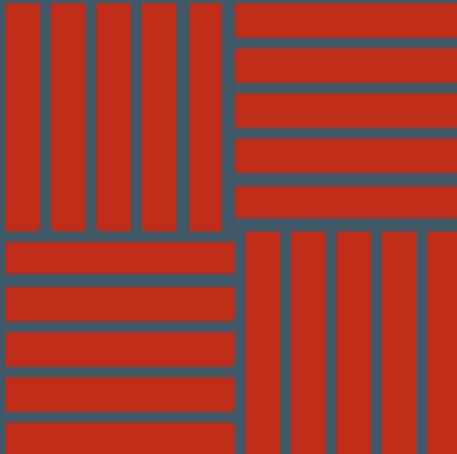
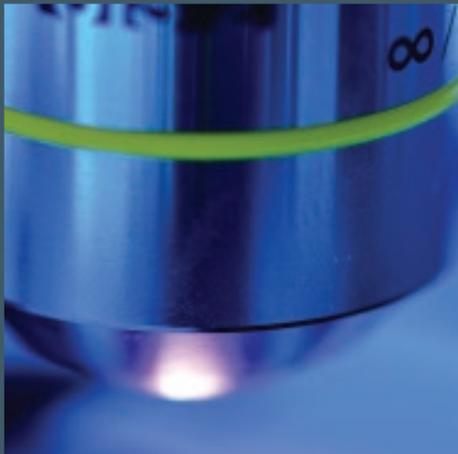
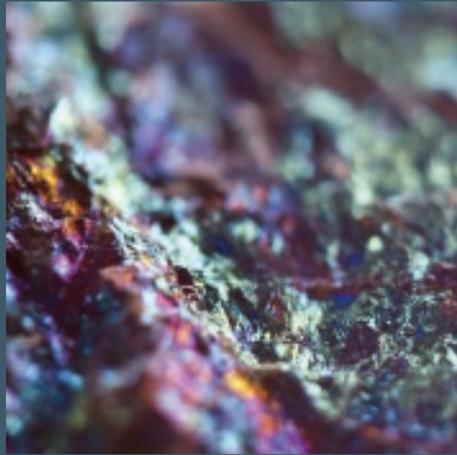
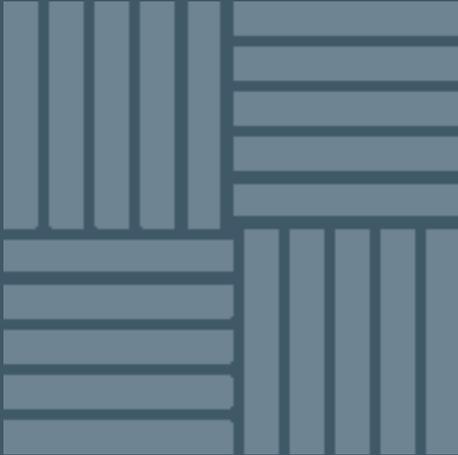
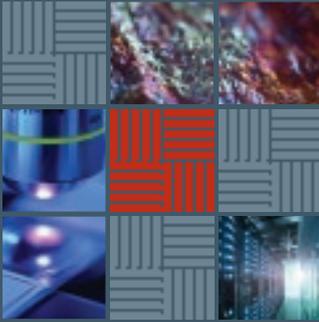


SCOTTISH MORTGAGE INVESTMENT TRUST PLC

Your low cost choice
for global investment





Scottish Mortgage Investment Trust PLC is a low cost investment trust that aims to maximise total return over the long term from a high conviction and actively managed portfolio. It invests globally, looking for strong businesses with above-average returns.

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Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive requires certain information to be made available to investors prior to their investment in the Company. The Company's Investor Disclosure Document is available for viewing at www.scottishmortgageit.com.

Notes

None of the views expressed in this document should be construed as advice to buy or sell a particular investment. Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

Scottish Mortgage Investment Trust PLC currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's ordinary shares can qualify to be considered as a mainstream investment product and can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority in relation to non-mainstream investment products.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000 immediately if you are in the United Kingdom or, if not, another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in Scottish Mortgage Investment Trust PLC, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.



Message from the Chairman

This has been a good year for Scottish Mortgage, with the share price increasing by over 40% on a total return basis. The long term share price total returns over five and ten years remain very strong, at 177% and 302% respectively. This year, we have continued to see high levels of demand for our shares and have issued a net amount of £155 million in new share capital. As a result of this long term performance record and steady share issuance, the assets of the Company have grown substantially in recent years. In March of this year, our market capitalisation reached a level that resulted in the Company entering the FTSE 100 index, and it now stands at over £5 billion. This will inevitably bring a higher profile for Scottish Mortgage and already some new shareholders have invested in the Company.

Yet fundamentally nothing has changed in what we do. The Managers remain resolutely committed to their philosophical approach of making long term investments in what they believe to be the most exciting growth businesses from around the world. Over time, this benefits both our shareholders and the companies they enable to thrive. The world needs more of this supportive and patient investment capital and I very much hope that Scottish Mortgage will continue to be one such provider well into the future.

Financial Highlights – Year to 31 March 2017

Share Price* 40.9%

NAV* 38.1%

Benchmark*† 33.1%

* Source: Morningstar, total return. See disclaimer on page 70 and Glossary of Terms on page 71.

Share Price (pence)

— Share price

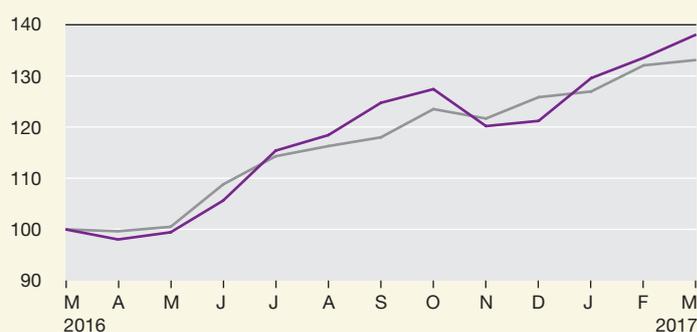


NAV and Benchmark

(figures rebased to 100 at 31 March 2016)

— NAV total return (after deducting borrowings at fair value)

— Benchmark† total return



Premium/(Discount)

— Premium/(Discount) (after deducting borrowings at fair value) plotted as at month end dates



† Benchmark: FTSE All-World Index (in sterling terms).

Source: Thomson Reuters Datastream/Baillie Gifford. See disclaimer on page 70.

Past performance is not a guide to future performance.

Strategic Report

This Strategic Report, which includes pages 2 to 24 and incorporates the Chairman's Statement, has been prepared in accordance with the Companies Act 2006.

Chairman's Statement

Somewhat breaking with convention for statements of this kind, I would like to open by saying some words about my predecessor as Chairman of Scottish Mortgage, Sir Donald MacKay, who died last November at the age of 79. Sir Donald was a remarkable man, whose intelligence and acumen were appreciated by governments and businesses alike. His contribution to the development of this Company was profound, for it was largely under his watch that the Managers were encouraged to pay less attention to benchmarks and what their competitors were up to, and spend more time following their investment beliefs, with greater freedom to back businesses anywhere in the world likely to benefit from the transformational changes we are experiencing, and thus with the potential to deliver exceptional returns for our shareholders.

As I hope is clear to all, the results have been excellent: we have for some time been the UK's largest conventional investment trust, in March we were admitted to the FTSE 100 index, and our investment performance bears comparison with the very best. Although Sir Donald stepped down at the end of 2009, much of what has since been achieved at Scottish Mortgage can trace its roots to decisions taken under his stewardship. I am therefore delighted to report that the strong record of performance continues, especially when measured over five and ten year periods, both in terms of the share price and net asset value (NAV) returns. The table below shows the five and ten year total returns for the Company to 31 March 2017, alongside the Association of Investment Companies (AIC) Global Sector average for comparison.

Total Return (%)	Five years	Ten years
NAV	146.6	236.3
Share price	177.3	302.2
FTSE All-World Index	97.3	148.7
Global Sector Av – NAV	95.3	127.9
Global Sector Av – share price	109.6	141.9

Source: AIC/Morningstar.

As it happens, the performance over the last financial year has also been very healthy, with a rise in the NAV per share of over 38% (on a total return basis). Whilst this is obviously pleasing to shareholders, I wish to highlight the importance of judging Scottish Mortgage on the basis of its long term approach. However good the 12 month figures, I would urge shareholders to focus on the five and ten year performance record, as this is the test which your Board feels best represents the Managers' success or otherwise in following the stated investment policy of the Company. Over any given twelve month period performance may be at least as much due to the fluctuating obsessions of broader markets or geopolitics as any change in the businesses underlying the investments; in the past year, to take one example,

performance was flattered by the devaluation of sterling. It is only over the longer term that the impact of investing in individual companies can be said to come to the fore.

Earnings and Dividends

As we experienced in the previous financial year, our income for the period has fallen as the companies in the portfolio have found more productive uses for their capital than returning it to shareholders. This year's earnings per share were 1.07p, down 36% on 2015/16.

The Company's investment objective is to maximise total return from a portfolio of long term investments chosen on a global basis, enabling the Company to provide capital and dividend growth. The Managers of Scottish Mortgage have been relentless in pursuing this growth focused investment mandate. The Board believes this clarity of proposition and purpose is valued by shareholders. The Board therefore has no desire to deflect the Managers from their focus on finding the best growth companies of the future, and encourages them not to dilute their approach by investing in companies which do not fit this objective, in order to pursue a secondary goal of income production.

Whilst the stated investment objective explicitly provides for both capital and income growth, shareholders will be aware from earlier Annual Reports and other statements that the clear expectation should be that this balance will be heavily in favour of capital appreciation over the long term, in line with this growth focused approach. Yet the Board also acknowledges that many of our shareholders appreciate even the modest income component of the total return from their Scottish Mortgage holding.

We are recommending an increased final dividend, providing a total distribution for the year of 3.00 pence per share (2015/16 – 2.96p), an increase of just over 1%. In order to achieve this, given the low level of income in the portfolio, it will be necessary to utilise most of the remaining revenue reserve which, once the final dividend is approved and paid, will stand at just over 0.5 pence per share.

The Board takes this opportunity to repeat the guidance given earlier as to its intentions regarding the future payment of dividends by the Company. Shareholders have already granted the Company the power to pay dividends from capital profits but, thanks to the revenue reserve, to date these have not been needed. Absent a significant (and unexpected) uplift in income from the portfolio, next year the Board will be obliged either to cut the dividend, or to make use of its power to continue to pay a comparable dividend, supplemented from capital profits as well as the remainder of the revenue reserve. In view of the explicit dividend growth component of the Company's investment objective, the Board wishes to make clear to shareholders that it would be willing to make such distributions from capital profits, in order to sustain or modestly increase our dividend, provided that the Board is of the view that the total returns being earned by the Company over the long run justify this. This policy was set out in some detail in my Statement last year.

Past performance is not a guide to future performance.
See disclaimer on page 70.

Low Cost

For the year to 31 March 2017, Scottish Mortgage's 'Ongoing Charges Ratio' (OCR) fell to 0.44%, down from 0.45% the previous year. Ensuring that Scottish Mortgage has one of the lowest cost ratios in the sector remains an important competitive advantage for the Company, affording a clear and direct benefit to our shareholders. The Board and Baillie Gifford continually work together in this area and in March 2017 all parties were delighted to announce the introduction of a new tiered fee scale, with effect from 1 April 2017. The annual management charge (AMC) will continue to be 0.3% on the first £4 billion of assets under management, but will fall to 0.25% thereafter. As a result, provided the assets of the Company remain over £4 billion, this offers the prospect of further reductions in the OCR for the coming year and into the future.

Liquidity Policy

The Board believes that, just as lowering the ongoing charges for the Company is to the long term benefit of all shareholders, so too is lessening the market impact of trading in its shares. Such transactional friction is often an unseen cost to shareholders, which is mitigated by good levels of liquidity in the market. The Board has adopted a robust liquidity policy for some time now, to lessen the impact of large trading imbalances between buyers and sellers, by the issuance or repurchasing of the Company's shares, as appropriate. This helps to prevent Scottish Mortgage's shares from moving to a substantial premium or discount to the underlying NAV.

In furtherance of this policy, during the year the Company bought back into treasury just over 7 million shares, and sold more than 53 million shares from treasury at a premium to the net asset value. The net result of these operations was an increase in the Company's share capital of just under £155 million – a slightly lower number than last year, but large in comparison to most other investment companies in a period which in general saw a paucity of secondary issuance. The Directors will seek to renew the necessary authorities from Shareholders at the Company's Annual General Meeting (AGM) to facilitate the continuance of this policy. Full details of the Company's liquidity policy may be found on page 7.

Gearing and Borrowing Policy

The Board of Scottish Mortgage remains committed to the strategic use of borrowings, in the belief that it is in the long term interests of Shareholders to be geared into prospective long run equity market returns. The Board views the capacity to use debt to enhance shareholder returns as one of the principal advantages of the investment trust structure. In line with the long term approach taken, no attempt is made to time short term market moves through tactical shifts in the level of gearing. As assets in the portfolio have risen on the back of strong performance, we have allowed the relative level of gearing to fall slightly, and it stood at a modest 9% at the financial year end.

For some months, we have been following developments in the market for fixed interest rate sterling debt, realising that we had the opportunity to lock in to long term borrowing arrangements which reflect the historically low interest rate environment which prevails. In early April 2017, the Company announced that it had raised a total of £125 million in long term, fixed rate, senior, unsecured private placement notes, denominated in sterling

through the private placement debt market. These notes form part of the existing borrowing facilities for the Company and do not imply any change to the overall level of indebtedness of the Company; they are simply a switch from short term, variable interest rate debt, to instruments which offer us a fixed cost of financing over the next 25 or so years. The Board decided to undertake this transaction at what the Company believes to be attractive pricing levels, with a blended rate of just over 3% per annum, in the strong belief that this should enable us to enhance shareholder returns over the long term. Most funds have already been drawn down, but one tranche will not be accessed until the maturity in 2020 of a £20 million debenture arranged in the 1980s, on which we pay interest at 14% per annum.

