The value of the trust's shares and any income from them can fall as well as rise. Capital is at risk. Past performance is not a guide to future returns.

For definitions of some of the key terms referenced in this communication, please go to the end.

Hello and welcome to the programme. The latest in a series of programmes in which we interview, speak to managers of Baillie Gifford Investment Trust. My name is Gavin Lumsden, I'm from Citywire. Today, I'm talking to James Dow, comanager of Scottish American Investment Company or SAINTS, which has consistently grown shareholder's dividends for 50 years.

James, good afternoon, you're in Baillie Gifford's office in Edinburgh.

Yes, I am ready to go. Good afternoon, everyone. Thanks for joining.

Let me start with the questions. As expected, interest rates have started to fall, but the US this month went for a surprisingly big half a percent cut, with the possibility of more to come. What impact is this having on equity income stocks and your investment approach?

I would say, Gavin, it's having a selective impact. Good impact in a couple of ways. At the broader portfolio level, not a huge impact. Not so much. Let me explain that. Selectively one of the best parts of it, I think, or most exciting parts is that we've had an opportunity to invest in something we've looked at for a long time and a chance has come up. In the US, you may know this, pretty much all the volumes of interest rate futures and other derivatives that are traded are traded through one company. It has a fantastic dominant position. It's a company called CME Group.

It's a great business, it's grown really well over time. Pays a good dividend. In the past year or so because of that expectation of the Fed cutting rates, a story has emerged that the lower rate is bad for CME. Completely wrong, not true at all, misunderstanding of the business model, but it's led to an opportunity to us, to invest in the shares for the first time, just in the past couple of months. So that's a selective impact where the Fed rate cut has actually impacted the portfolio and we're hopeful of good returns out of that for many years to come.

The broader portfolio overall, I would say not so much of an impact because if you think about what SAINTS is trying to do, our main objective for shareholders is to grow their income and their capital at an attractive rate over a five or ten-year period in a really resilient high-quality way. So, we don't tend to invest in shares which are very sensitive to macroeconomic fluctuations. The fact that the Fed is cutting rates by 50 bps for our holding in Apple, let's say. That's not really going to make much difference to Apple on a five or ten-year view and the growth it delivers. That's why I say at that portfolio level, not so much. Selectively there've been a few cases where opportunity has been quite positive for shares in the portfolio.

It's interesting about CME Group. What about elsewhere in the portfolio? It's predominantly an equity income portfolio, but what impact is the rate cuts having on the other asset classes that you hold or the trust holds? I'm thinking commercial property, emerging market bonds, infrastructure.

We've got a little bit in those asset classes. They're a bit more positive. They do tend to be a bit more rate sensitive. An example would be within the little infrastructure group of companies we've got. We've got a holding in a company called Exelon. That is a grid company just transmission and distribution cables in a few states in the US. The shares there tend to be a bit more sensitive to rate movements and that's been positive for that company in the past six months or so. For the commercial properties, again, it's generally supportive of valuations, to have lower rates.

I'd also say, remember, the nature of SAINTS invests in. Let's take the commercial property long index linked or inflation linked good lease life and so forth, rates rising didn't really have much of an impact on those property valuations on the way up and it's probably not going to be a huge tailwind on the way down. Again, at the margin, positive benefits, but not a profound difference I'd say.

You've mentioned the opportunity in CME Group, can you talk about any other latest transactions and where are you finding opportunities?

I've just come back from two weeks in the States, 25 or 30 different companies I think I saw over that time. In a real range of different areas. Niche engineering businesses, insurance brokers, human relations, HR companies. So, lots of different potential investments that could fit that SAINTS mindset of really good, solid income and capital growth underpinned by earnings growth on a five-to-ten-year view. I'd say the HR, the human resources space is quite an interesting one at the moment. What I'm talking about here is companies that help with payroll, talent management, in the modern workplace, managing workers.

That's a really fragmented industry at the moment, but what's happening, particularly with software coming into the market, it's consolidating into a number of clear winners. Finding and backing those winners, who could really hoover up market share on a ten-year view, is a really interesting place to look, I think, at the moment. So, I was meeting several of those companies while I was out there. You might laugh, I'm a bit old-fashioned on this because I know technically people say, you just do a Zoom call with them. I'm always like, if you're going to invest in the shares for the next ten years, you want to go and walk through the front door, right.

