THE SCOTTISH AMERICAN INVESTMENT COMPANY P.L.C – MANAGER INSIGHTS

Investment Manager, James Dow, gives an update on The Scottish American Investment Company P.L.C.

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 Trust. The Scottish American Investment Company (SAINTS) is a listed UK company, and is not authorised or regulated by the Financial Conduct Authority. The value of its shares, and any income from them, can fall as well as rise and investors may not get back the amount invested.

This communication was produced and approved in April 2022 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.

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

During the recording of this film, we complied with the Scottish Government's guidance on managing the risk of Covid-19.

James Dow: Hello, and welcome to this annual update on SAINTS, the Scottish American Investment company.

I'm James Dow, I'm co-head of the Global Income Growth team at Baillie Gifford, and I'm the co-manager of SAINTS.

SAINTS is managed with two types of investor in mind. The first is the investor who is looking for a regular income. An income which is very stable from year to year, and which over time grows ahead of inflation. As managers, we invest primarily in equities to achieve those goals. At the heart of SAINTS is a global portfolio of 60 different companies which we believe have excellent long-term prospects of real growth ahead of inflation in their profits and dividends.

Now because of that focus on steady growth in profits and dividends, year after year, SAINTS also appeals to a second type of investor. That's the type of investor who doesn't necessarily need the income that we pay out every quarter, but who is attracted by the style of our investment approach.

SAINTS' focus on steady growth in dividends has over time also delivered steady capital growth. Over the past decade, SAINTS' net asset value per share has grown at about 9 per cent per year. So alongside our shareholders who are income investors, we also serve shareholders who are looking for steady compound growth in their capital.

A Review of 2021:

The trust recently announced its final dividend for 2021, and it marked the 48th consecutive year that SAINTS has raised its dividend. The Board decided to increase the dividend by 5.6 per cent over the full year, which once again was ahead of UK inflation. And that dividend was fully covered by the trust's earnings.

Underpinning that dividend growth was strong performance by the assets we invest in. The equity portfolio delivered income growth of more than 6 per cent per share. And the small investments we have in property and other assets also delivered another strong year. Overall, the company's earnings per share rose by 12 per cent, and this is why SAINTS was able to once again raise its dividend ahead of inflation.

In terms of capital growth on top of the dividend, SAINTS delivered a net asset value total return to shareholders last year of 22 per cent, and that was ahead of its benchmark, which rose 20 per cent.

Changes in the Portfolio:

We are big believers in investing for the long term. So unsurprisingly, we have low turnover in our portfolio from year to year. We have many investments which date back more than a decade, and in any given year we will typically only make about half a dozen new investments.
During 2021 we dis-invested from four companies and made investments into five new companies. The sales included for example SMTH, a Japanese financial company which had not grown as fast as we had hoped. And on the new purchase side, we have for example taken holdings in Starbucks, the coffee chain, which we believe still has many years of growth ahead of it. And also Valmet, which is a world leader in making machinery for the pulp and paper industry, where we see years of good growth as its customers reduce their carbon emissions.

We also made a small investment into infrastructure, through a limited number of names. Alongside our property and other assets, we see a role for infrastructure in supporting SAINTS' goals of resilient dividends and inflation-beating growth. You can read more about those names in the annual report.

Our Evolving Approach to ESG:

Our belief as managers, and this is very much shared with SAINTS board, is that as an investor you can not reasonably hope to generate sustainable dividends and capital growth in the long term, if you invest in companies with poor ESG practices. If companies are damaging the environment, mistreating employees and have poor governance practices, time and again those chickens come home to roost eventually, and shareholders pay a price in terms of reduced capital growth and dividends that are cut or even terminated.

So sustainability or ESG has to be a big part of our analysis as managers. Not just box-ticking, but thoughtful, fundamental analysis of everything we invest in.

During 2021 we took another step forward with our ESG analysis. We have developed our own framework over time for evaluating sustainability risks and opportunities, which we call our 'Impact, Ambition and Trust framework'. For each existing and potential holding, we try to assess its impacts on the planet, on society and on other stakeholders; we ask how ambitious is the company to address these challenges and do we trust them to deliver on that ambition.