Corporate Broker

The Company conducted a review of its corporate broking arrangements as part of the continuing process of revisiting our relationships with all third party providers. Five firms, chosen by the Board, presented to the Company Secretaries to be evaluated against a framework set out by the Board. Two of these – one of which was our incumbent broker, Cenkos – were then selected to present to the Board. The result was a decision to extend the engagement of Cenkos and to broaden the mandate by appointing Jefferies Hoare Govett as joint broker to the Company.

Scottish Mortgage is now of a scale where the appointment of joint brokers is the norm and I hope that the new arrangement will build on the excellent work which Cenkos has done over the years to broaden the market for our shares and bring them to the attention of new buyers. We believe that the additional resources available to us from Cenkos and Jefferies working in tandem will bring significant benefit to the Company. The new arrangement took effect from 1 April 2017.

AGM and Shareholder Engagement

The AGM will be held in Edinburgh at the Merchants' Hall, at 4.30pm on 29 June 2017. The joint managers of the Company, James Anderson and Tom Slater, will make a presentation to shareholders on the investments, and take questions. I do hope you will be able to attend.

The Board and Managers are keen to ensure that all shareholders have a clear understanding of the investment approach taken for the Company. One of the best ways to do this is through hearing directly from those involved. In recent years the proportion of the Company's share register represented by individual shareholders has grown, particularly as more savers have invested through platforms such as that of Baillie Gifford Savings Management Limited. Last year I highlighted that the Managers intended to hold an event in London specifically aiming to cater for shareholders who are unable to travel to Edinburgh for the AGM and who would otherwise find it difficult to have an opportunity to ask questions of their Managers. This event proved so popular and successful that the Managers have already held another such event in Birmingham in March of this year and have a further London based Investor Forum scheduled on 22 June.

There are plans to hold more of these Scottish Mortgage Investor Forums across the country over time. I would strongly encourage all shareholders to look at the further details given in the back of this Report, on page 70, and on the Company's website: www.scottishmortgageit.com with a view to attending.

Investment Strategy

As has been the case for a number of years, the statement of the Managers' Core Investment Beliefs is included within the Annual Report and Financial Statements (on page 17). The Board continues to believe that one of the most valuable aspects of Scottish Mortgage is the consistency of its approach. Further, the long term investment perspective adopted by the Managers is a clear differentiator in a crowded field. Many claim to adopt a similar strategy, but few have consistently lived up to its challenges in the way that the Managers of Scottish Mortgage have done.

The Board strongly believes that investment risk is a function of the investment time horizon chosen. Over a period of years, investment risk is not defined by movements relative to an index composed of the aggregate performance of a broad and somewhat indiscriminate pool of possible investments, but by the prospect of permanent destruction of investment capital through poor investment decisions.

Unlisted Investments

Last year, we were given permission by our shareholders to hold up to 25% of our assets in unquoted companies, but I explained at the time that your Board sees this as a limit, not a target. The Managers' report deals in some detail with developments in this sector, and your Board continues to view this initiative with enthusiasm and a route to gaining access to promising companies well before they have any need to access public equity markets. The level of the Company's exposure to unlisted investments at the year end (13%) has not changed significantly over the 12 months (11.8% as at 31 March 2016).

Board Changes and Outlook

The world can and does change and sometimes this happens at a faster rate and is more significant than at others. It would be easy to focus on a number of political risks, from President Trump's unpredictable approach to policy making, to questions over North Korea's true intentions, to the escalation of the troubles in the Middle East, but the task of this Board is to consider the outlook in the context of the portfolio of Scottish Mortgage. In doing so it is important to focus on what will actually make a significant difference to the long run prospects of the companies in which the Managers invest, and to challenge the Managers as to the importance of these factors.

The flexibility of the investment policy of Scottish Mortgage is valuable in this regard, as it allows the Managers to go anywhere in the world to find opportunities and invest in any type of business. The Board views this flexibility as key to the longevity of the success of this investment strategy. Further, the stock picking approach of the Managers, focused on the long term fundamental characteristics of businesses, tends to favour the selection of those companies with a structural element to their growth, which are aiming to provide what their customers want or need. This should offer the potential for durable growth.

The pace of development and technological change not only represents a huge opportunity to some businesses, but is equally a significant threat to the existence of some of the index

incumbents who have failed to invest to adapt to the transformations these technologies are bringing. If true investment risk is the permanent destruction of capital, the Board believes that not forcing the Managers to hold some of those companies which seem under greatest long term threat from such changes, in the name of diversification, is also beneficial for the long term value creation for shareholders of Scottish Mortgage.

Having started this statement by talking about my predecessor, I will conclude by saying a few words about succession. After some 16 years on this Board, I feel that it is time to move on and I have therefore decided not to stand for re-election to the Board at the AGM in June. Following a process led through the Nomination Committee by our Senior Independent Director, Professor John Kay, the Board was unanimous in supporting Fiona McBain as our new Chairman and it is proposed that she will take over from me following the AGM. Fiona has recently retired as Chief Executive of Scottish Friendly and in her eight years with Scottish Mortgage has proved to be a strong contributor to the Board.

In closing, I would like to say what a privilege it has been for me to have served on the Board of Scottish Mortgage since 2001 and in the Chair since the end of 2009. I joined in the immediate aftermath of 9/11, and we were immediately tested by the fallout from that atrocity, followed by the Iraq War and the Lehman crisis. But, for those who knew how to spot them, there were investment opportunities even in the most challenging times: sixteen years ago Facebook had not been invented but today is used by more than a quarter of the world's population, and Apple was struggling to survive, yet today it is by a large margin the world's most valuable company; all our Board papers are delivered via its ubiquitous iPad, a device which was launched in 2010! Throughout this period of extraordinary change I have been impressed by the capacity of the Managers to remain calm in stormy waters, to retain their faith in the long term value of equities, and to seek out and hold the ones that matter. They have shown repeatedly that they understand better than almost anyone else the long term changes being experienced in investment markets, with the creation of huge pools of wealth from sectors which did not even exist 20 years ago, and the concomitant destruction of value in many of our more traditional industries.

Thanks to the skills of the investment Managers, I leave Scottish Mortgage as the largest conventional investment trust, a constituent of the FTSE 100 index with a market capitalisation of over £5 billion, offering one of the lowest OCRs in the business and with an investment record which, while set out in sanitised detail elsewhere in this Report, I would simply describe as stellar.



John Scott
Chairman
12 May 2017

One Year Summary

The following information illustrates how Scottish Mortgage has performed over the year to 31 March 2017.

	31 March 2017	31 March 2016	% change
Total assets (before deduction of debentures, long and short term borrowings)*	£5,383.2m	£3,955.4m	
Loans and debentures	£509.6m	£498.0m	
Shareholders' funds	£4,873.6m	£3,457.4m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	354.6p	259.2p	36.8
Net asset value per ordinary share (after deducting borrowings at par)*	359.0p	263.8p	36.1
Net asset value per ordinary share (after deducting borrowings at book)*	358.7p	263.4p	36.2
Share price	366.1p	262.5p	39.5
FTSE All-World Index (in sterling terms)			29.7
Dividends paid and proposed per ordinary share	3.00p	2.96p	1.4
Revenue earnings per ordinary share	1.07p	1.66p	(35.5)
Ongoing charges ratio*	0.44%	0.45%	
Premium (after deducting borrowings at fair value)*	3.2%	1.3%	
Active share*	96%	94%	

Year to 31 March	2017	2016
Total returns (%)*		
Net asset value per ordinary share (after deducting borrowings at fair value)	38.1%	(0.1%)
Share price	40.9%	(0.7%)
FTSE All-World Index (in sterling terms)	33.1%	(0.5%)

Year to 31 March	2017	2017	2016	2016
Year's high and low	High	Low	High	Low
Share price	367.20p	246.90p	281.8p	220.6p
Net asset value per ordinary share (after deducting borrowings at fair value)*	357.44p	246.89p	275.9p	216.4p
Premium/(discount) (after deducting borrowings at fair value)*	5.0%	(2.9%)	6.7%	(4.2%)
Average sector discount (AIC Global Sector)	(4.3%)	(9.0%)	(4.5%)	(8.0%)

	31 March 2017	31 March 2016
Net return per ordinary share		
Revenue return	1.07p	1.66p
Capital return	97.31p	(2.81p)
Total return	98.38p	(1.15p)

* See Glossary of Terms on page 71.

Source: Morningstar/Baillie Gifford. See disclaimer on page 70.

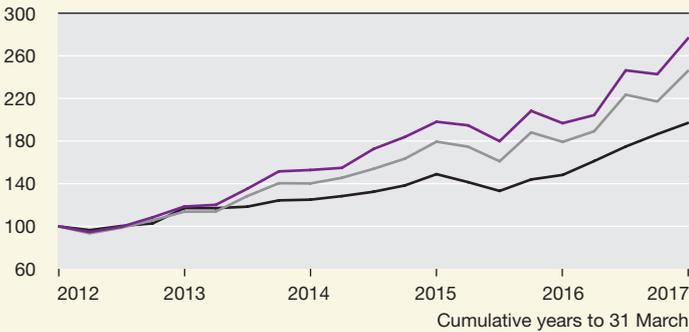
Past performance is not a guide to future performance.

Five Year Summary

The following charts indicate how Scottish Mortgage has performed relative to its benchmark* and the dividend against the retail price index (RPI) over the five year period to 31 March 2017.

Five Year Total Return Performance†

(figures rebased to 100 at 31 March 2012)



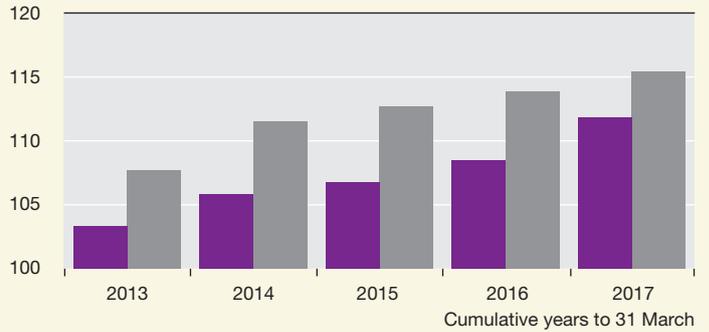
Source: Thomson Reuters Datastream#.

- Share price total return
- NAV (fair) total return
- Benchmark* total return

* Benchmark: FTSE All-World Index (in sterling terms)#.

Dividend and RPI Growth

(figures rebased to 100 at 31 March 2012)

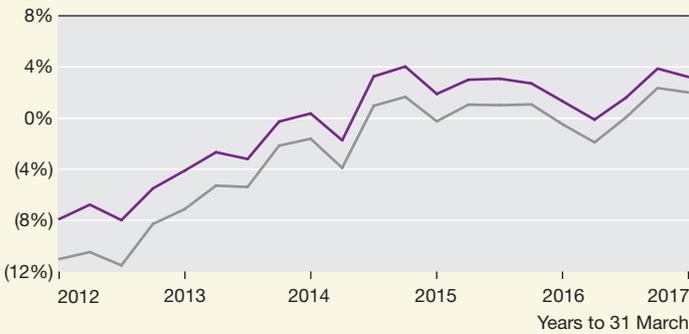


Source: Thomson Reuters Datastream/Baillie Gifford#.

- RPI
- Scottish Mortgage dividend

Premium/(Discount) to Net Asset Value

(plotted on a monthly basis)



Source: Thomson Reuters Datastream/Baillie Gifford#.

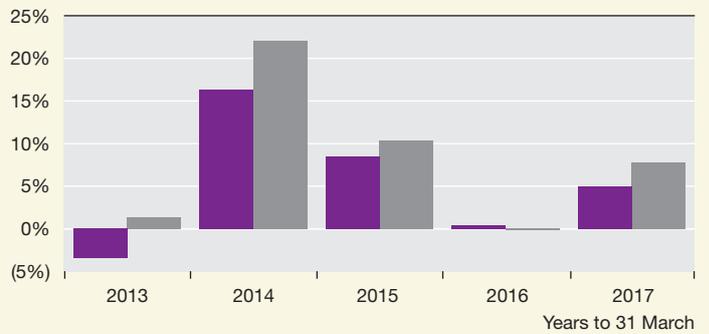
- Scottish Mortgage (discount)/premium (after deducting borrowings at fair value)
- Scottish Mortgage (discount)/premium (after deducting borrowings at par)

The (discount)/premium is the difference between Scottish Mortgage's quoted share price and its underlying net asset value calculated on one of two bases:

Borrowings are either deducted at par (redemption value) or at fair value (the current market worth). As borrowings have a current market value above par, the effect of valuing the borrowings at fair value reduces both the NAV and any resultant discount but increases any resultant premium.

Annual Net Asset Value and Share Price Total Returns†

(relative to the benchmark total return)



Source: Thomson Reuters Datastream#.

- NAV (fair) return
- Share price return

Past performance is not a guide to future performance.

† See Glossary of Terms on page 71.

See disclaimer on page 70.

Business Review

Business Model

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006 and carries on business as an investment trust. Investment trusts are UK public listed companies and their shares are traded on the London Stock Exchange. They invest in a portfolio of assets in order to spread risk. The Company has a fixed amount of share capital although, subject to shareholder approval sought annually, it may purchase its own shares or issue shares. The price of the Company's shares is determined, like other listed shares, by supply and demand.

The Company has been approved as an investment trust by HM Revenue & Customs subject to the Company continuing to meet the eligibility conditions. The Directors are of the opinion that the Company has continued to conduct its affairs so as to enable it to comply with the ongoing requirements of Section 1158 of the Corporation Tax Act 2010.

The Company is an Alternative Investment Fund (AIF) for the purposes of the EU Alternative Investment Fund Managers Directive.