Go and have a poke around and see what it's really like. So, I've been doing all that stuff and opportunities from a wide range of areas. You mentioned transactions at the start, Gavin. In terms of transactions, we run a pretty low turnover approach. We don't churn the portfolio and hold things for the long-term. So, this year, besides CME Group, the only other new buy that we've made in the equity portfolio is Epiroc, which is a drilling specialist. It has a really strong position in supplying drilling equipment, particularly in the mining industry. That's the only other one we've done. There's lots of opportunities out there and we're always alert to those from all ranges, all kinds of places.

Looking at the top ten, you've still got a large position in Novo Nordisk, which is obviously doing very well out of the anti-obesity drugs. Are you still optimistic about the future for the company, after its strong run?

Yes. Again, we're always looking at these decades long growth runways and saying, can we hold this and it continue to compound at an attractive rate for a long time, earnings, and dividends? In Novo's case-, let me frame it this way. They've got the insulin business, the diabetes business that's the core of the company. That continues to be in that long runway for growth category because unfortunately, an increasing number of people are living with diabetes globally and an increasing number of those are being diagnosed as diabetic. So that part of their business, where they're a leader, will almost certainly continue to grow for the next ten years.

Then you mentioned it, the appetite suppressants for patients with obesity. A good way to frame this is, today, Novo Nordisk is supplying about one million patients globally with its Wegovy medicine. The patient pool globally, is estimated-, people who would seriously benefit from taking it, is probably somewhere around 800 million and they're only doing one million today. The barrier to growth in Novo Nordisk is really, the manufacturing capacity of those drugs. They're actually quite complex molecules to manufacture and to bring that online. So, on Novo's current plans, they're thinking ten years out, they might be able to get supply up to maybe 50 to 100 million patients.

Compared with one million today. So, 50 to 100x. It's that really which underpins that thinking, that yes, the shares have done well and the earnings have grown, but if you look out for the next ten years, is there still a lot more to go for? I think unequivocally, the answer there is yes. One of only a couple of companies that can really do that.

Sounds like there's a lot more to go for. What about the AI rush? I note from your recent half year results that you were expressing scepticism about the bubble around Nvidia. Are you worried about missing out on the AI rush?

Not worried about missing out, no. We've got a number of companies in the portfolio, which are clearly benefitting from that already. TSMC is quite a large position and obviously, they manufacture all of Nvidia's chips. Microsoft clearly front and centre of what's going on in GenAI and investments in that space and bringing it through and other holdings within the portfolio. So definitely not thinking we'll miss out. Now, my point is more if anything, it's thinking about how much capital and not putting too much capital into the area. My point is that at the moment it's a very hot area. People are very excited about it and are extrapolating it, it seems to me, almost in a straight line upwards.

If we look back at the history of technological innovations, they don't tend to go up in a straight line. There tends to be setbacks along the way. It's quite difficult often, to identify who the winners are early on in the process. That only emerges after a period of time. I think ultimately, it's a question of balance within our portfolio. We definitely have exposure to it and we think it's a long-run theme and it's exciting, but we want to make sure that we don't bet the farm everything is AI. Then a few years' time, we're licking our wounds because of course, it's turned out it wasn't a straight path to travel. That's my point there, just being careful with the balance in the portfolio. We certainly won't be missing, out.

I suppose you have distant memories of the dot.com bubble at the beginning of this century.

Yes. It's classic hype cycle stuff, right. It's like in the early days, people extrapolate and they say think what block chain can do. Think what factory automation can do. Think what the internet can do. All of those things are correct in the long-run, but they do take quite a long time to playout. It's not immediately obvious who you should back, not in the early days. You just want to be a little bit careful before you push all your chips in on red, but on block chain or whatever. Just be a little bit more selective and careful about that and make sure you're backing a real franchise that's enduring. Yes, there are some echoes of that. Those of us who are long in the tooth have seen it before.

Turning to another notable market trend, although a very recent one. A lot of investors have been shying away from China until last week because investors had become very negative. In response to a whole range of stimulus measures by the authorities, the market has shot up about 27% from what I can see. Are you finding any opportunities there?

