SAINTS – SEEKING AN INCOME THAT STAYS ON TRACK FOR YEARS TO COME

Join Toby Ross and James Dow, SAINTS' joint managers, on their travels as they seek out the companies from across the globe that they believe can deliver a dependable and growing income along with capital growth.

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A Key Information Document for SAINTS is available by visiting www.bailliegifford.com.

This communication was produced and approved in July 2018 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Toby Ross (TR): The Scottish American Investment Company, or SAINTS as we tend to call it, was founded in 1873. It was founded by a group of investors who were getting very low interest rates on their investments in the UK and were looking for interesting opportunities overseas. One of the most interesting opportunities at that time was in American railroads, so that was a big focus for them at first.

James Dow (JD): Although the founders started by investing in America, over the years the portfolio became increasingly international, to the point that today we invest in almost 20 countries worldwide.

What are SAINTS' aims?

(JD): There are two key aims at the heart of SAINTS, and the first of those is paying a dependable income. And by dependable, we mean an income that shareholders can rely on year in and year out, whatever the economic climate, through thick and thin.

(TR): As an example of that, if you look over SAINTS' recent history, SAINTS was able to maintain and grow its dividend, even through the great financial crisis. The second key aim is growth in both income and capital, and by growth, we mean growth ahead of inflation.

(JD): We believe growth is incredibly valuable to income investors. For example, if you're in retirement, growth is one of the best protections you've got against running out of capital over the years, and that makes us quite unlike many other income generating investments, which tend to lose their value, certainly in real terms over time.

(TR): Essentially, we expect to give SAINTS' shareholders more income to spend in the long run.

How does SAINTS go about achieving this?

(JD): We have a simple philosophy for delivering these outcomes of dependable income and growth over time, and that is to look for companies which can deliver exactly the same outcomes. What we're looking for first off are companies that can deliver strong growth in both earnings and cash flows over many years. Our belief is if we invest in those companies, dividends and share prices are likely to follow the same path.

(TR): As part of Baillie Gifford, we share the research of over 100 other investors who are focused on finding growth companies. And I think that focus on growth is one thing that sets us apart from some other income managers, who focus a bit more on the short-term income that an investment might generate. We believe that successful income investors need to focus at least as much on growth as they do on income.

(JD): The second critical aspect that we focus on with any company we look at as a potential investment is the likely dependability of its dividend. We want to be sure before we invest that we can rely on that dividend to make sure we can meet SAINTS' objectives.

(TR): So we need to understand, what factors does the company have that will give it resilience during those times of stress? That's partly about things we can know in advance, so the characteristics of the business. But it's also about board attitudes. How much does the board care about maintaining the dividend during difficult times?

(JD): Another way that we underpin the resilience of SAINTS' dividend stream is to make sure that at the portfolio level we've achieved a great deal of diversification.

(TR): We limit the contribution of any one company to no more than 5% of the portfolio's income stream. To find those companies though, we've got to go outside the UK. SAINTS has a global universe of 2,500 established dividend-paying companies. That's about 10 times more than we would have if we restricted ourselves to just the UK.

(JD): So a big part of what we do is travelling the world looking for those about 70 to 80 names. That's a level that will give us good diversification.

(TR): And those companies, we really don't care where they're actually listed. They could be anywhere in the world. We invest in Europe. We invest a significant part of our clients' money in North America, but we also invest in Latin America, in Africa, in Asia.

(JD): We have a diversified approach, but ultimately what we're looking for is something very company-specific that will give us dependable income and growth.

What is SAINTS' track record?

(JD): SAINTS has increased its dividend every year for 38 consecutive years, and in fact if you go back and look at the history of the trust over the longer term, you'd find that it had not reduced its dividend any year since 1938. So it has been an exceptionally dependable source of income for SAINTS' shareholders.

(TR): When we're choosing investments for SAINTS' equity portfolio, we focus entirely on long-term income, not short-term yield. Each year we provide a full listing of all of our investments in the annual report of the investment trust, and if a SAINTS investor looks at the annual report and reads about the holdings, they'll see that it's a very diverse range of different growth opportunities that we've been able to uncover in all sorts of different industries and all sorts of different markets.

And often they might be companies that many people haven't heard of. A company like C H Robinson, the American truck-broking firm, for instance. Or take a company like Wolters Kluwer, the Dutch information business. These businesses may not be household names, but we think they're a perfect fit for SAINTS' objectives.

So why choose SAINTS?

(JD): As a trust, SAINTS has two great advantages compared with an open-ended investment company.

(TR): The first one is that we can invest in a really wide range of different types of assets, so the bulk of our portfolio is invested in equities, because we think they're a great asset for delivering real growth over time.

(JD): But we can also invest in bonds. We do that selectively, where they meet our objectives. We also have a directly held property portfolio, so lots of different opportunities for us to meet the objectives we're seeking. Another genuine, tangible advantage that SAINTS has as a trust is its ability to save some of the income from good years and tuck it away for a rainy day.

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(TR): Today we sit with nearly a year's worth of revenues in our revenue reserve, and that means that we can use that to support the dividend in future if we go into tougher economic environments.

(JD): That's why you see, for example, during the global financial crisis when companies were cutting their dividends, when the economy was slowing rapidly down, SAINTS' income steadily grew. We were able to supplement the income from the revenue reserve.

(TR): If you look at the yields on the global equity market today, you'll see it's much too low to meet the spending needs of many of our investors. SAINTS has typically delivered a significantly higher level of income than the market over time, and we'd expect it to in future as well. Typically we would expect to generate about 30% more income than the global equity market in any given year.

(JD): SAINTS aims to keep your income and your capital on the right track for years to come.

The trust invests in overseas securities and 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.

SAINTS 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.

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.

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There is no guarantee that income growth will be achieved or sustained. Even where income growth is achieved there is still the risk that the capital value of your investment will fall.

Dividend Rates

SAINTS	2016	2017	2018	2019	2020
Total dividend per ordinary share (net)- pence per share	10.825	11.10	11.50	11.875	12.0

Source: Baillie Gifford & Co, data as at 31 December 2020.
Past performance is not a guide to future returns.

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