Investment Objective

Scottish Mortgage carries on business as an investment trust. The objective is to maximise total return from a portfolio of long term investments chosen on a global basis enabling the Company to provide capital and dividend growth.

Investment Policy

Investment is predominantly in equities. The number of equity holdings will typically range between 50 and 100 and the portfolio can be relatively concentrated. Achieving diversification is a requirement when selecting investments but an unconstrained approach is adopted and there are no fixed limits set as to geographical, industry and sector exposure. Portfolio concentration and levels of diversity are monitored by the Board on a regular basis. The maximum investment in any one holding is limited to 8% of total assets at the time of purchase.

A long term investment horizon is observed and little attention is paid to short term market trends when deciding strategy. This patient approach allows market volatility to be exploited to shareholders' long term advantage. An average holding period for investments of five years or more is targeted.

The major part of the portfolio will be held in quoted equities with good liquidity. Investment may also be made in fixed interest securities, convertible securities, funds, unquoted entities and other assets based on the individual investment case. The maximum amount which may be invested in companies not listed on a public market shall not exceed 25 per cent of the total assets of the Company, measured at the time of purchase.

With prior approval of the Board, the Company may use derivatives for the purpose of efficient portfolio management (for the purpose of reducing, transferring or eliminating investment risk in its investment portfolio, including protection against currency risk) and for investment purposes. The maximum permitted investment in other UK listed investment companies in aggregate is 15% of gross assets.

The Company aims to achieve a greater return than the FTSE All-World Index (in sterling terms) over a five year rolling period or longer. This benchmark is a reference point for considering

performance and emphatically is not a portfolio construction tool. The portfolio does not set out to reproduce the index and there will be periods when performance diverges significantly from the benchmark.

Borrowings are invested in equity markets when it is believed that long term investment considerations merit the Company taking a geared position. Apart from in exceptional market conditions the Company will not take out additional borrowings if, at the time of borrowing, this takes the level of gearing beyond 30% calculated in accordance with the Association of Investment Companies (AIC) guidelines. In any event, the Company will not exceed the limit on borrowings set out in its Articles of Association, which provide that the amount of all the Company's borrowings shall not, without the previous sanction of an ordinary resolution of shareholders, exceed one half of the aggregate issued and fully paid share capital and capital reserves of the Company and, in addition, that the Company may from time to time borrow for temporary purposes sums not exceeding 20% of the Company's issued and fully paid share capital.

The Managers' Core Investment Beliefs with respect to the Company are set out on page 17.

Details of investment strategy and activity this year can be found in the Chairman's Statement on pages 2 to 4 and in the Managers' Review on pages 11 to 16. A detailed analysis of the Company's investment portfolio is set out on pages 18 to 23.

Liquidity Policy

The Board recognises that it is in the long term interests of shareholders to manage discount/premium volatility. Whilst the Board believes that the primary driver of discounts over the longer term is performance, the relationship between the Company's NAV and share price can be impacted in the shorter term by an imbalance of buyers and sellers in the market.

The Board does not have formal discount or premium targets at which shares will be bought back or sold respectively, as it believes that the announcement of specific targets is likely to hinder rather than help the successful execution of a buyback/issuance policy. However it will undertake to aid the efficient functioning of the market in its shares in normal market conditions, to act when such a significant imbalance in supply and demand for the Company's shares exists.

In furtherance of this policy, during the year the Company bought back a total of 7,005,000 shares into treasury. Between 1 April and 11 May 2017, no further shares were bought back. During the year the Company sold 53,050,000 shares from treasury at a premium to the net asset value. Between 1 April and 11 May 2017, a further 13,800,000 shares were sold from treasury at a premium to net asset value.

In order to implement this strategy again over the coming year, the Directors will seek the relevant authorities from shareholders at the forthcoming AGM.

To prevent substantial demand for the Company's shares pushing them to trade at a significant premium to the underlying NAV, the Board will again seek shareholder authority to allot equity securities, or sell treasury shares, for cash without having to offer such shares to existing shareholders pro-rata to their existing holdings, up to a total amount representing approximately 10 per cent. of the Company's total issued Ordinary Share capital.

Having regard to guidance previously received from the UKLA and consistent with the approach adopted in previous years, the Directors wish to ensure that any such sale of Ordinary Shares held in treasury or issue of new Ordinary Shares will not result in an inadvertent breach of the Listing Rules by virtue of the UKLA determining that 'net asset value' should be calculated on the basis of debt valued at par value, instead of the general market understanding that net asset value is determined on the basis of debt valued at fair value. The Directors will therefore also seek to renew the authority previously granted to issue shares at a discount to net asset value with debt at par value, in order to continue to protect against any such inadvertent breach. The Directors wish to stress that they will in no circumstances seek to issue Ordinary Shares (including Ordinary Shares held in treasury) for cash at a price below the net asset value per share on the basis of debt valued at fair value.

The Directors are further seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14.99 per cent. of the Ordinary Shares in issue from the date of grant of the authority to the date of the Annual General Meeting in 2018. Such purchases will only be made at a discount to the prevailing net asset value. Any such shares which are bought back may be held in treasury and may subsequently then either be sold for cash or cancelled.

Performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

Key Performance Indicators

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share (after deducting borrowings at fair value);
- the movement in the share price;
- the movement of net asset value and share price performance compared to the Benchmark;
- the premium/discount (after deducting borrowings at fair value);
- ongoing charges ratio;
- revenue return; and
- dividend per share.

An explanation of these measures can be found in the Glossary of Terms on page 71.

The one, five and ten year records of the KPIs are shown on pages 5, 6 and 24.

In addition to the above, the Board considers performance against other companies within the AIC Global Sector.

Borrowings

There are four debentures in issue, all of which are listed and quoted on the London Stock Exchange and details of which are given on page 54 and pages 59 to 61. In addition, loan facilities are in place which are also shown on page 53.

During the year the US\$165 million 1 year revolving loan with The Royal Bank of Scotland plc ('RBS') was re-financed with a one year revolving loan with RBS and the US\$200 million 2 year loan with National Australia Bank ('NAB') was re-financed with a revolving US\$200 million 2 year loan with NAB.

Subsequent to the year end, on 6 April 2017 the Company issued the following private placement unsecured loan notes:

- £45 million at a coupon of 3.05% maturing on 7 April 2042
- £30 million at a coupon of 3.30% maturing on 6 April 2044
- £30 million at a coupon of 3.12% maturing on 6 April 2047.

A further unsecured loan note was agreed for funding on 30 September 2020 to refinance the £20 million 8–14% stepped interest debenture stock maturing on 30 September 2020:

- £20 million at a coupon of 3.65% maturing on 6 April 2044.

Additionally, the RBS US\$165 million one year revolving loan was refinanced on 11 April 2017 with a US\$40 million one year revolving loan with RBS.

Principal Risks

As explained on page 31 there is a process for identifying, evaluating and managing the risks faced by the Company on a regular basis. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A description of these risks and how they are being managed or mitigated is set out below:

Financial Risk – the Company's assets consist mainly of listed securities and its principal financial risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 19 to the Financial Statements on pages 56 to 61. To mitigate this risk, the Board considers at each meeting various metrics including portfolio concentration, regional and industrial sector weightings, top and bottom stock contributors to performance and contribution to performance by industrial sector. The Managers provide the rationale for stock selection decisions and both the investment strategy and portfolio risk are formally considered in detail annually.

Unlisted Investments – the Company's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

To mitigate this risk, the Board considers the unlisted investments in the context of the overall investment strategy and provides guidance to the Managers on the maximum exposure to unlisted investments. The investment policy limits the amount which may be invested in unlisted companies to 25 per cent of the total assets of the Company, measured at time of purchase.

Investment Strategy Risk – pursuing an investment strategy to fulfil the Company's objective which the market perceives to be unattractive or inappropriate, or an ineffective implementation of an attractive or appropriate strategy, may lead to reduced returns for shareholders and, as a result, a decreased demand for the Company's shares. This may lead to the Company's shares trading at a widening discount to their Net Asset Value. To mitigate this risk,

the Board regularly reviews and monitors the Company's objective and investment policy and strategy, the investment portfolio and its performance, the level of discount/premium to Net Asset Value at which the shares trade and movements in the share register.

Discount Risk – the discount/premium at which the Company's shares trade relative to its Net Asset Value can change. The risk of a widening discount is that it may undermine investor confidence in the Company. To manage this risk, the Board monitors the level of discount/premium at which the shares trade and the Company has authority to buy back its existing shares when deemed by the Board to be in the best interests of the Company and its shareholders.

Regulatory Risk – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment trust companies, the UKLA Listing Rules and the Companies Act could lead to suspension of the Company's Stock Exchange listing, financial penalties, a qualified audit report or the Company being subject to tax on capital gains. To mitigate this risk, Baillie Gifford's Business Risk, Internal Audit and Compliance Departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes. Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised. Shareholder documents and announcements, including the Company's published Interim and Annual Report and Financial Statements, are subject to stringent review processes, and procedures are in place to ensure adherence to the Transparency Directive and the Market Abuse Directive with reference to inside information.

Custody and Depositary Risk – safe custody of the Company's assets may be compromised through control failures by the Depositary, including breaches of cyber security. To mitigate this risk, the Board receives six monthly reports from the Depositary confirming safe custody of the Company's assets held by the Custodian. Cash and portfolio holdings are independently reconciled to the Custodian's records by the Managers. The Custodian's audited internal controls reports are reviewed by Baillie Gifford's Internal Audit Department and a summary of the key points is reported to the Audit Committee and any concerns investigated. In addition, the existence of assets is subject to annual external audit.

Operational Risk – failure of Baillie Gifford's systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. To mitigate this risk, Baillie Gifford has a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Board reviews Baillie Gifford's Report on Internal Controls and the reports by other key third party providers are reviewed by Baillie Gifford on behalf of the Board.

Leverage Risk – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the impact of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings. To mitigate this risk, all borrowings require the prior approval of the Board and leverage levels are discussed by the Board and Managers at every meeting. Covenant levels are monitored regularly. The majority of the Company's investments

are in quoted securities that are readily realisable. Further information on leverage can be found on page 66 and the Glossary of Terms on page 71.

Political Risk – Political developments are closely monitored and considered by the Board. The Board has noted the results of the UK referendum on continuing membership of the European Union and the announcement by the Scottish Government that it will seek to hold a second referendum on Scottish independence. Whilst there is considerable uncertainty at present, the Board will continue to monitor developments as they occur and assess the potential consequences for the Company's future activities.

Viability Statement

In accordance with provision C2.2 of the UK Corporate Governance Code that the Directors assess the prospects of the Company over a defined period, the Directors have elected to do so over a period of 10 years. The Directors continue to believe this period to be appropriate as the investment objective of the Company is aimed at investors with a 5 to 10 year investment horizon and, subject to the assumptions detailed below, the Directors do not expect there to be any significant change to the current principal risks facing Scottish Mortgage nor to the adequacy of the controls in place to effectively mitigate those risks. Furthermore, the Directors do not reasonably envisage any change in strategy or any events which would prevent the Company from operating over a 10 year period.

Assumption 1

There is no significant adverse change to the regulatory environment and tax treatment enjoyed by UK investment trusts.

Assumption 2

The Company does not suffer sustained inadequate relative investment performance with the current or any successor fund managers such that the Company fails to maintain a supportive shareholder base.

Using the long term expectations of shareholders as the main determinant of the chosen assessment period, the Directors have conducted a robust assessment of the principal risks and uncertainties facing the Company (as detailed on pages 8 and 9) and in particular the impact of market risk where a significant fall in global equity markets would adversely impact the value of the investment portfolio. In reviewing the viability of the Company, the Directors have considered the key characteristics of the Company which include an investment portfolio that takes account of different degrees of liquidity, with moderate levels of debt and a business model where substantially all of the essential services required are outsourced to third party providers; this outsourcing structure allows key service providers to be replaced at relatively short notice where necessary.

The Directors have also considered the Company's leverage and liquidity in the context of fixed term debentures, private placement loan notes and short term bank loans, the revenue projections, the readily realisable nature of the portfolio which could be sold to provide funding if necessary and its stable closed end structure. The Directors have concluded that these sustainable long term characteristics provide a high degree of flexibility to the Company and afford an ability to react so as to mitigate both controllable and most external uncontrollable risks and events in order to ensure the long term prosperity of the business.

Based upon the Company's processes for monitoring operating costs, share price premium/discount, the Managers' compliance with the investment objective, the portfolio risk profile, leverage, counterparty exposure, liquidity risk and financial controls, the Board believes that the prospects of the Company are sound and the Directors are able to confirm that they have a reasonable expectation that it will continue in operation and meet its liabilities as they fall due over a period of at least 10 years.

Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no disclosures to be made in respect of employees, human rights and community issues.

Gender Representation

The Board comprises six Directors, four male and two female. The Company has no employees. The Board's policy on diversity is set out on page 31.

Environmental, Social and Governance Policy

Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 32.

The Company considers that it does not fall within the scope of the Modern Slavery Act 2015 and it is not, therefore, obliged to make a slavery and human trafficking statement. In any event, the Company considers its supply chains to be of low risk as its suppliers are typically professional advisers. A statement by the Managers under the Act has been published on the Managers' website at www.bailliegifford.com.

Future Developments of the Company

The outlook for the Company is set out in the Chairman's Statement on pages 2 to 4 and the Managers' Report on pages 11 to 16.

Managers' Review

Our Aims

Every year we describe our investment process and portfolio. But we have rarely addressed our underlying objectives and purpose. This is an attempt to rectify this omission.

It may seem self-evident that our objective is to provide an attractive total return after costs for our investors. But this is far less a strategy than a desirable outcome. We have an investment process (described on page 17). Yet this is more about the method than the objective. Ultimately we endeavour to generate returns for savers and shareholders by helping to build and sustain excellent businesses over long periods. We prefer to focus on this task than on the daily gyrations of markets. We aim to support companies that contribute to productive innovation and that will eventually prove to possess deep competitive moats. Very often this means that the companies we back are addressing hard problems. We welcome this. It is in solving deep challenges that the greatest opportunities and rewards lie. Naturally this requires determination and unusual skills on the part of these companies. But over the course of time – often measured in decades – such unusual enterprises can generate abnormal profits and unusually high shareholder returns. So our objective is to help in the creation and improvement of such useful enterprises.