We have continued to invest in those opportunities there, through the ups and downs of that. Of our roughly 60 equity holdings in SAINTS, five of those are Chinese businesses. Comes back to that point about balance and having some investment, but not too much. For example, Midea, which is a leader in air conditioning equipment and other appliances in China or Anta Sports, we've held that one for about ten years, I think. The Nike of China sports apparel. Very well-managed. Very good brands. Very well invested. Good marketing support.

For SAINTS it's more about we've picked selectively, some businesses which we think have a fantastic long-run growth trajectory to them and very strong. It's less about China's going up again, let's pile back in. We added, earlier in the year, because some of these names were getting down to eight, ten, 12 times earnings multiples for 20% a year growth. We've been continuing to hold those positions. Add to them where appropriate. You're right, they've been very strong in the past week or so, up very strongly. We're still big believers in those particular businesses.

Shares in Scottish American have been trading at a discount for a few months. Around 8% below net asset value. Has the company been buying back its shares?

Yes, it has. In fact, last week, Thursday and Friday, you'll see if you look RNS stock exchange announcements on buybacks by SAINTS. Yes, it has. I've looked at the charts. If you go back the past 20 years, it's actually been pretty rare for SAINTS to trade at a discount. Particularly these levels of 8%, 9%, 10% that it's got to recently. The board is of the view, at some point that becomes too compelling an opportunity. When it's 1%, 2% it's slightly marginal, but at that level of discount, the trust should be buying back shares and it is. Personally, I'm in complete agreement.

As the manager, I've personally also been investing in the shares. I think when you get to these discount levels, to me it's too extreme. It's too unusual an opportunity. There's a clear buyback policy. The board's going for it. The manager believes in it and so we're been buying back.

Good practice because obviously, it's accretive. Adds a little bit to the net asset value by buying the shares cheaply and everybody wants to get the underlying investment growth that you're generating. In terms of the broad asset allocation, you've got slightly more in Europe than North America. It's about 37% to 35%. That's a big overweight in Europe versus the benchmark index you're using and it's a big underweight to the US. Is all of that unusual and what does it say about the portfolio?

I think what it says is that we're believers in that balanced approach. You can flip it another way and you can say the index is a bit unusual, isn't it. It's got 63% of its capital invested in one market and one index and a quite concentrated one at that. SAINTS, we're very much pursuing a bottom-up companies balanced approach tot the portfolio. Let me put it another way. Broadly speaking, you can say if you're running a trust and you're trying to generate income and growth for shareholders, there's a couple of different approaches. You can try and do that by generating a natural income that's generated by the underlying investments and pay that out.

A naturally backed income or you can pay income out of capital. They've both got their pros and cons. You can argue them one way or the other. SAINTS is very much in that category of generating an income naturally backed by the income of the investments. What that does, it makes us quite careful about the balance that we have in the portfolio. We don't want to bet two-thirds of the capital on one market and the US PE or dollar risk around the income stream. I think we're roughly a third US, third Europe and third rest of world and I think it's probably more saying something about SAINTS approach and its balanced approach to risk.

A quick one on Asia. That accounts for over 11%, which looks like another smaller overweight. Other than TSMC, the Taiwanese chip giant, which you've referred to already, what else do you hold in Asia?

A few different names. I'll give you some examples. USS. That's a great auctions business in Japan. Again, it's a bit unknown. It's not a household name, but within the market for used car auctions, there's a huge business of that in Japan. USS is absolutely dominant in that. It's a fantastic business, scale benefits, large moats. Generates a lot of cash. Lots of growth opportunities around that. That would be one. TCI in Taiwan would be another. They are the leader in outsourced manufacturing of nutraceuticals. These are products where consumers are taking them, not just for cosmetic benefits, but for health benefits as well.

That's a big trend within the beauty industry and TCI is the leading outsourced manufacturer of that. I mentioned Anta Sports and Midea early on. NetEase, the Chinese video game developer. Again, fantastic founder run business. Very creative and entrepreneurial. Committed to paying out dividends. Going overseas. I guess the point I'm making is it's really quite a broad array of quite different businesses. Some of them not particularly well-known, but ones where in our view, you've got that five-to-ten-year growth, you've got a really strong high return business model. You've got really good management. You've got the commitment to dividends and we find those across Asia.

