge that same year, he spent several years on the UK Equities Team and later the Global Income Growth Team, taking a special interest in the energy sector. Like Dow, he is a CFA charter holder. Both Dow and Ross became partners of Baillie Gifford in 2023.

In 2016, SAINTS’ gross assets passed the half-billion-pounds barrier, notwithstanding the unsettling effects of that year’s Brexit vote and the election of the unpredictable Donald Trump as US President.

Also in 2016, Sir Brian Ivory retired as Chairman after an eventful 15 years in the post. “I hope to carry forward the chairmanship,” said his successor Peter Moon, “with similar energy and application.” At the same time, the new Chairman welcomed as a new director Lord Macpherson of Earl’s Court (formerly Sir Nicholas Macpherson), “whose considerable experience and knowledge will undoubtedly be a great benefit to the Company in the years ahead”. Nick Macpherson was Permanent Secretary to the Treasury from 2005 to 2016 and a former Principal Private Secretary to Chancellors Kenneth Clarke and Gordon Brown.

By 2019, Peter Moon was able to report not just another year of strong progress, with a net asset value total return of 23 per cent, but that SAINTS had delivered returns at the head of its peer group of global income investment companies over five years. That year, culminating in electoral victory for Boris Johnson’s Conservatives after sustained Brexit warfare, was, as Moon suggested, “an exhausting year for journalists, but a good year for equity investors, including those in SAINTS”.



During those five years, the portfolio's largest contributors to returns were Anta Sports Products (China, sportswear), Partners Group (Switzerland, private equity), Kering (France, luxury goods), B3 (Brazil, stock exchanges) and Cochlear (Australia, hearing devices). Those results, James Dow and Toby Ross noted, underpinned the merits of global investing for income in an uncertain world.

James Dow explains:

“When the board appointed Baillie Gifford as managers in 2003, we agreed to internationalise the portfolio away from what, at the time, was a heavy preponderance of UK companies: some 69 per cent of the equity portfolio.

That decision has proved hugely beneficial. It was challenging in the short term because the yields on overseas investments were typically lower than in the UK. But over the longer term, it has allowed SAINTS to select from thousands of overseas companies with higher growth rates than are typically found in the UK market. This in turn has been the backbone of SAINTS' earnings growth, dividend growth, and capital appreciation. Today, 90 per cent of the equity portfolio is invested overseas”.

Two new directors joined in 2019. Dame Mariot Leslie was formerly a distinguished diplomat, serving as British Ambassador to Norway from 2002 to 2006 and the UK's Permanent Representative to NATO from 2010 to 2014. Karyn Lamont was a former audit partner at PricewaterhouseCoopers and an experienced investment trust and company director. She has subsequently succeeded Eric Hagman as chair of the audit committee.

In 2020, SAINTS, along with many other dividend-paying trusts, faced an exceptional test of its mettle. The coronavirus pandemic caused many companies to cut or suspend their dividends, and properties to suspend their rents. Yet SAINTS' revenue earnings per share fell by only 4 per cent that year. With a little help from the revenue reserve, the board was able to increase the annual dividend once again, preserving and extending its impressive record of consecutive increases.

“Global diversification of the portfolio, combined with a focus on investing in resilient companies and properties, was key to that outcome,” says Dow. “We look for investments where underlying cash flows are likely to remain resilient even through times of crisis. And over the longer term we want those investments to enjoy attractive prospects of compounding their earnings and dividends steadily higher. Just as SAINTS, over many years, has also delivered steady compounding in its earnings and dividends.”

In April 2022, Peter Moon was succeeded as Chairman by Lord Macpherson, the role of senior independent director passing to Bronwyn Curtis. Christine Montgomery joined the board, adding her perspective as a former fund manager.

## 150 YEARS AND BEYOND

IT IS HARD, in a history of this type, conclusively to place recent events in a meaningful context. But it seems fair to say that, three challenging years and three prime ministers since the onset of the pandemic, national lockdown, the spectre of rising inflation and war in Ukraine, the merits of SAINTS' focus on dependable, growing streams of income from equities and property, augmented by other investments in areas such as infrastructure equities and bonds, have remained to the fore. There are many reasons to be optimistic, as Lord Macpherson concludes in his Chairman's Statement in SAINTS' annual report for 2022:

“As a board, we believe a long-term approach based on investing globally for sustainable growth is the best route to achieving SAINTS' aim of growing the dividend ahead of inflation over time...We retain great confidence in the Managers' approach, and this confidence has been further strengthened by the experiences of the past year.”