This may seem an oblique approach to generating shareholder returns. But so be it. Indeed the more that we can contribute to business stewardship, the better returns for shareholders are likely to be and the more we can play a constructive role in the economic system. If, in contrast, we merely see investment management as speculating – or rather guessing – which stock, sector or geography will give the best returns over the next year

then we neither deserve high returns nor are likely to obtain them over anything other than carefully defined short periods. Capital allocation is too serious a matter to be hostage to the bonuses and impatience of fund managers.

Risk

In turn, our purpose translates into a quite different definition of and attitude to risk than that inculcated by modern finance theory. Its precepts have been taken up with alacrity by those who run the great majority of today's investment management companies as businesses in themselves.

We do not accept that risk resides in owning a portfolio that is different from the index or more volatile than the index. Risk is the permanent destruction of capital. The threat of such destruction is less predictable than formulas allow and is frequently unrelated to volatility. It may be that volatility is an essential safety valve. Certainly companies which are run to produce the regular pay-outs that tend to produce low share price volatility frequently endanger their long-term prospects. This means that volatility is not simply a bad synonym for risk but that low volatility frequently translates into high business risk. Or put simply that low volatility is a warning sign.

Yet a still more important issue lurks. We believe that we do nothing more important than taking and embracing risk even when we thereby expose ourselves to the possibility of permanent loss of capital. If we join the multitude and merely place our funds in assets that are already proven and currently solidly profitable, let alone in government bonds with minimal or negative yields, it is hard to see how our shareholders can expect to profit beyond the norm or – at the risk of pomposity – how our economy and



Mike George, Vice President of Alexa, Echo and Appstore. Amazon is developing wider applications for Alexa, its intelligent personal assistant technology. The Alexa Voice Service adds intelligent voice control to any connected product that has a microphone and speaker.

© REUTERS/Rick Wilking.

society will move forward. The current obsession with pursuing safety, matching liabilities and targeting guaranteed returns is a profound systemic ill. It undermines entrepreneurial wealth creation.

Portfolio Concentration

We are often told that Scottish Mortgage is unduly concentrated. We disagree. We think that the shape of the portfolio is a rational response to the potential upside of a limited number of stocks, to an unhealthy preoccupation with individual stock performance and to an excessive preference for diversification in institutional portfolios.

It is the results of the overall portfolio that accrue to the owners. In this viewpoint we follow Jeff Bezos. Our long-standing ownership of Amazon has been good for investors but also comes with investing lessons that we need to assimilate. One of the best and bluntest pieces of advice comes from the 2015 Letter to Shareholders which stressed the virtues of risk-taking:

'Given a ten percent chance of a 100 times payoff, you should take that bet every time. But you're still going to be wrong nine times out of ten.'

Naturally, we try to tilt the odds further in our favour (as with more prowess does Mr Bezos). But the central point remains that we quibble with the conventional wisdom that losing money in individual stocks is our prime foe. Instead we question the prevalence of truncated return assumptions and believe it makes sense to consider diversification at the strategic portfolio level. Losing money – failing as it is conventionally known – in individual stocks is a necessary and important part of educated risk-taking. This allows us to maximise our returns by owning stocks with the possibility of almost unlimited returns.

For sure we have a reasonably concentrated portfolio by most standards. This is driven by two additional but complementary perspectives. The first is that we are acutely aware that there are few if any investors who are solely exposed to Scottish Mortgage's fortunes. We hope that we bring certain attributes to the aggregate investment portfolios of individuals and their intermediaries but few have the concentrated exposure to Scottish Mortgage that the Managers themselves enjoy. What is often seen by commentators as heavy exposure to individual companies through the lens of Scottish Mortgage alone therefore looks more like the bare minimum to allow these same stocks to have an impact on the overall returns experienced by diversified investors. We think over-diversification is a far more prevalent and insidious threat than excessive concentration in today's investment world.

Secondly, we do not believe that there are many stocks that offer the possibility of truly superior long-term returns. Long-term equity performance has a much more skewed distribution than is commonly perceived. It is not normally distributed. Therefore our prime task lies in giving our shareholders the best possible opportunity to capture the extreme winners. For example 33% of the wealth created in the US equity markets between 1926–2015 came from just 30 companies out of a total of 26,000 quoted stocks. This return pattern is true for most successful investors too: however they invest, wherever they invest, whether they embrace it or not, results are highly asymmetric and top-heavy. Moreover we believe that this pattern of returns reflects company characteristics more than random chance (though the latter



Rolls-Royce Trent 900 turbofan engine fitted to the Airbus A380, the world's largest passenger airliner.

© Image courtesy of Rolls-Royce.

should not be dismissed). Currently exponential growth, huge addressable markets, frequently low capital requirements and, as ever, an enduring competitive moat are the decisive ingredients that give the opportunity for dramatic returns. Not many companies possess this combination.

Unquoted Companies

Given the relative paucity of outstanding companies, we have to do our best to widen the funnel of opportunity. We increasingly see unquoted companies as an essential part of this process. To put it bluntly: we fear that equity markets are failing in their primary responsibility of encouraging and enabling future entrepreneurial success. The reasons for this are many, well-known and hard to rank but all sad. What we can observe is that companies are finding it easier to build their businesses, raise capital and invest without excessive fear away from early exposure to capital markets. We are finding that the bulk of our emergent opportunities lie in unquoted companies and expect this to remain so for the foreseeable future.

Whilst the companies themselves enjoy a degree of isolation from the detrimental short term focused pressures of the public markets, as investors holding such assets as part of our portfolio, we are not so immune. We would caution that the accepted conventions for pricing unquoted equities frequently fail to capture underlying potential value creation. They tend to stress potentially misleading comparisons with their public competitors and emphasise the general financial market mood of the moment, over the specifics of corporate progress. Moreover any spot price underplays the uncertainties inherent in such investments. In combination, these characteristics can lead to either undue pessimism or excessive euphoria. We will try to indicate our perceptions of such emotions when they seem extreme. At present we would confine ourselves to saying that we do not regard unquoted valuations as generous in absolute terms or full, relative to quoted companies.

Supporting Companies and Entrepreneurs

But the problematic nature of quoted life requires us to do more than navigate around public markets. Although it is well-beyond our abilities and significance to reform the system, we sincerely believe that we can have an important role in supporting and strengthening the ability of companies in which we invest to withstand the pressures of capital markets. We should be plain that in many cases we are merely willing accomplices of founder owners who need little from us in the way of capital, advice or patience. But at times, particularly critical times, we can be of help. The usually large scale and long-term nature of our holdings matters in this context. These aren't postures. But we don't always succeed.

Sadly the UK offers all too many occasions when constructive activism is required. We have worked closely but quietly with the new management at Rolls-Royce to support their determined efforts at corporate renewal. Progress is encouraging but will require many years. In contrast, we deeply regret that we had to sell our shares in ARM to SoftBank and only wish that ARM's Board, management and shareholders could have summoned the ambition, optimism and patience required to nurture Britain's best – perhaps only – chance of building a global technology giant.

We should be clear that be in the UK or internationally we see corporate stewardship as not just a rightful component of our task but as perhaps the essential reinforcing link in our investment philosophy. If we can prove in harsh times that we support teams trying to build great businesses and battling the forces of quarterly fund manager capitalism then these companies will hopefully be strengthened. They will almost certainly want us as shareholders and in turn help us with their time and insights. In turn other companies, quoted or unquoted, appear to want to talk to us rather more than is the norm. Reputation matters.

James Anderson

Portfolio Update

The Growing Power of the Platforms

In recent times we have observed the increasing power and dominance of a small number of companies from the west coast of the United States and the east coast of China. This success has important implications for the companies involved but also for the multitudes that compete with and rely upon the services they offer. We believe this is a foretaste of what is to come and our holdings in the companies involved continue to represent a significant proportion of our assets.

The importance of scale, mobile distribution and machine learning is increasing. There are five and a half billion people over the age of 14 alive today. There are five billion mobile handsets in circulation. This level of usage has created an addressable market far larger than anything that has gone before. The past few years have been about the build out of the mobile ecosystem but that phase is finishing. There is no longer much discussion of wars between the platforms, the technology is increasingly commoditised and the big winners are clear. The companies are now experimenting with what they can build. As they have refined their data gathering and machine learning capabilities through search, or social curation or cloud hosting or retail, they have been building the capability to redefine most other areas of economic endeavour. In last year's report we questioned whether the major and accelerating improvements in core technologies would lead to progress in healthcare, energy and transportation. A year on, the strongest prospects for delivering such an outcome are with the big network companies themselves rather than established incumbents developing or adopting the relevant skills.

In the automotive industry, the past twelve months have seen Tesla make encouraging progress in its bid to electrify passenger cars, but it is the technologies underlying vehicle autonomy that appear to have made the most dramatic gains. If Tesla, Google and Baidu use their data and machine learning capabilities to push the market into full autonomy, the ramifications for the traditional automotive companies are apparent. However, it is the second order implications that are truly enormous. Whither oil demand? What happens to ownership of the vehicle fleet? How would it be insured? What would happen to congestion? How would this affect the geography of our cities and the value of the real estate? What will happen to the logistics industry? These questions arise from just one application of Artificial Intelligence.



Zalando's compelling online platform has been successful in attracting brands.

© Image courtesy of Zalando.

The big network companies are not restricting the deployment of their technology to the auto industry. Amazon and Netflix will provide 16% of professional US television production budgets this year. The 'Internet' is the third largest source of high budget television content. Online networks are taking over what we have historically conceived of as offline industries and they are providing the associated products in a way that is more personalised and convenient for the consumer. The conception of Amazon as a retailer is increasingly out-dated. Its devices wake us in the morning providing music and sharing news and weather information, its web services underpin many of the online systems we use at work and home, its delivery services provide our general goods and increasingly our groceries and its Kindle devices and streaming services provide our evening entertainment. Its reach is expanding rapidly and there remains a paucity of coherent competitive offerings.



Inditex has used its supply chain expertise to build a strong competitive advantage.

© MIGUEL RIOPA/AFP/Getty Images.

Beyond the big networks and aspirants to similarly widespread dominance (Tesla or Illumina), it is those businesses that have understood the implications of the new order and refined their offer accordingly that seem most likely to thrive. Rather than competing directly for incremental e-commerce transactions or online advertisements, they offer customers and suppliers something different. Online retailer, Zalando offers brands the opportunity to tell their story in a way that isn't possible on other platforms. Inditex is using its supply chain expertise and store network to provide a degree of convenience and differentiation that is hard for others to replicate. Similarly Ctrip in travel and Spotify in music streaming. We think acknowledgement and adaptation is a far more promising path to value creation than incumbents labouring to minimise the impact of the changing competitive landscape.



Since October 2016, all cars manufactured by Tesla have been equipped with the hardware to support full autonomous driving capability.

© Tesla.

As the network companies have become a larger part of the portfolio, we have continued to revisit their investment cases and ask whether future potential has been more fully reflected in share prices. Thus far, we have been able to answer this question with an emphatic 'no'. Our top ten holdings are largely unchanged but we are cognisant that corporate success will bring its own challenges. There have not been many instances where investors have made significant returns in companies with the market capitalisations that this group has now achieved. If we are to make money from here it will be on the basis of redefining what it means to be a 'large' company. Given their scale and influence, it is important that these companies are good corporate citizens. The technologies they are deploying may lead to significant dislocation in the labour market over the coming years and they must avoid being seen as the villains in a period of turbulence and change.

Particularly in China

Whilst the position of the American platform companies looks entrenched, the Chinese companies have a more fundamental role in the development of their domestic economy. Alibaba is the consumer economy in China and its fortunes are a proxy for the health of small and mid sized business. Singles Day is China's equivalent of Cyber Monday, the biggest online shopping event of the year. On that day in 2016, Alibaba took over \$18bn of orders through its website. On Cyber Monday 2016, all US websites combined took a total of \$3bn of orders. China rules the e-commerce world by a wide margin.

But there is something else going on here. Alibaba is one of the largest online media platforms in China. It owns Weibo, one of the largest social networking sites. It owns Youku Tudou which is one of the largest online video sites. It delivers 'top of the funnel' advertising and promotion. It can analyse consumer behaviour to predict demand.

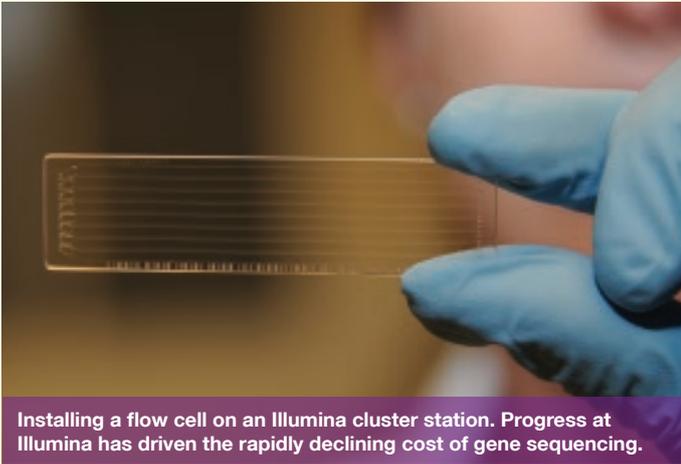
It is also expanding rapidly beyond traditional e-commerce. Its finance platform has 450 million customers and processes 300 million daily transactions. It is using its reputation and reach to grow the business in areas such as wealth management and insurance. This is a real example of where a 'fintech' company might plausibly bypass an existing financial system by improving both the customer experience and the product.