Talking of stocks, and this is really interesting actually. I find this fascinating. Moving back to the US, one top ten US stock I didn't recognise was Fastenal. What is that and what does it do and what would you like about it?

It's a fantastic mid-cap US company. Their business is industrial supply, industrial distribution. So, if you're running any kind of plant or manufacturing operation, engineering operation in the US, you have a insatiable demand for nuts, bolts, fasteners. That's where the name comes from. Safety masks, blades for saws. All kinds of different things. Fastenal is this great company, set up some years ago to serve that need. To be experts in that need. So, they're always in stock, always ready. Same day delivery, a whole bunch of things. Their moto is 'growth through customer service'.

So, their philosophy is, if we just do a fantastic job of serving our customers, help them manage their inventory, everything's always available, get up in the middle of the night and deliver the part if that's what it needs to keep the production going. Then they'll take share and they've got a great history of taking market share through getting into new categories, opening up new locations and so forth. So, it very much fits in that long duration compounding, the 10% a year growth that SAINTS looks for. As you say, not a name that's widely known, but a great business and a great track record, which we think will continue into the future.

In Europe, same trick again. There's Partners, Swiss private equity group. I'm a little bit more familiar with that. It runs an investment company in the UK, but I would have thought it's not the most well-known income stock. What's the story there? What do you like about Partners Group?

Again, I guess it all starts with the way the company is run and it's set up. There's some of the people in the private equity space who shout and wave their hands a lot. Barbarians at the gate, that stuff. There's another section of the market who would describe themselves as quiet business builders rather than dealmakers, who own a variety of private companies and try to allocate capital into private businesses. They've got a terrific track record over the years, of finding-, particularly starting in Europe, which is where they started out. Now, I was visiting them last week in the States. Buying these businesses and then giving clients exposure to private equity assets.

They've done a great job of finding ways to structure that as well so that lots of people can participate in that and smaller shareholders and bespoke solutions for clients. So, our thought around that one is that that's an asset class that's likely to continue to see good inflows for many years to come, generating good returns. Partners is a very well-run asset manager within that space. You can invest in it actually, as a listed equity in a business. So, we're expecting good earnings growth, good dividend growth from that business again, for the next several years.

Switching back to the dividend if I may. Obviously, SAINTS has grown the payout for 50 years and has that policy of paying from natural income. I know it's a board decision, but would the trust ever consider paying dividends from capital reserves. That could enable you to buy more low yielding growth stocks. That's the argument, anyway.

SAINTS can. Within the investment structure, it certainly can if that's what they choose to do. Pay income out of capital reserves. It's not our philosophy of how we do it, though. We look for that natural backing of income because of the various benefits that come with that. Generating income out of capital is fine when capital is growing. When it's declining, it feels quite uncomfortable for shareholders often, but just a different philosophy. You were saying so that we could buy more lower yielding companies. I think for some of those names, lets take Nvidia as an example. It's not that SAINTS can't invest in those, it's more about the fit of what is appropriate for our shareholders.

If a business is really deeply cyclical with ups and downs and or just the fact that it's very high expectations, then we'll tend to shy away from that and find more stability if you like, and resilience in the business model. That's probably what prevents us from going for some of those lower yielders, rather than the way that SAINTS is setup. We invest in Apple and Microsoft and Intuit, all companies with a yield below 1% because we recognise that the growth in that income over time, should be really, really strong and they're also very resilient businesses. So, it's really that that drives it, rather than the philosophy around natural income.

We've had quite a few questions come in around the dividend and income. Perhaps we'll move to those. Start with this one, you've very much touched on it just now. "Is there a dividend requirement for a company to make it into the portfolio or could you buy a company with no dividend at all?"

Yes, we want them to pay dividends or we want to have a very high likelihood that dividends will start to be paid. Technically, we bought Apple-, this is in 2012. We bought Apple before it started paying a dividend, but we were highly confident it was about to start paying a dividend from our research and talking to them and so forth. It either has to pay one or we're pretty sure it's about to, to generate that income. That's that one. In terms of the requirement. We don't have a requirement that it has to have at least an X% yield. I think that's where income investing can get a bit dangerous.