Now that framework has proved very useful to us as we've rolled it out, because it has helped focus our engagements with companies on the topics that really matter. For example, we know that for one of our largest holdings, UPS the package delivery company, we need to focus our engagements on making sure they are reducing the emissions from their vehicles over time. If they can do that, that will help improve the odds of the company delivering continued sustainable growth in its earnings and dividends in the years ahead.

If you'd like to know more about this topic you can download our second annual Stewardship Report, from the SAINTS website.

Debt Refinancing:

One of the advantages that Investment trusts have over open-ended funds is their ability to borrow long-term debt, as long as it is done prudently, and then invest those borrowings in assets which should deliver a higher level of income than the cost of borrowing. We can then pay out that surplus income to SAINTS' shareholders.

For some years now that strategy has not worked as well as it should for SAINTS, because the trust borrowed debt in the late 1990s with quite a high rate of interest. But in April this year, that debt will all mature, and we have been able to arrange replacement borrowings for the trust at a much lower interest rate. The coupon on the old debt was about 8 per cent, but as of this April SAINTS' average borrowing cost will fall to a touch under 3 per cent.

That's very good news for SAINTS' future income, and it's one of the reasons we are confident about the company's ability to continue paying a growing dividend in 2022 and beyond.

Outlook for 2022:

Over the last year there have been many headlines about inflation. Consumer demand has quickly recovered after the pandemic, and many supply chains have been struggling to operate at full capacity. It looks like inflation is going to remain high for the remainder of 2022 and possibly beyond.

From a SAINTS perspective, what gives us comfort is that the vast majority of the portfolio is invested in real assets, like equities and property and infrastructure. The equity portfolio in particular, we believe, should be able to cope and perhaps even benefit from rising inflation. I'm confident we own strong businesses with good volume growth and pricing power, managed by good people. So just as SAINTS' dividend grew ahead of inflation last year, we are hopeful the same can happen again in 2022.

Geopolitics are another defining feature of the outlook this year. We are currently witnessing truly tragic events in Ukraine, which we very much hope will de-escalate and come to a peaceful end as soon as possible.

From a SAINTS perspective, there has so far been very little direct impact on the companies or other assets we invest in. But we are mindful of how this may change going forward. For one thing, it seems likely that energy policy, certainly in Europe, is going to change quite substantially. And it may well accelerate some of the trends in energy that were already underway, for example towards renewables. Now SAINTS has a number of investments in the portfolio which are well placed to enable that shift in the energy mix: for example, producing lithium, or wind farms, or electrical grid operators. What I am personally hoping to see is a world in which energy security improves, energy costs fall, there is less harm done to the planet, and the value of SAINTS' investments in green energy grows.

I know some people will say that's surely too good to be true, but personally I think that over the next ten years it is very much achievable, and SAINTS' shareholders can play a part in it.

Share Price Performance to 31 December each year (Net %)

	2017	2018	2019	2020	2021
Scottish American Investment Company P.L.C	17.1	-1.6	25.1	12.0	19.5
FTSE All World Index TR	13.8	-3.4	22.3	13.0	20.0

Source: Morningstar and relevant underlying index provider, total return sterling.

Dividend Performance to 31 December each year

	2017	2018	2019	2020	2021

Total dividend per ordinary share (net) – (pence per share)	11.10	11.50	11.875	12.00	12.675

Source: Baillie Gifford & Co. Total dividend per ordinary share (net).

Pence per share. As at 31 December 2021.

Past performance is not a guide to future returns.
The views expressed should not be taken as fact and no reliance should be placed upon these when making investment decisions. They should not be considered as advice or a recommendation to buy, sell or hold a particular investment. If you are unsure whether an investment is right for you, please contact an authorised intermediary for advice.

This recording contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly.

SAINTS 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.

FTSE

BAILLIE GIFFORD