Combining social, advertising, transaction, payment, delivery and banking data, Alibaba has a data set which is the envy of the online world. This allows it to study and train its machine learning algorithms on consumer behaviour right through from demand generation to completed transactions based on real identity. It operates in a regulatory regime which allows it to use this data to great effect. Credit scoring and therefore bank lending look to be far more accurate than can be achieved in the West.

Progress in Healthcare

Over the next decade, healthcare may turn out to be the most important example of the online platforms' participation in the broader economy. A local example of this comes from the NHS's partnership with Google's parent, Alphabet. This venture is applying machine learning to data from a million patients' eye scans with the aim of achieving earlier detection and treatment of common eye diseases.

Over the past ten years we have witnessed remarkable progress in the field of immuno-oncology (therapies that harness the body's immune system to fight cancer). New drugs have been developed, for example in the treatment of melanoma, which currently appear to be a functional cure for some of the patients that take them. That such treatments work for some patients and not others is driving a move away from a single 'standard of care' to a more tailored treatment approach based on an individual's genetic profile. This has been facilitated by the rapidly declining cost of gene sequencing, driven by the progress at Illumina.



Installing a flow cell on an Illumina cluster station. Progress at Illumina has driven the rapidly declining cost of gene sequencing.

Illumina's subsidiary, Grail, recently raised close to a billion dollars in a private round in which Scottish Mortgage participated. Grail is aiming to build a screening test for early stage cancer in asymptomatic individuals. To do this it will need to sequence the DNA of hundreds of thousands of people and learn from that information. This can only be done with access to data storage capability on a scale that few companies globally can provide. Human analysts cannot extract useful information from such datasets; advanced machine learning expertise is required. In this context, it is perhaps unsurprising that the CEO of Grail was formerly an engineer at Google. Nor was it a surprise to see that our co-investors included the likes of Amazon and Tencent.

Grail epitomises some of the themes mentioned earlier with regard to unlisted companies; it is building its business, accessing a large pool of capital and investing against a long-term opportunity away from the gaze of public market investors. Having its management and finances scrutinised every quarter by those trying to predict short-term share price movements would likely be a serious distraction and an impediment to underlying progress. Access to a large pool of patient long-term capital ought to provide the company with a competitive advantage.

Over the past few years we have allocated more of the Trust's assets to therapeutic healthcare companies. We continued this year. New holdings included Unity Biotechnology (diseases of ageing), Intarcia Therapeutics (diabetes) and Denali Therapeutics (neurodegeneration). We do not expect these companies to operate the capital light business models we've seen amongst the large online networks. Instead, they are attempting the difficult and expensive task of researching novel therapies for big disease categories. The traditional funding model for such companies is to offer only as much capital as is required to meet the next development milestone for a new drug. Whilst this approach encourages a disciplined and frugal approach to business development it has the significant drawback of orienting a company towards prioritising short-term landmarks ahead of long-term development. We are interested to find out whether more substantive funding for these companies at an earlier stage of their existence will extend time horizons and increase the chances of success.

Concluding Comments

The drive and vision of the founder-owners running many of our top holdings continually challenge us to reassess the scope of what they can achieve. As these network companies have grown large we have not become less demanding in our return expectations for them. We believe that they will have big new opportunities over the next decade. The enduring competitive moats that they have created seem to us to be under-appreciated in stock market and valuation terms.

The entrepreneurs running newer businesses in healthcare and beyond must navigate this competitive landscape. It is exciting that we continue to find new holdings with leaders that are prepared to invest and take on the challenges this presents.

The vagaries of stock markets will drive our returns over shorter time periods but it will be the success (or otherwise) of these individuals and the companies they are creating that determines the longer run outcome. For us, this is a source of great optimism.

Tom Slater

The Managers' Core Investment Beliefs

Whilst fund managers claim to spend much of their careers assessing the competitive advantage of companies they are notoriously reluctant to perform any such analysis on themselves. The tendency is to cite recent performance as evidence of skill despite the luck, randomness and mean-reverting characteristics of most such data. If this does not suffice then attention turns to a discussion of the high educational qualifications, hard work and exotic remuneration packages that the fund manager enjoys. Sometimes the procedural details of the investment process are outlined with heavy emphasis on risk controls. Little attention is given to either the distinctiveness of the approach or the strategic advantages the manager might enjoy in order to make imitation improbable. We think we should try to do better than this.

- We are long term in our investment decisions. It is only over periods of at least five years that the competitive advantages and managerial excellence of companies become apparent. It is these characteristics that we want to identify and support. We own companies rather than rent shares. We do not regard ourselves as experts in forecasting the oscillations of economies or the mood swings of markets. Indeed we think that it is hard to excel in such areas as this is where so many market participants focus and where so little of the value of companies lies. Equally Baillie Gifford is more likely to possess competitive advantages for the good of shareholders when it adopts a long term perspective. We are a 100 year old Scottish partnership. We think about our own business over decades not quarters. Such stability may not be exciting but it does encourage patience in this most impatient of industries. We only judge our investment performance over five year plus time horizons. In truth it takes at least a decade to provide adequate evidence of investment skill.
- The investment management industry is ill-equipped to deal with the behavioural and emotional challenges inherent in today's capital markets. Our time frame and ownership structure help us to fight these dangers. We are besieged by news, data and opinion. The bulk of this information is of little significance but it implores you to rapid and usually futile action. This can be particularly damaging at times of stress. Academic research argues that most individuals dislike financial losses twice as much as they take pleasure in gains. We fear that for fund managers this relationship is close to tenfold. Internal and external pressures make the avoidance of loss dominant. This is damaging in a portfolio context. We need to be willing to accept loss if there is an equal or greater chance of (almost) unlimited gain.
- We are very dubious about the value of routine information. We have little confidence in quarterly earnings and none in the views of investment banks. We try to screen out rather than incorporate their noise. In contrast we think that the world offers joyous opportunities to hear views, perspectives and



visions that are barely noticed by the markets. There is more in the investment world than the *Financial Times* or *Wall Street Journal* describe.

- We are global in stock selection, asset allocation and attribution. We are active not passive – or far worse – index plus in stock selection. Holding sizes reflect the potential upside and its probability (or otherwise) rather than the combination of the market capitalisation and geographical location of the company and its headquarters. We do not have sufficient confidence in our top-down asset allocation skills to wish to override stock selection. We do not have enough confidence in our market timing abilities to wish to add or remove gearing at frequent intervals. We do, however, have strong conviction that our portfolio should be comparatively concentrated, and that it is of little use to shareholders to tinker around the edges of indices. We think this produces better investment results and it certainly makes us more committed shareholders in companies. We suspect that selecting stocks on the basis of the past (their current market capitalisation) is a policy designed to protect the security of tenure of asset managers rather than to build the wealth of shareholders. Companies that are large and established tend to be internally complacent and inflexible. They are often vulnerable to assault by more ambitious and vibrant newcomers.
- We are Growth stock investors. Such has been the preference for Value and the search to arbitrage away minor rating differentials that investors find it very hard to acknowledge the extraordinary growth rates and returns that can be found today. The growth that we are particularly interested in is of an explosive nature and often requires minimal fixed assets or indeed capital. We think of it as 'Growth at Unreasonable Prices' rather than the traditional discipline of 'Growth at a Reasonable Price'. We need to be willing to pay high multiples of immediate earnings because the scale of future potential and returns can be so dramatic. On the stocks that flourish the valuation will have turned out to be derisively low. On the others we will lose money.
- We believe that it is our first duty to shareholders to limit fees. Both the investment management fee (0.30%, and with effect from 1 April 2017, 0.30% on the first £4 billion of assets, and 0.25% thereafter – please see page 27) and ongoing charges ratio (0.44% as at 31 March 2017) are low by comparative standards but at least adequate in absolute terms. We think that the malign impact of high fees is frequently underestimated. The difference between an ongoing charges ratio of 0.44% and one of 1.5% may not appear great but if the perspective is altered to think of costs as a percentage of expected annual returns then the contrast becomes obvious. If annual returns average 10% then this is the difference between removing approximately 5% or 15% of your returns each year. Nor do we believe in a performance fee. Usually it undermines investment performance. It increases pressure and narrows perspective.

Thirty Largest Holdings and Twelve Month Performance at 31 March 2017

Name	Business	Fair value 31 March 2017 £'000	% of total assets	Absolute performance † %	Contribution to absolute performance # %	Fair value 31 March 2016 £'000
Amazon.com	Online retailing and cloud computing	510,086	9.5	71.7	7.6	330,117
Tesla Inc	Electric cars, autonomous driving and solar energy	366,984	6.8	40.0	2.5	185,552
Illumina	Biotechnology equipment	318,103	5.9	21.0	1.9	291,722
Tencent Holdings	Internet services	308,730	5.7	61.8	3.6	190,964
Inditex	Global clothing retailer	297,098	5.5	22.8	1.7	231,567
Alibaba Group	Online retail	273,626	5.1	56.8	2.7	164,129
Facebook	Social networking site	257,167	4.8	43.1	2.3	179,697
Baidu	Online search engine	237,505	4.4	3.9	0.1	228,621
Alphabet	Holding company for Google and associated ventures	199,136	3.7	28.0	1.3	155,518
Ferrari	Luxury automobiles	148,851	2.8	109.4	1.9	27,788
Ctrip.com	Travel agent	131,093	2.4	28.0	0.5	35,752
BASF	Chemicals	118,852	2.2	56.6	1.3	78,624
ASML	Lithography	110,439	2.1	52.1	0.7	42,067
Zalando	International online clothing retailer	108,578	2.0	41.8	0.8	68,231
Atlas Copco	Engineering	107,723	2.0	65.8	1.4	87,657
Kering	Luxury goods producer and retailer	104,970	1.9	70.4	1.2	86,183
Netflix	Subscription service for TV shows and movies	98,605	1.8	66.2	1.0	36,264
Kinnevik	Investment company	90,981	1.7	21.8	0.4	68,867
Housing Development Finance Corporation	Indian mortgage provider	78,537	1.5	61.5	0.8	42,009
Intuitive Surgical	Surgical robots	75,393	1.4	45.8	0.7	67,644
Bluebird Bio Inc	Provider of biotechnological products and services	68,486	1.3	141.3	1.0	22,032
Rolls-Royce Group	Aerospace equipment	63,002	1.2	12.4	0.2	56,982
Workday	Enterprise information technology	60,431	1.1	24.6	0.2	26,714
Grail Inc Series B Pref.®	Clinical stage biotechnology company	59,978	1.1	(0.5)*	–*	–
Nvidia	Visual computing	51,904	1.0	105.1*	0.4*	–
Prudential	International insurance	51,845	1.0	33.1	0.5	76,256
Svenska Handelsbanken	Banking	48,280	0.9	23.9*	0.2*	–
Novozymes	Enzyme manufacturer	47,104	0.9	2.7	0.2	54,045
Renishaw	Electronic equipment	45,076	0.8	72.7	0.6	26,571
You & Mr Jones Class A Units®	Digital advertising	45,064	0.8	29.5	0.3	34,787
		4,483,627	83.3			

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2016 to 31 March 2017.

Contribution to absolute performance (in sterling terms) has been calculated to illustrate how an individual stock has contributed to the overall return. It is influenced by both share price performance and the weighting of the stock in the portfolio, taking account of any purchases or sales over the period.

* Figures relate to part-period returns where the equity has been purchased during the period.

® Denotes unlisted investment.

Source: Baillie Gifford/StatPro. See disclaimer on page 70.

Past performance is not a guide to future performance.

Investment Changes

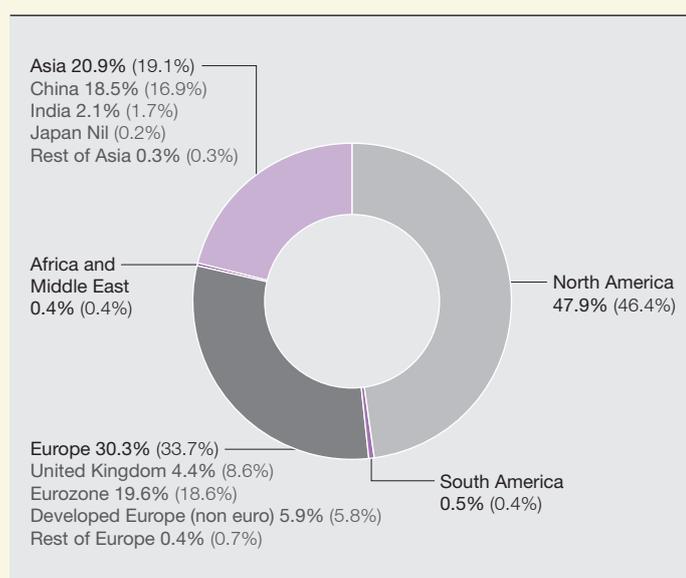
	Valuation at 31 March 2016 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2017 £'000
Equities*				
North America	1,816,565	31,391	663,730	2,511,686
Europe				
United Kingdom	314,002	(174,023)	78,583	218,562
Eurozone	745,467	73,233	236,308	1,055,008
Developed Europe (non euro)	227,963	18,855	69,698	316,516
Rest of Europe	27,085	(5,071)	2,040	24,054
Africa and the Middle East	17,394	–	2,071	19,465
Asia				
China	666,803	78,959	251,425	997,187
India	68,845	9,874	32,205	110,924
Japan	7,826	(11,249)	3,423	–
Rest of Asia	12,933	–	4,726	17,659
Total equities	3,904,883	21,969	1,344,209	5,271,061
Brazilian bonds	17,241	–	10,036	27,277
Total bonds	17,241	–	10,036	27,277
Total investments	3,922,124	21,969	1,354,245	5,298,338
Net liquid assets	33,274	44,618	6,927	84,819
Total assets	3,955,398	66,587	1,361,172	5,383,157

The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings.