If you're taking the long-term view, the starting yield is a factor in the equation, but it's also the growth of that income over time and how resilient is that income going to be in stress periods? Typically, for our shareholders, for income consuming shareholders, it's not helpful if in stress periods and I'm talking about like 2009, 2020, whatever it is, if the income drops sharply away. So, the resilience of that income of the underlying investment is important, as well as the growth rate. I would say for SAINTS, we prioritise the growth and the resilience more than we do the starting yield.

It's better to own a Microsoft, which has a low yield, but fantastic growth over time, fantastic capital growth and very resilient. As a shareholder, you'd be infinitely better off in that, even as an income investor, than in a flaky oil company which cuts its dividend all the time. Yes, it's got a 4% yield yesterday, but now it's a 1% yield. We're prepared to invest right down the yield spectrum.

Similarly, another question on the dividend. "Do you have a compound annual growth rate for the dividend increases that come through?"

I'll give you a few statistics. Since 1938, this is the last time that SAINTS was forced to cut its dividend was in 1938. Since then, if you look back, the compound annual growth rate to 2023 was about 3% above inflation. Above UK inflation. So, 3% real growth. Again, if you look back to 2003, which is when the management was transferred to Baillie Gifford, again, since 2003 the compound annual growth rate in SAINTS dividend has been UK inflation at about 2% and SAINTS dividend has grown around 5% since then. We're hopeful, we're can't promise it, but we are definitely hopeful that going forward, we can continue to deliver that real growth above inflation growth in the income stream.

I can't tell you what it will bee in any particular year. In 2021 I think it was 11%, but then inflation was 9% in the UK. So, it goes up and down in individual years and currency, but over the long-term, our aspiration is to grow the dividend materially ahead of UK inflation.

One more question on the dividend. Don't know if you recognise these figures, but this is the question. "Is the falling income yield a worry as it's gone from 4.9% in 2015 to 2.64% last year?" according to a platform that one of the viewers is looking at.

What's happening there, the income is not being reduced. The income has grown every year since then. What's happening is, is that the capital value is growing even faster. The share price is going up even faster than the income is growing. That's been a phenomenon across equity markets. If you go back to that point in time, equity markets were quite depressed and generally, yields were higher across most asset classes. What's happened over that period of time is, SAINTS being no exception, is that there's been a rerating of equities and that's led the starting yield to fall, even though the dividend has been going up, because the capital's been growing faster.

So, I wouldn't say it's a concern for us. I would just say that the environment that we're in today and the options that are available to investors, mean that starting yields are a bit lower today, than they were back in that period of time.

We've got a question about performance. Long-term performance of the trust is strong, but got a viewer here who notes, "Past three years it's been a bit more stagnant and just wondering why?" Previously you flagged with falling interest rates, borrowing costs coming down, that would be a positive. So, the viewers asking what happened there? Why didn't that come through to returns?

Good question. Essentially, what's happened is, you referred to it earlier, Gavin. We're quite a balanced approach across geographically, the market is very heavily exposed to the US. The US market has rerated to historic highs, really been strong. Partly in the recent 12, 18 months it's been the AI excitement, but also, some deep cyclicals. Some troubled companies where, thank goodness interest rates are being cut, maybe it doesn't look so bad. Those have done quite well as well. Again, in a US context. Although the absolute growth and returns, total returns of SAINTS have been quite strong over that period, they have lagged the broader equity market.

The equity market's been turbocharged by the US market going up to whatever PE it's on now and by some cyclicals bouncing. I think we understand that. I guess it comes back to this point about balance and resilience in these very excited periods. SAINTS will probably tend to lag a bit. It won't do as well. On the flipside of that, we hope that when things look tougher or when there's less exuberance, then SAINTS won't do quite so badly either. That's essentially why the performance the past few years has lagged behind the index.

Another viewer's asking, "What can you say to suggest or get the trust back in front of the benchmark?"

Over the long-term it's about sticking to our knitting and what we're doing. It's about finding those really resilient long-term compounders. Let me explain the plot in another way. We look for really attractive rates of long-term growth. For us, that means somewhere around 10% a year if the underlying equities. We want them to deliver earning growth of around 10% a year. if they do that and if we correctly identify those, then that should be, over the long-term, much stronger than the market. Historically, the market's probably done more like 5% nominal growth of earnings growth. If we keep on doing that, then over the long-term, we believe SAINTS will outperform that benchmark.