Whatever the future holds, the Company's record is indisputably impressive. In the five years to the end of 2022, during which SAINTS joined the FTSE 250 (June, 2020), the Company has remained the top-performing fund in share price terms in the Association of Investment Companies' Global Equity Income sector, and it has issued over 40 million shares at a premium to net asset value, raising over £175m. In addition, in recent years the Company has refinanced its long term borrowings, and the cost of its debt has now



Going places:  
diversification  
in a globalised  
world

fallen to just below 3 per cent per annum. SAINTS, now with net assets of more than £900m, forms part of the AIC's list of 'dividend heroes'. Entry to this hall of fame demands the achievement of an increase in total annual dividends for at least 20 years in a row. By the end of 2022, SAINTS has managed it for 49 years, with the half-century on the horizon in 2023. It is also notable that Scottish American, despite its name and origins, has been investing globally for a full century.

But perhaps SAINTS' greatest claim to posterity is that, come hell, high water, war or global depression, it is a company which has paid a dividend to its shareholders every single year for a century and a half.

Small wonder then that the Company's proud mantra today remains "income again and again".

**SAINTS ANNUAL DIVIDENDS, 1937-2022**

The Company has not reduced the annual income it pays to shareholders since 1938. Its investment approach and revenue reserve have ensured an exceptionally dependable income stream

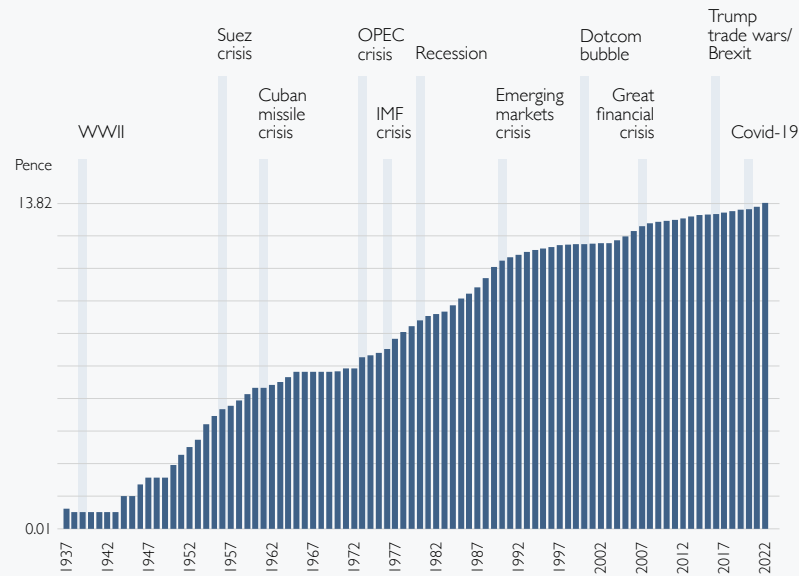


Chart uses logarithmic scale to give a consistent picture of the rate of annual dividend increases. Dividends are shown net of withholding taxes since 1973, when Advance Corporation Tax was introduced in the UK. Dividends from 1965 to 1973 are shown net of the 45 per cent Corporation Tax introduced in the Finance Act of 1965. Dividends prior to 1965 are shown as if the Corporation Tax had existed before 1965 on a comparable basis. Source: Annual reports of The Scottish American Investment Company, Baillie Gifford.



Baillie Gifford's new Haymarket office, set to become SAINTS' sixth Edinburgh home in 2024

**SAINTS – BOARD MEMBERS, 1873–2023**

	Director	Chairman
Sir William J Menzies, WS	1873–1903	
Sir George Warrender of Lochend, Bt	1873–1901	1873–1901
Edward LI Blyth, CE	1873–1902	1901–1902
John Cowan	1873–1882	
AR Duncan, Advocate	1873–1926	
Alexander Hamilton LLB, WS	1873–1876	
Thomas Nelson	1873–1891	
J Dick Peddie, RSA	1873–1890	
James A Jamieson, WS	1876–1906	
Lord Elphinstone	1882–1891	
PW Campbell, WS	1890–1922	1902–1922
John Wilson Brodie, CA	1891–1933	1922–1926
William Hugh Murray, WS	1891–1920	
James Ivory, CA	1901–1912	
Thomas Maitland	1906–1928	
AW Robertson Durham, CA	1912–1941	1926–1941
Charles D Menzies, MBE	1913–1919	
TM Murray, WS	1920–1935	
RO Pitman, WS	1922–1938	
Charles Munro	1927–1935	
Alexander Maitland, KC	1928–1952	1941–1952
Sir Kenneth Murray, WS	1935–1967	
AE King, FIA, FFA	1935–1939	
Arthur W Blair, WS	1938–1977	1952–1967
Richard LL Gwilt, CBE, FFA	1939–1969	