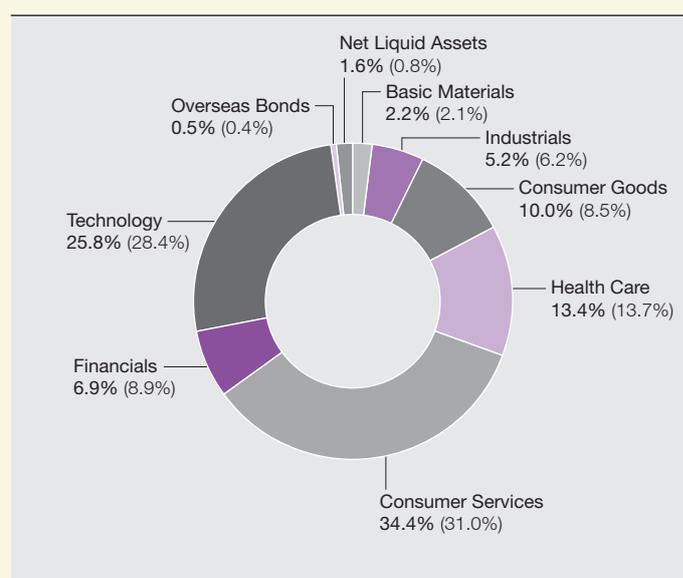
* Equities include OEICs.

Distribution of Total Assets†

Geographical 2017 (2016)



Sectoral 2017 (2016)



† Total assets represents total net assets before deduction of debentures, long and short term borrowings.

Classification of Investments

Classification	North America %	South America %	Europe %	Africa and Middle East %	Asia %	2017 Total %	2016 Total %
Equities*							
Basic Materials	–	–	2.2	–	–	2.2	2.1
Chemicals	–	–	2.2	–	–	2.2	2.0
Mining	–	–	–	–	–	–	0.1
Industrials	0.7	–	4.5	–	–	5.2	6.2
Aerospace and defence	–	–	1.2	–	–	1.2	1.4
Electronic and electrical equipment	–	–	–	–	–	–	0.1
Industrial engineering	–	–	2.8	–	–	2.8	2.9
Support services	0.7	–	0.5	–	–	1.2	1.8
Consumer Goods	6.9	–	2.8	–	0.3	10.0	8.5
Automobiles and parts	6.8	–	2.8	–	0.3	9.9	7.1
Household goods and home construction	–	–	–	–	–	–	1.0
Personal goods	0.1	–	–	–	–	0.1	0.4
Health Care	11.8	–	1.6	–	–	13.4	13.7
Pharmaceuticals and biotechnology	10.0	–	1.6	–	–	11.6	11.6
Health care equipment and services	1.8	–	–	–	–	1.8	2.1
Consumer Services	13.3	–	12.2	0.4	8.5	34.4	31.0
Food and drug retailers	–	–	0.7	–	–	0.7	1.3
General retailers	12.1	–	11.5	0.4	6.1	30.1	27.3
Media	0.8	–	–	–	–	0.8	0.9
Travel and leisure	0.4	–	–	–	2.4	2.8	1.5
Financials	0.3	–	4.6	–	2.0	6.9	8.9
Banks	–	–	0.9	–	–	0.9	0.8
Financial services	0.3	–	3.7	–	2.0	6.0	7.6
Open ended investment companies	–	–	–	–	–	–	0.5
Technology	13.6	–	2.1	–	10.1	25.8	28.4
Software and computer services	12.6	–	–	–	10.1	22.7	25.5
Technology hardware and equipment	1.0	–	2.1	–	–	3.1	2.9
Total Equities*	46.6	–	30.0	0.4	20.9	97.9	
Total Equities* – 2016	46.0	–	33.3	0.4	19.1		98.8
Bonds	–	0.5	–	–	–	0.5	0.4
Net Liquid Assets	1.3	–	0.3	–	–	1.6	0.8
Total Assets (before deduction of debentures, long and short term borrowings)	47.9	0.5	30.3	0.4	20.9	100.0	
Total Assets – 2016	46.3	0.4	33.8	0.4	19.1		100.0
Debentures, Long and Short Term Borrowings	(6.7)	–	(2.8)	–	–	(9.5)	(12.6)
Shareholders' Funds	41.2	0.5	27.5	0.4	20.9	90.5	
Shareholders' Funds – 2016	36.1	0.4	31.4	0.4	19.1		87.4
Number of equity investments*	37	–	29	1	10	77	82

* Including OEICs.

	Listed equities %	Unlisted equities %	Bonds %	Net liquid assets %	Total %
31 March 2017	84.9	13.0	0.5	1.6	100.0
31 March 2016	87.0	11.8	0.4	0.8	100.0

List of Investments as at 31 March 2017

Name	Business	Fair value 31 March 2017 £'000	% of total assets	Contribution to absolute performance* %	Notes †	Fair value 31 March 2016 £'000
Amazon.com	Online retailing and cloud computing	510,086	9.5	7.6		330,117
Tesla Inc	Electric cars, autonomous driving and solar energy	366,984	6.8	2.5	Significant addition	185,552
Illumina	Biotechnology equipment	318,103	5.9	1.9		291,722
Tencent Holdings	Internet services	308,730	5.7	3.6		190,964
Inditex	Global clothing retailer	297,098	5.5	1.7		231,567
Alibaba Group	Online retail	273,626	5.1	2.7		164,129
Facebook	Social networking site	257,167	4.8	2.3		179,697
Baidu	Online search engine	237,505	4.4	0.1		228,621
Alphabet	Holding company for Google and associated ventures	199,136	3.7	1.3		155,518
Ferrari	Luxury automobiles	148,851	2.8	1.9	Significant addition	27,788
Ctrip.com	Travel agent	131,093	2.4	0.5	Significant addition	35,752
BASF	Chemicals	118,852	2.2	1.3		78,624
ASML	Lithography	110,439	2.1	0.7	Significant addition	42,067
Zalando	International online clothing retailer	108,578	2.0	0.8		68,231
Atlas Copco	Engineering	107,723	2.0	1.4	Significant reduction	87,657
Kering	Luxury goods producer and retailer	104,970	1.9	1.2	Significant reduction	86,183
Netflix	Subscription service for TV shows and movies	98,605	1.8	1.0	Significant addition	36,264
Kinnevik	Investment company	90,981	1.7	0.4	Significant addition	68,867
Housing Development Finance Corporation	Indian mortgage provider	78,537	1.5	0.8		42,009
Intuitive Surgical	Surgical robots	75,393	1.4	0.7	Significant reduction	67,644
Bluebird Bio Inc	Provider of biotechnological products and services	68,486	1.3	1.0	Significant addition	22,032
Rolls-Royce Group	Aerospace equipment	63,002	1.2	0.2		56,982
Workday	Enterprise information technology	60,431	1.1	0.2	Significant addition	26,714
Grail Inc Series B Pref.Ⓢ	Clinical stage biotechnology company	59,978	1.1	–	New purchase	–
Nvidia	Visual computing	51,904	1.0	0.4	New purchase	–
Prudential	International insurance	51,845	1.0	0.5	Significant reduction	76,256
Svenska Handelsbanken	Banking	48,280	0.9	0.2	New purchase	–
Novozymes	Enzyme manufacturer	47,104	0.9	0.2		54,045
Renishaw	Electronic equipment	45,076	0.8	0.6		26,571
You & Mr Jones Class A UnitsⓈ	Digital advertising	45,064	0.8	0.3	Increase in fair valuation	34,787
Hellofresh AG Series C3 Pref.Ⓢ	Grocery retailer	19,047	0.4	–	Decrease in fair valuation	19,821
Hellofresh AG Series C4 Pref.Ⓢ	Grocery retailer	8,218	0.2	–	Participated in additional funding round	–
Hellofresh AG Series D1 Pref.Ⓢ	Grocery retailer	12,830	0.2	–	Participated in additional funding round	–
		40,095	0.8	–		19,821
Thumbtack Inc Series G Pref.Ⓢ	Online directory service for local businesses	39,610	0.7	0.2		34,787
Rocket Internet	Internet startup factory	38,422	0.7	(0.5)	Significant addition	44,793

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2016 to 31 March 2017.

† Significant additions and reductions to investments have been noted where the change is at least a 20% movement from the value of the holding at 31 March 2016. The change in value over the year also reflects the share price performance and the movement in exchange rates.

Ⓢ Denotes unlisted security.

Past performance is not a guide to future performance.

Name	Business	Fair value 31 March 2017 £'000	% of total assets	Contribution to absolute performance* %	Notes †	Fair value 31 March 2016 £'000
Palantir Technologies Inc Series J Pref.Ⓞ	Data integration software and service provider	38,142	0.7	–	Decrease in fair valuation	41,479
Flipkart Series G Pref.Ⓞ	Indian e-commerce	32,387	0.4	0.1	Increase in fair valuation	26,836
Home24 AG Series D Pref.Ⓞ	Online furniture retailer	19,869	0.4	–	Decrease in fair valuation	26,164
Home24 AG Series E Pref.Ⓞ	Online furniture retailer	8,554	0.2	–	Participated in additional funding round	–
		28,423	0.6	–		26,164
Brazil CPI Linked 2045	Brazilian government inflation linked bond	27,277	0.5	0.4		17,241
Salesforce	Cloud computing and hosting	25,166	0.5	0.2	Significant reduction	26,352
Innovation Works Development FundⓄ	Investment company – China	24,292	0.5	0.2	Increase in fair valuation	18,282
Magnit OJSC	Retailer	24,054	0.4	0.1		21,815
Funding Circle Ltd Series E Pref.Ⓞ	Facilitates loans to small and medium enterprises	15,790	0.3	0.1	Increase in fair valuation	11,053
Funding Circle Ltd Series F Pref.Ⓞ	Facilitates loans to small and medium enterprises	8,219	0.2	–	Participated in additional funding round	–
		24,009	0.5	0.1		11,053
Dropbox Inc Series B CommonⓄ	Online storage	23,731	0.4	(0.4)	Significant addition and decrease in fair valuation	28,889
Tableau Software	Analytics software	23,117	0.4	(0.1)	New purchase	–
Airbnb Inc Series E Pref.Ⓞ	Online market place for travel accommodation	22,550	0.4	0.2	Increase in fair valuation	17,394
Spotify Technology SAⓄ	Online music streaming service	22,428	0.4	0.1	Increase in fair valuation	17,394
Essence Healthcare Series 3 Pref.Ⓞ	Cloud-based health provider	22,126	0.4	0.2	Increase in fair valuation	16,609
Auto1 Group GmbH Series EⓄ	Online retailer of used cars	21,384	0.4	–	New purchase	–
Curevac AG Series BⓄ	Biotechnology	21,383	0.4	0.1		19,820
Denali Therapeutics Inc Series B-1 Pref.Ⓞ	Biotechnology	20,093	0.4	0.1	New purchase	–
Unity Biotechnology Inc Series B Pref.Ⓞ	Clinical stage biotechnology company	19,993	0.4	–	New purchase	–
Intarcia Therapeutics Inc Series EE Pref.Ⓞ	Biotechnology	19,993	0.4	–	New purchase	–
Internet Plus Holdings Ltd Series B Pref.Ⓞ	Local services aggregator	19,993	0.4	0.1		17,394
Souq Group Ltd Class A Pref.Ⓞ	Owner and operator of online retail e-commerce website	19,465	0.4	0.1	Decrease in fair valuation	17,394
Zocdoc Inc Series D-2 Pref.Ⓞ	Online platform for searching for doctors and booking appointments	18,752	0.4	–	Decrease in fair valuation	20,875
JAND Inc (Warby Parker) Series A CommonⓄ	Online and physical glasses retailer	5,686	0.1	–		4,848
JAND Inc (Warby Parker) Series D Pref.Ⓞ	Online and physical glasses retailer	12,780	0.2	–		12,552
		18,466	0.3	0.1	Decrease in fair valuation	17,400
Astra International	Automotive conglomerate	17,658	0.3	0.1		12,933
Jeronimo Martins	Retailer	16,511	0.3	0.1		13,132

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2016 to 31 March 2017.

† Significant additions and reductions to investments have been noted where the change is at least a 20% movement from the value of the holding at 31 March 2016. The change in value over the year also reflects the share price performance and the movement in exchange rates.

Ⓞ Denotes unlisted security.

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Name	Business	Fair value 31 March 2017 £'000	% of total assets	Contribution to absolute performance* %	Notes †	Fair value 31 March 2016 £'000
Orchard Therapeutics [Ⓞ]	Gene therapy for rare diseases	16,076	0.3	–	New purchase	–
Juno Therapeutics	Clinical stage biotechnology company	15,893	0.3	(0.2)		23,739
Anylam Pharmaceuticals	Biotechnology	13,400	0.3	–		14,272
Transferwise Ltd Series D Pref. [Ⓞ]	Online money transfer	13,091	0.2	–	Decrease in fair valuation	13,915
Anaplan Inc [Ⓞ]	Enterprise planning software	11,996	0.2	0.1		10,436
Udacity [Ⓞ]	Online education	11,996	0.2	–		10,436
Gingko Bioworks [Ⓞ]	Bio-engineering company	10,191	0.2	0.1	New purchase	–
SurveyMonkey [Ⓞ]	Online surveys	9,723	0.2	(0.1)	Decrease in fair valuation	12,318
Flatiron Health [Ⓞ]	Software and data aggregation for oncology	9,359	0.2	0.1	Increase in fair valuation Cash distribution received	6,957
WI Harper Fund VII [Ⓞ]	Venture capital	9,067	0.2	(0.1)		12,050
Under Armour	Develops, markets and distributes branded performance products	7,378	0.1	(0.2)	New purchase	–
Level E Maya Fund	Artificial intelligence based algorithmic trading	5,463	0.1	–		4,973
Castlight Health Inc	Healthcare information company	5,167	0.1	0.1		4,158
WI Harper Fund VIII [Ⓞ]	Venture capital	3,737	0.1	–	Additional investment	2,408
Sinovation Fund III [Ⓞ]	Venture capital	1,949	<0.1	–	Additional investment	947
ARCH Ventures Fund IX [Ⓞ]	Venture capital fund investing in biotechnology start-ups	705	<0.1	–	New purchase	–
Total Investments		5,298,338	98.4			
Net liquid assets		84,819	1.6			
Total Assets		5,383,157	100.0			

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2016 to 31 March 2017.