There are going to be shorter time periods though and I'm not talking about short as in days. Even periods, as you've seen in the past 12 to 18 months, where the market's definitely doing better or it's doing worse. We've seen that many times. So, I think us, we're not going to try and chase the market or replicate the market returns, shareholders can do that themselves easily, any way they want. I think it's about us sticking to our knitting of those great long-term compounders and finding the Apples, the Microsofts, the Novo Nordisks, the Fastenals, the L'Oreals and all those other things that we have. If we keep doing that, then over the long-term, we think that the trust should be back in front.

Leading on from that, a viewer is noting, "There are multiple technology enablers for trends, but she's interested to know what are you doing in the portfolio for quantum computing or cybersecurity, for example?"

Quantum computing, no. It's quite difficult. It's one of those things that it's very promising, but the economics of it are making that work and building a good business with an enduring edge has been much more challenging. So, we've not yet found or seen anything there. That may happen. I would suspect that when that does come through, our holding in TSMC, I suspect, would be a big beneficiary of that as the world's chip manufacturer and the cutting edge, leading edge nodes and processes. Specifically on that one, no, not at this point in time.

On cybersecurity, yes. I think two things that we recognise, both in Microsoft, but also, with our holding in Cisco, which is network equipment, is that increasingly, the cybersecurity piece is a very important part of what customers are buying. Those two companies have demonstrated they've got really good strong offerings there. They're a bit more broadline. So, they're not as niche as Cloudflare or CrowdStrike or some businesses that are purely built on cybersecurity. That is a positive driver and a tailwind for those two businesses as well. So, there is some exposure to that within the SAINTS portfolio.

We've talked quite a lot about companies that you've bought. We've got a question here about interested in the companies you've sold or divested. "Can you discuss a couple of companies that you bought into, but then since decided to divest from and talk about the process, the diligence around those decisions?"

One that we sold four, five months ago, was Kering, the luxury goods manufacturer that owns brands like Gucci. We invested in that one in 2016 and over the piece it was a good, successful investment for us. Made good returns. Paid good dividends, but we sold it four, five months ago. What really happened there, we're always thinking about the long-term growth case being on track. The company took a strategic pivot going back 12 or 15 months, to a new strategy, which in our view, had a much lower chance of continuing their growth rate. Effectively trying to move the brands it markets to higher price points and doing a variety of things which they can work, but oh my goodness, they're hard.

The probability in success in growth in our view, was low. We engaged with them on that. We talked to the CEO and the family shareholder behind it. Talked to people. Did research around it. Wanted to make sure we weren't rushing in and just judging them too harshly. They'd earned a lot of credit from the fantastic record that they had over the years. Ultimately, we decided that we would exit that one and remove it from the portfolio because it just wasn't fitting. Over the piece, still a very successful investment for us going back to 2016, but just didn't fit anymore. We couldn't really believe in that long-term growth. I would say, if you're earning 60 stocks, there should be some competition, right.

If you want to own 60 really fantastic businesses which you have conviction in the long-term growth, and it just wasn't making the cut for us anymore so, we divested. Another one I'd point to would be GlaxoSmithKline where we had hoped, several years ago, this is going back to 2017 I think we invested. Again, over the piece it actually turned out to be a good investment. We decided from here, no. It was one where we had hoped that there would be more of a rejuvenation of their research and development pipeline of new drugs under some new people they brought in. Who had a fantastic track record, but ongoing monitoring of that, talking to former employees, competitors, etcetera, it just didn't really materialise.

Some other aspects of the business did very well, which drove some share price growth and got good dividends, but ultimately, decided from here for the next ten years, this is not one of our 60 best companies in the world, with great compounding outlook.

Going on a little bit more to the macro, perhaps. "Given some of the recent larger currency movements in the portfolio, we've got an investor who's curious as to whether you use traditional hedging to protect the portfolio from currency movements or do you do something else?" What do you do to manage that risk?