	Director	Chairman
Sir Ian Bolton, Bt, KBE	1941–1964	
PJ Oliphant, DKS	1951–1979	1967–1979
Patrick W Turcan, WS	1960–1986	1977–1985
Sir Hew Hamilton-Dalrymple, Bt, KCVO	1967–1993	1985–1991
Christopher JF Arnder	1971–1973	
William Berry, WS	1974–2005	
Rt Hon Earl of Crawford and Balcarres, PC	1978–1988	
Sir Alastair Down, OBE, MC	1980–1985	
Barry E Sealey, CBE	1984–2001	
Sir John (Jack) Shaw, CBE, CA	1986–2002	1991–2001
Sir James Mellon, KCMG	1989–1996	
Dr Janet Morgan, DPhil	1991–2008	
Sir Colin McColl, KCMG	1996–2004	
David WJ Price	1997–2012	
Sir Brian Ivory, CBE, CA	2000–2016	2001–2016
Lord Kerr of Kinlochard, GCMG	2002–2019	
Eric Hagman, CBE, CA	2005–2021	
Peter G Moon	2005–2022	2016–2022
Rt Hon Sir Menzies Campbell, CBE QC	2007–2014	
Rachel (Janis) Lomax	2008–2014	
Bronwyn Curtis, OBE	2014–	
Lord Macpherson of Earl's Court, GCB	2016–	2022–
Karyn Lamont, CA	2019–	
Dame Mariot Leslie	2019–	
Christine Montgomery	2022–	

**MANAGERS, 1873–2003**

Sir William J Menzies, WS	1873–1903
Charles D Menzies, MBE	1903–1913
Charles Munro	1913–1934
Francis HN Walker	1934–1962
John R MacLaren	1962–1969
John (Jack) WA Shaw Stewart	1969–1970

**Stewart Fund Managers Limited**

John WA Shaw Stewart	1970–1985
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**Stewart Ivory & Co**

John WA Shaw Stewart	1985–1987
Teddy Tulloch	1987–1998
Teddy Tulloch and David Shaw Stewart	1998–1999
John Thompson and Marcus Brookes	1999–2000

**First State Investment Management (UK) Ltd**

Marcus Brookes	2000–2001
Stuart W Paul	2001–2003

**Baillie Gifford & Co**

Patrick Edwardson	2004–2014
Dominic Neary	2014–2017
James Dow and Toby Ross	2017–

**EDINBURGH OFFICES**

22, Hill Street	1873–1883
123, George Street	1883–1938
45, Charlotte Square	1938–2000
23, St Andrew Square	2000–2004
Calton Square, 1 Greenside Row	2004–

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Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Scottish American Investment Company P.L.C..

A Key Information Document for the Trust is available at [bailliegifford.com](http://bailliegifford.com)

The Trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

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

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

The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

Share prices may either be below (at a discount) or above (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.

Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.

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

The Trust has some direct property investments, which may be difficult to sell. Valuations of property are only estimates based on the valuer's opinion. These estimates may not be achieved when the property is sold.

Corporate bonds are generally perceived to carry a greater possibility of capital loss than investment in, for example, higher rated UK government bonds. Bonds issued by companies and governments may be adversely affected by changes in interest rates and expectations of inflation.

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

This information has been issued and approved by Baillie Gifford & Co Limited and does not in any way constitute investment advice.

**PERIODIC PERFORMANCE TO 31<sup>ST</sup> DECEMBER (%)**

	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
Share Price	11.0	46.2	61.3	196.5
NAV*	8.9	46.9	67.9	195.1
FTSE All-World Index	2.3	37.8	54.3	183.1

**ANNUAL PAST PERFORMANCE TO 31<sup>ST</sup> DECEMBER  
EACH YEAR (%)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Share Price	-1.6	25.1	12.0	19.5	-3.5
NAV*	-2.3	23.0	14.6	21.5	-3.6
FTSE All-World Index	-3.4	22.3	13.0	20.0	-7.3

\*Capital and income with borrowing at fair.

**DIVIDENDS**

Year to December	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Dividend Per Share (p)	11.50	11.875	12.00	12.675	13.82
Year on Year Change (%)	3.6	3.3	1.1	5.6	9.0

Source: Refinitiv/Baillie Gifford & Co.

Performance source: Morningstar, FTSE, total return in sterling.

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