† Significant additions and reductions to investments have been noted where the change is at least a 20% movement from the value of the holding at 31 March 2016. The change in value over the year also reflects the share price performance and the movement in exchange rates.

[Ⓞ] Denotes unlisted security.

Source: Baillie Gifford/StatPro.

The following investments were sold out during the period: Advantest, Apple, ARM Holdings, Baillie Gifford Global Discovery Fund, Banco Santander, Burberry Group, Fiat Chrysler Automobiles, Genomic Health, JD.com, KGHM, Lending Club, LinkedIn, Myriad Genetics, Reckitt Benckiser, Skyscanner, Solarcity, Splunk, Stratasys, Twitter and Whole Foods Market.

The Strategic Report which includes pages 2 to 24 was approved by the Board of Directors and signed on its behalf on 12 May 2017.

John Scott
Chairman

Ten Year Record

Capital

At 31 March	Total assets £'000	Debenture stocks, long and short term borrowings £'000	Shareholders' funds £'000	Shareholders' funds per share p	Net asset value per share * (fair) p	Net asset value per share * (par) p	Share price p	Premium/ (discount) † (fair) %	Premium/ (discount) † (par) %
2007	2,045,515	275,650	1,769,865	125.8	121.4	126.2	108.4	(10.7)	(14.1)
2008	2,276,071	439,627	1,836,444	134.1	130.3	134.5	120.0	(7.9)	(10.8)
2009	1,398,270	317,933	1,080,337	79.4	76.8	79.9	70.6	(8.0)	(11.6)
2010	2,154,585	314,677	1,839,908	141.8	138.6	142.2	121.8	(12.1)	(14.4)
2011	2,502,278	369,984	2,132,294	166.2	163.3	166.7	148.4	(9.1)	(11.0)
2012	2,378,319	365,996	2,012,323	158.7	153.7	159.1	141.6	(7.9)	(11.0)
2013	2,593,446	375,078	2,218,368	176.7	171.5	177.1	164.5	(4.1)	(7.1)
2014	2,986,580	388,867	2,597,713	211.8	208.0	212.2	208.8	0.4	(1.6)
2015	3,820,439	487,221	3,333,218	267.6	262.4	268.0	267.2	1.8	(0.3)
2016	3,955,398	497,954	3,457,444	263.4	259.2	263.8	262.5	1.3	(0.5)
2017	5,383,157	509,566	4,873,591	358.7	354.6	359.0	366.1	3.2	2.0

* Net asset value per ordinary share has been calculated after deducting long term borrowings at either par value or fair value (see note 19, page 56 and Glossary of Terms on page 71).

† Premium/(discount) is the difference between Scottish Mortgage's quoted share price and its underlying net asset value with borrowings at either par value or fair value. See Glossary of Terms on page 71.

Source: Thomson Reuters Datastream/Baillie Gifford. See disclaimer on page 70.

Revenue

Year to 31 March	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share # p	Dividend paid and proposed per ordinary share (net) p	Ongoing charges ratio ‡ %	Gearing ¶ %	Potential gearing § %
2007	45,522	27,817	1.96	1.90	0.49	14	16
2008	49,575	27,043	1.96	2.06	0.51	23	24
2009	57,470	34,571	2.53 ^	2.46 ^	0.54	26	29
2010	49,174	30,200	2.24	2.26	0.52	16	17
2011	53,703	34,374	2.66	2.40	0.51	17	17
2012	52,689	33,473	2.61	2.60	0.51	17	18
2013	58,950	39,510	3.12	2.80	0.51	16	17
2014	50,385	30,209	2.43	2.90	0.50	15	15
2015	38,964	27,540	2.24	2.93	0.48	12	15
2016	32,910	21,428	1.66	2.96	0.45	13	14
2017	27,796	14,136	1.07	3.00	0.44	9	10

The calculation of earnings per ordinary share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue (excluding treasury shares) (see note 7, page 50).

‡ Calculated as total operating costs divided by average net asset value (with debt at fair value) in accordance with AIC guidelines. See Glossary of Terms on page 71.

¶ Total assets (including all debt used for investment purposes) less all cash and cash equivalents divided by shareholders' funds. See Glossary of Terms on page 71.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds. See Glossary of Terms on page 71.

^ Includes a non-recurring 0.3p per share from the reimbursement of previous years' VAT and associated interest thereon.

Source: Baillie Gifford.

Cumulative Performance (taking 2007 as 100)

At 31 March	Net asset value per share (fair)	Net asset value total return (fair)	Benchmark †† Benchmark ††	Benchmark †† total return	Share price	Share price total return	Revenue earnings per ordinary share	Dividend paid and proposed per ordinary share (net)	Retail price index
2007	100	100	100	100	100	100	100	100	100
2008	107	109	96	99	111	113	100	108	104
2009	63	65	74	78	65	68	129	129	103
2010	114	122	107	116	112	120	114	119	108
2011	134	146	114	126	137	149	136	126	114
2012	127	139	110	126	131	145	133	137	118
2013	141	159	126	148	152	172	159	147	122
2014	171	195	131	158	193	222	124	153	125
2015	216	250	152	188	246	287	114	154	126
2016	213	250	147	187	242	285	85	156	128
2017	292	347	191	249	338	402	55	158	132

Compound annual returns

5 year	18.2%	20.0%	11.7%	14.6%	20.9%	22.6%	(16.4%)	2.9%	2.3%
10 year	11.3%	13.3%	6.7%	9.6%	12.9%	14.9%	(5.9%)	4.7%	2.8%

†† Benchmark: 100% FTSE All-World Index (in sterling terms).

All per share figures have been restated for the five for one share split on 30 June 2014. See disclaimer on page 70.

Source: Thomson Reuters Datastream/Baillie Gifford. See disclaimer on page 70.

Past performance is not a guide to future performance.

Directors and Management

Members of the Board come from a broad variety of backgrounds. The Board can draw on a very extensive pool of knowledge and experience.

Directors



JPHS Scott

John Scott, the Chairman, is a former international investment banker. John was appointed a Director in 2001 and became Chairman on 31 December 2009. He is also Chairman of the Nomination Committee. He is a former executive director of Lazard Brothers & Co., Limited. During his twenty years with Lazard, he was involved with the merchant bank's corporate advisory activities and its Asian businesses. He is currently Chairman of Impax Environmental Markets plc and Alpha Insurance Analysts Limited, as well as being a director of various companies including Bluefield Solar Income Fund Limited and CC Japan Income & Growth Trust plc.



Professor JA Kay

John Kay has a distinguished record as an economist, academic, author and commentator on business, government and economic issues. John was appointed a Director in 2008. He is a fellow of St John's College, University of Oxford and Investment Officer of the College and he is a director of Value and Income Trust PLC.



LJ Dowley

Justin Dowley is a former international investment banker and was appointed a Director in September 2015. He qualified as a chartered accountant at Price Waterhouse in 1980. Subsequently he was a director of Morgan Grenfell & Co. Limited, Head of Investment Banking at Merrill Lynch Europe and a founder partner of Tricorn Partners LLP. Formerly the Chairman of Intermediate Capital Group plc he is currently a non-executive director of Melrose Industries plc, Novae Group plc and a number of private companies.



Professor PH Maxwell

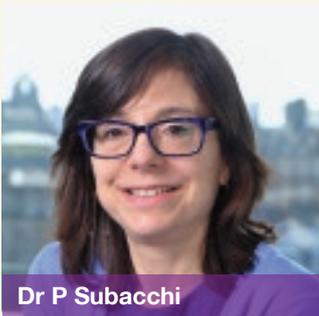
Patrick Maxwell is the Regius Professor of Physic and Head of the School of Clinical Medicine at Cambridge University. He was appointed a Director on 1 April 2016. Patrick has extensive knowledge and experience of the biotechnology sector and holds a Wellcome Trust senior investigator award for his research on oxygen sensing. He was elected a Fellow of the Academy of Medical Sciences in 2005. He is currently a director of the Global Medical Excellence Cluster (GMEC) and a member of the boards of MedCity, Cambridge University Health Partners (CUHP) and Cambridge University Hospitals NHS Foundation Trust.

Directors



FC McBain

Fiona McBain is the former chief executive of Scottish Friendly Assurance, a mutually owned financial services group with over 1,000,000 policyholders. Fiona was appointed a Director in 2009. Before joining Scottish Friendly in 1998, Fiona, a chartered accountant, was employed by Prudential plc and Arthur Young (now Ernst & Young) where she spent some time working across a number of industry sectors, both in the UK and in the United States. She is also a trustee of Save the Children UK and non-executive director of the Humanitarian Leadership Academy and Dixons Carphone plc.



Dr P Subacchi

Paola Subacchi is an economist, writer and commentator on the functioning and governance of the international financial and monetary system. Paola was appointed to the Board in 2014. She is the author of 'The People's Money: How China is building a global currency' (Columbia University Press, 2017). She is a senior fellow at Chatham House, visiting professor at the University of Bologna, a governor of St Marylebone School in London and an advisory member of Wilton Park (FCO). An Italian national, she studied at Università Bocconi in Milan and at the University of Oxford. In 2016 she was awarded the honour Cavaliere della Stella d'Italia.

All Directors are members of the Nomination and Audit Committees.

Managers and Secretaries

The Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager and Company Secretary. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Baillie Gifford & Co is an investment management firm formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been Managers and Secretaries to the Company since its formation in 1909.

Baillie Gifford is one of the largest investment trust managers in the UK and currently manages seven investment trusts. Baillie Gifford also manages unit trusts and open ended investment companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford total around £163 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 43 partners and a staff of around 970.

The Managers of Scottish Mortgage's portfolio are James Anderson and Tom Slater. James Anderson is a partner of Baillie Gifford & Co and Head of the Long Term Global Growth team. Tom Slater is also a partner and Head of the North American equities team.

Baillie Gifford & Co and Baillie Gifford & Co Limited are both authorised and regulated by the Financial Conduct Authority.

Directors' Report

The Directors present their Report together with the Financial Statements of the Company for the year to 31 March 2017.

Corporate Governance

The Corporate Governance Report is set out on pages 30 to 32 and forms part of this Report.

Manager and Company Secretaries

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretaries. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. The Investment Management Agreement sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Investment Management Agreement is terminable on not less than six months' notice. The annual management fee for the year to 31 March 2017 was 0.30% of total assets less current liabilities (excluding short term borrowings for investment purposes). With effect from 1 April 2017 the annual management fee is 0.30% on the first £4 billion of total assets less current liabilities (excluding short term borrowings for investment purposes) and 0.25% thereafter.

Careful consideration has been given by the Board as to the basis on which the management fee is charged. The Board considers that maintaining a low ongoing charges ratio is in the best interests of all shareholders as lower costs mean higher returns, particularly when compounded over long periods. The Board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance.

The Board as a whole fulfils the functions of the Management Engagement Committee. The Board considers the Company's investment management and secretarial arrangements on a continuing basis and a formal review is conducted at least annually. The Board considers, amongst others, the following topics in its review: the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date, the administrative services provided by the Secretaries and the marketing efforts undertaken by the Managers. Following the most recent review and the good performance (particularly over the long term), it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co Limited as Alternative Investment Fund Manager and the delegation of investment management services to Baillie Gifford & Co, on the terms agreed, is in the interests of shareholders as a whole.

Depositary

In accordance with the Alternative Investment Fund Managers Directive BNY Mellon Trust & Depositary (UK) Limited has been appointed Depositary to the Company.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary has delegated the custody function to The Bank of New York Mellon SA/NV ('the Custodian').

Directors

Information about the Directors, including their relevant experience, can be found on pages 25 and 26.

Mr JPHS Scott will retire at the Annual General Meeting and will not offer himself for re-election.

All other Directors will retire at the Annual General Meeting and offer themselves for re-election.

Following a formal performance evaluation the Board considers that the performance of the Directors continues to be effective and each remains committed to the Company. Their contribution to the Board is greatly valued and the Board recommends their re-election to shareholders.

Director Indemnification and Insurance

The Company has entered into qualifying third party deeds of indemnity in favour of each of its Directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him or her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person. The indemnities were in force during the year to 31 March 2017 and up to the date of approval of this report.

The Company maintains Directors' and Officers' Liability Insurance.

Conflicts of Interest

Each Director submits a list of potential conflicts of interest to the Nomination Committee on an annual basis. The Committee considers these carefully, taking into account the circumstances surrounding them and makes a recommendation to the Board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a Director which conflicted with the interests of the Company.

Dividends

The Board recommends a final dividend of 1.61p per ordinary share which, together with the interim dividend of 1.39p per ordinary share already paid, makes a total of 3.00p for the year compared with 2.96p per ordinary share for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 3 July 2017 to shareholders on the register at the close of business on 9 June 2017. The ex-dividend date is 8 June 2017.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 65) and the final date for elections for this dividend is 12 June 2017.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2017 consists of 1,421,730,880 ordinary shares of 5p each, of which 1,358,569,485 are allotted and fully paid and 63,161,395 are held in treasury. There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval.

Capital Entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found pages 63 and 64.

Major Interests Disclosed in the Company's Shares

Name	No. of ordinary 5p shares held at 31 March 2017	% of issue*
BlackRock Inc (Indirect)	127,945,039	9.4
D.C. Thomson & Company Limited (Direct)	50,005,000	3.7
Investec Wealth & Investment Limited (Indirect)	40,646,265	3.0

There have been no changes to the major interests in the Company's shares disclosed to the Company up to 11 May 2017.

* Ordinary shares in issue excluding treasury shares.

Share Issuances and Share Buy-backs

At the last Annual General Meeting the Directors were granted power to allot equity securities or sell ordinary shares held in treasury for cash up to a maximum nominal amount of £6,577,622.40.