It's more of a one of balance, of not having too much exposure to any one currency across the portfolio. To be careful with currencies that are particularly volatile. That comes back to that point about not chasing the index and putting two-thirds of our capital into the US. Then if the dollar weakens, as it has recently, then that's a real problem for an income investor potentially. So, it's that approach, rather than hedging. Hedging is far more complicated than perhaps, one hopes because actually, when you think about where the revenue exposure is. For example, in SAINTS portfolio, the revenue exposure to the US is a fair bit different from the actual listing exposure.

How much do you hedge and so forth. Again, rather than go down that route, we've taken the balanced approach. What that means is that the currency risk for the income, certainly, in the portfolio, probably the biggest one is around sterling strengthening a lot against all other currencies because we're UK-based and we're investing mostly overseas, great companies overseas. Sterling is not hugely volatile, it's not like some currencies, but it does move up and that's something that we've seen in the past 12 months certainly. That sterling has appreciated against most currencies. So that's been a bit of a headwind to our income growth this year.

Again, a benefit of the investment trust structure is that with reserves and other levers we can pull, we can try to offset that to an extent, in different ways. So, I'd say a shorter answer would be, we don't hedge, we have balance and the invest trust structure gives us various tools to be able to deal with the sterling volatility in the portfolio.

Talking of investment company tools, got a question about gearing, the borrowing that Sottish American uses. Someone's observing "Net gearing appears to be at 105%, so 5% geared according to today's figures, is that figure right, but where do you see that going in the next two to three years?" Perhaps you could say a bit more about what the borrowing's used for.

Total borrowing, I'll give these figures because these are a little bit easier to work with. So total borrowing of SAINTS is £95 million. The total assets of the company are somewhere around £1.1 billion. So, the gearing is probably a little bit closer, on a total debt to total assets basis, to 10% than 5%. If you keep that 95 million in mind, that's helpful. The websites are never quite clear what they're quoting. We call it a prudent level of gearing, a modest level of gearing. It is an advantage of the investment trust structure, to be able to borrow and typically, at a much lower rate. SAINTS borrowings are a touch under 3% in total.

We can invest those in assets like the property, like the infrastructure, which generate a yield higher than that. That generates a little bit of extra income for shareholders. That's our philosophy, to take advantage of the investment trust structure, borrow cheap. It's long-term, by the way. That 3% is locked in to 2048, 2050, something like that. Invest it in those other classes, but I think the key thing is, is that it's modest. We never want it to jeopardise shareholders' returns or feel uncomfortable for shareholders. We're cognisant that these are shareholders' savings and we're entrusted with them to grow them, but also, to take care of them.

So, we don't want to ever do anything with gearing or anything else that is going to be troubling or worrying or shareholders going to bed at night thinking oh my goodness, I don't know what's going to go on. We want them to have a good night's sleep. It's a modest level of gearing and that's how we use it.

On that note then, I just wondered if I could bring you back to the views on prospects for the global economy or the US economy. There's a lot of hopes for a soft-landing, but I think in the results recently, you referred to the euphoria around that. Are you sceptical? Are you concerned that the landing might be hard as the economy slows down?

It definitely could be, yes. Economists have correctly predicted 17 of the last four recessions, right. It's very hard to make these calls on the macro. I think as a manager, the best thing you can do is be prepared so that if it's a hard-landing, then we've got a really goof portfolio where that'll be fine. Apple and Novo Nordisk are not going to he derailed by a hard US landing really and certainly not the long-term picture. We've got to be prepared for that possibility. What I'd say, I see in the portfolio is this picture where the consumer who's on a lower income, is definitely feeling under pressure at the moment. Particularly in the US.

We can see that across a range of companies who cater to that consumer, who are saying our consumer is really feeling the pinch at the moment, from-, yes, interest rates have recently gone down a little bit, but that's really starting to bite and hurt in a lot of ways. I think it's definitely possible that that spreads to the wider economy. I've definitely seen that before. It starts with the more economically sensitive consumer. People say it's probably just them. It's just the subprime mortgage folks who will suffer here. No. It often does spread. We've got to be careful about that and we are careful in the portfolio, to make sure that we are not exposed to that possible strengthening.

Is that a prediction that we're definitely going to have a hard landing? No. That's very difficult to call, but what I'm saying is, is that as managers, we are very cognisant that could happen and we're careful that the portfolio would not be caught out in a nasty way by that and shareholders can sleep well at night.

One more question on property. Someone would like to know, "Do you see the UK property portion of the portfolio as an important diversifier? What is the future for this? Is it going to remain a feature of Scottish American?"

Yes, it's helpful for that sterling diversification of income. That's where it's quite helpful and it's also helpful in that context of we've got this ability to borrow at lower rates, locked in, and we can invest that in good long index-linked leases in the US, in sterling, in the same currency. It definitely has a place, a useful place in the portfolio for generating a bit of extra income. In the whole balance point, I think it's 8% of total assets. So, it's not a big piece, but as part of that diversification balance, sterling management, it's a helpful piece.

"Outside of Baillie Gifford, who has influenced you in your job the most?"

A lot of different people in the investment world. Investment is a field where you're not just focusing on investment, it's a multidisciplinary pursuit, right. You've got to understand a lot of different business models and what you're investing in and people and psychology of markets and lots of different things, in my opinion, to have success over a long period of time. For me personally, there's a lot of different influences coming in there, from different spheres. From people who have built great businesses. I'm an avid reader of business biographies. Of successful businesses, to understand how they've done it and their own account of it, to replicate that in the portfolio, for example.

Also, of investors with fantastic long-term track records. In fact, I've been very lucky, I've worked literally a few feet away from a number of people who've had fantastic long-term records here at Baillie Gifford. So that's been a huge influence on me as well and in other fields as well. I don't want to pick out any one individual, but there've been loads of people who have been incredibly helpful and influential in developing my thinking as a long-term investor.

Obviously, you read widely, but we've got a viewer here who's thinking of trying to break into investment management. For that aspiring fund manager, what key skills or experiences would you recommend they have?

Curiosity. You've got to cultivate that idea of you're just endlessly interested and fascinated in why does it work that way? Will it always work that way? What could happen? What could throw that off? Developing or cultivating that or enabling you to think differently are very, very helpful. I guess ultimately, I think it's about a passion for it. It's a cyclical ride. There are times when people think that you're a hero and there are times when they think you've completely lost the plot. Behaviour really and emotionally as an investor, you have to be able to ride those periods out and be able to get through them.

I think one of the biggest helps there is, have you got that passion? You can't help yourself, but you've got to look at businesses and think about how they're going to evolve and what they're doing. You're the boring person, you're stood in the supermarket aisle and you're comparing. Why are they marketing that way? Why is the box? You can't help yourself. I think that's really helpful for the long-term behavioural piece. That passion for it is certainly a big thing we look for here. Curiosity, being passionate about it, almost would be doing it in your sleep. Those are really helpful prerequisites I would say.

Thank you very much, James, for sharing your passion and I'm afraid that's all we've got time for, but thank you very much for being with us and for asking all those questions. I hope you've enjoyed

today's show. We've more sessions like this coming up so, do keep an eye out for those if you found to day useful. In the meantime, from Baillie Gifford and Citywire, thanks very much and enjoy the rest of your day.

Definitions

- **Price-to-earnings multiple, or P/E ratio –** refers to a company's share price relative to its earnings per share, and is commonly used to measure whether a company's valuation is cheap or expensive relative to the market
- **Dollar risk/currency risk** – the risk that a strengthening dollar may make US assets more expensive for foreign investors
- **Cyclicals bouncing** – a company whose share price recovers as the economy grows

Annual past performance to 30 June each year (Net %)

	2020	2021	2022	2023	2024
The Scottish American Investment Company P.L.C. (SAINTS)	4.5	22.4	-3.0	15.6	1.1
FTSE All World	5.7	25.0	-3.6	11.7	20.4

Source: Morningstar, share price, total return.

This communication was produced and approved in October 2024 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

For a Key Information Document for The Scottish American Investment Company P.L.C. (SAINTS) please visit our website at www.bailliegifford.com

Annual SAINTS dividends at 30 June each year

2020	2021	2022	2023	2024
12.00	12.125	13.20	13.92	14.35

Source: Baillie Gifford & Co. Total dividend per ordinary share. Pence per share.

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- 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.

- 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.

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- 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.

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