During the year to 31 March 2017 the Company sold 53,050,000 shares from treasury on a non-pre-emptive basis (nominal value £2,653,000, representing 4.0% of the called up share capital, excluding treasury shares, at 31 March 2016) at a premium to net asset value (on the basis of debt valued at fair value) on 61 separate occasions at an average price of 326.47 pence per share raising net proceeds of £174,550,000. At 31 March 2017 the Company held 63,161,395 treasury shares. Between 1 April and 11 May 2017 the Company sold a further 13,800,000 shares from treasury raising proceeds of £51,383,000.

During the year to 31 March 2017 the Company bought back 7,005,000 ordinary shares (nominal value £350,000 representing 0.5% of the called up share capital, excluding treasury shares, at 31 March 2016), on the London Stock Exchange, all of which were added to shares held in treasury. The total consideration for these shares was £19,558,000. Between 1 April and 11 May 2017 no further shares were bought back into treasury.

The Directors will again be seeking authorities at the forthcoming Annual General Meeting to buy back shares and to sell shares held in treasury and allot new shares at a premium to the net asset value per share with debt valued at a fair value. Details of these resolutions are set out below.

Annual General Meeting

Resolution 12 – Authority to allot shares

Section 551 of the Companies Act 2006 provides that the Directors may not allot new shares without shareholder approval. Resolution 12 seeks to renew the Directors' authority to allot shares up to a maximum amount of £6,861,847.40, representing approximately 10 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at 11 May 2017, being the latest practicable date prior to publication of this document.

The Directors presently intend to exercise this power only once the number of shares held by the Company in treasury is not sufficient to support share issuance by the Company in accordance with its stated liquidity policy. As at 11 May 2017, the Company held 49,361,395 Ordinary Shares in treasury, representing approximately 3.6 per cent. of the Company's issued share capital (excluding treasury shares) as at 11 May 2017, being the latest practicable date prior to publication of this document. The authority will expire on 29 September 2018 or, if earlier, at the end of the Annual General Meeting of the Company to be held in 2018, unless previously cancelled or varied by the Company in general meeting.

Resolution 13 – Disapplication of pre-emption rights

Resolution 13, which is being proposed as a special resolution, seeks to renew the Directors' authority to allot equity securities, or sell treasury shares, for cash without having to offer such shares to existing Shareholders pro-rata to their existing holdings, up to a total nominal amount of £6,861,847.40, representing approximately 10 per cent. of the Company's total issued Ordinary Share capital as at 11 May 2017, being the latest practicable date prior to publication of this document.

The Directors consider that the authority proposed to be granted by Resolution 13 continues to be advantageous when the Company's shares trade at a premium to net asset value and the level of natural liquidity in the market is unable to meet demand. The Directors do not intend to use this authority to sell or issue Ordinary Shares on a non-pre-emptive basis at a discount to net asset value on the basis of debt valued at fair value. The attention of Shareholders is drawn to information set out under Resolution 14 below.

While the level of the authority being sought is greater than the 5 per cent. recommended by the Pre-Emption Group in their Statement of Principles on disapplying pre-emption rights, it is specifically recognised in the Statement of Principles that, where an investment trust is seeking authority to issue shares at a premium to the underlying net asset value per share, this should not normally raise concerns and the Directors consider the greater flexibility provided by this authority to be justified in the circumstances.

Resolution 14 – Authority to issue shares at a discount to net asset value

As noted above, the Directors do not intend to sell Ordinary Shares held in treasury or to issue new Ordinary Shares on a non-pre-emptive basis at a discount to net asset value on the basis of debt valued at fair value. The Directors are aware that LR 15.4.11 of the Listing Rules prohibits the issue of Ordinary Shares (including Ordinary Shares held in treasury) for cash at a price below the net asset value per share of those shares without such shares first being offered to existing Shareholders pro rata to their existing holdings.

It is a general market understanding in this context that 'net asset value' is determined on the basis of debt valued at fair value, but, for the purposes of LR 15.4.11, the term 'net asset value' is not specifically defined. As a result, having regard to guidance previously received from the UKLA and consistent with the approach adopted last year, the Directors wish to ensure that any sale of Ordinary Shares held in treasury or issue of new Ordinary Shares will not result in an inadvertent breach of the Listing Rules by virtue of the UKLA determining that 'net asset value' should be calculated on the basis of debt valued at par value. Resolution 14 seeks to renew the authority granted to the Company at the 2016 Annual General Meeting to issue shares at a discount to net asset value, in order to continue to protect against any such inadvertent breach. The Directors wish to reiterate that they will in no circumstances seek to issue Ordinary Shares (including Ordinary Shares held in treasury) for cash at a price below the net asset value per share on the basis of debt valued at fair value.

Resolution 15 – Market purchase of own shares by the Company

The Directors are seeking Shareholders' approval (by way of a Special Resolution) at the Annual General Meeting to renew the authority to purchase up to 14.99 per cent. of the Ordinary Shares in issue (excluding treasury shares) as at 11 May 2017, being the latest practicable date prior to publication of this document (or, if less, up to 14.99 per cent. of the Ordinary Shares in issue (excluding treasury shares) on the date on which the Resolution is passed). This authority will expire at the end of the Annual General Meeting of the Company to be held in 2018. Such purchases will only be made at a discount to the prevailing net asset value. The Company may hold bought back shares in treasury and then:

- (a) sell such shares (or any of them) for cash (or its equivalent under the Companies Act 2006); or
- (b) cancel such shares (or any of them).

Shares will only be re-sold from treasury at (or at a premium to) the net asset value per ordinary share on the basis of debt valued at fair value, in accordance with Resolution 14.

Treasury shares do not receive distributions and the Company will not be entitled to exercise the voting rights attaching to them.

Under the Listing Rules, the maximum price (exclusive of expenses) that may be paid on the exercise of the authority shall be an amount equal to the higher of:

- (i) 5 per cent. above the average closing price on the London Stock Exchange of an Ordinary Share over the five business days immediately preceding the date of the purchase; and
- (ii) the higher of the price of the last independent trade and the highest current independent bid as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy back programmes and stabilisation of financial instruments (No. 2273/2003).

The minimum price (again exclusive of expenses) that may be paid will be the par value of an Ordinary Share. Purchases of Ordinary Shares will be made within guidelines established, from time to time, by the Board. The Company does not have any warrants or options in issue.

The Directors intend that this authority, if conferred, will be exercised only if to do so would result in an increase in net asset value per Ordinary Share for the remaining Shareholders and if it is in the best interest of Shareholders generally.

Recommendation

The Board considers that all the Resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board unanimously recommends that you vote in favour of all of the Resolutions, as the Directors intend to do in respect of their own beneficial shareholdings which amount in aggregate to 522,658 shares, representing 0.04% of the current issued share capital of the Company.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank borrowings and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 19 to the accounts.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

Disclosure of Information to Auditors

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Independent Auditor

The Auditor, KPMG LLP, is willing to continue in office and, in accordance with section 489 and section 491(1) of the Companies Act 2006, resolutions concerning KPMG LLP's reappointment and remuneration will be submitted to the Annual General Meeting.

Post Balance Sheet Events

The Directors confirm that there have been no post Balance Sheet events up to 12 May 2017 (see note 20 on page 61).

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. The Company therefore has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Bribery Act

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

By order of the Board
John Scott
12 May 2017

Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2014 UK Corporate Governance Code (the 'Code'), which can be found at www.frc.org.uk and the principles of the Association of Investment Companies (AIC) Code of Corporate Governance were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at www.theaic.co.uk.

Compliance

The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code except that the Chairman of the Board is a member of the Audit Committee. The Board believes it is appropriate for Mr JPHS Scott to be a member of the Committee as he is considered to be independent and there are no conflicts of interest. The Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. Given that the Company is an externally managed investment trust, the Board considers these provisions are not relevant to the Company (the need for an internal audit function specific to the Company has been addressed on page 33).

The Board is of the opinion that the Company has complied with the recommendations of the AIC Code.

The Board

The Board has overall responsibility for the Company's affairs. The Board appoints the Managers and Secretaries and approves the terms of the investment management agreement. It has a number of matters reserved for its approval including strategy, investment policy, currency hedging, borrowings, gearing, share buy back policy, treasury matters, dividend and corporate governance policy. A separate meeting devoted to strategy is held each year. The Board also reviews the financial statements, investment transactions, revenue budgets and performance. Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities.

Following the retirement of Mr WG McQueen at the Annual General Meeting last year, the Board comprises six Directors, all of whom are non-executive, although Mr JPHS Scott is retiring as a Director at the forthcoming Annual General Meeting.

The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The executive responsibility for investment management has been delegated to the Company's Alternative Investment Fund Manager ('AIFM'), Baillie Gifford & Co Limited and, in the context of a Board comprising only non-executive Directors, there is no chief executive officer. Professor JA Kay is the Senior Independent Director.

The Directors believe that the Board has a balance of skills and experience that enables it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on pages 25 and 26.

There is an agreed procedure for Directors to seek independent professional advice, if necessary, at the Company's expense.

Appointments

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for inspection on request.

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. In accordance with the Code all the Directors will retire at each Annual General Meeting and, if appropriate, offer themselves for re-election.

Independence of Directors

All the Directors are considered by the Board to be independent of the Managers and free of any business or other relationship that could interfere with the exercise of their independent judgement.

Mr JPHS Scott has served on the Board for more than nine years. The Directors recognise the value of progressive refreshing of, and succession planning for, company boards and the Board's composition is reviewed annually. The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can be a benefit to the board. The Board concurs with the view expressed in the AIC Code that long-serving Directors should not be prevented from being considered as independent.

Following formal performance evaluation, the Board has concluded that, notwithstanding his length of service, Mr JPHS Scott continues to demonstrate independence of character and judgement and his skill and experience were a benefit to the Board.

Meetings

There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, revenue budgets, dividend policy and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the core Board and Committee Meetings held during the year (various additional meetings were also held). The Annual General Meeting was attended by all Directors serving at that date.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	6	2	1
John Scott	6	2	1
Justin Dowley	6	2	1
Professor John Kay	6	2	1
Professor Patrick Maxwell (appointed 1 April 2016)	6	2	1
Fiona McBain	6	2	1
Gordon McQueen (retired 30 June 2016)	2	1	–
Dr Paola Subacchi	6	1	1

Nomination Committee

The Nomination Committee consists of the independent non-executive Directors and the Chairman of the Board is Chairman of the Committee. The Committee meets on an annual basis and at such other times as may be required. The Committee has written terms of reference which include reviewing the Board, identifying and nominating new candidates for appointment to

the Board, Board appraisal, succession planning and training. The Committee also considers whether Directors should be recommended for re-election by shareholders. The Committee is responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised. Appointments to the Board are made on merit with due regard for the benefits of diversity including gender. The priority in appointing new directors is to identify the candidate with the best range of skills and experience to complement existing Directors. The Board therefore does not consider it appropriate to set diversity targets or apply a diversity policy.

Board Composition

Following the announcement of the Chairman's intention not to stand for re-election at the forthcoming Annual General Meeting on 29 June, the Board has reviewed its composition, with regard to the depth and breadth of experience. The Board has determined that the remaining five Directors provide sufficient resource at present.

The Committee's terms of reference are available on request from the Company and on the Company's pages of the Managers' website: www.scottishmortgageit.com.

Performance Evaluation

The Nomination Committee met to assess the performance of the Chairman, each Director, the Board as a whole and its Committees. Prior to the meeting each Director completed an evaluation form which they discussed individually with the Chairman. The appraisal of the Chairman was led by Professor JA Kay. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the Board, the contribution of individual Directors, the overall competency and effectiveness of the Board and its Committees and the continuing professional development undertaken by Directors during the year.

Following this process it was concluded that the performance of each Director, the Chairman, the Board and its Committees continues to be effective and each Director and the Chairman remains committed to the Company.

A review of the Chairman's and other Directors' commitments was carried out and the Nomination Committee is satisfied that they are capable of devoting sufficient time to the Company. There was no increase in the overall level of the Chairman's other commitments during the year.

Lintstock, a company which assists companies with the design and execution of board evaluations, facilitated the performance evaluation in 2016. It is intended that the evaluation will again be externally facilitated in 2019.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Regular briefings were provided during the year on industry and regulatory matters. The Directors receive other training as necessary.

Remuneration

As all the Directors are non-executive, there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 35 and 36.

Audit Committee

The report of the Audit Committee is set out on pages 33 and 34.

Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is a continuing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the FRC guidance 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014.

The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the Company's assets and to manage its affairs properly, including the maintenance of effective operational and compliance controls, have been delegated to the Managers and Secretaries.

The Board oversees the functions delegated to the Managers and Secretaries and the controls managed by the AIFM in accordance with the Alternative Investment Fund Managers Directive (as detailed below). Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provide the Audit Committee with regular reports on their monitoring programmes. The reporting procedures for these departments are defined and formalised within a service level agreement. Baillie Gifford & Co conducts an annual review of its system of internal controls which is documented within an internal controls report which complies with ISAE 3402 and Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. This report is independently reviewed by Baillie Gifford & Co's Auditor and a copy is submitted to the Audit Committee.

A report identifying the material risks faced by the Company and the key controls employed to manage these risks is reviewed by the Audit Committee.

These procedures ensure that consideration is given regularly to the nature and extent of risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage these risks.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal controls systems, which accord with the FRC 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and up to the date of this Report.

The Board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this Report.

To comply with the Alternative Investment Fund Managers Directive, BNY Mellon Trust & Depositary (UK) Limited acts as the Company's Depositary and Baillie Gifford & Co Limited as its AIFM.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying

ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The Depositary has delegated the custody function to The Bank of New York Mellon SA/NV London Branch ('the Custodian'). The Custodian prepares a report on its key controls and safeguards which is independently reviewed by KPMG LLP.

The Depositary provides the Audit Committee with a report on its monitoring activities.

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor compliance with risk limits. The AIFM has a risk management policy which covers the risks associated with the management of the portfolio, and the adequacy and effectiveness of this policy is reviewed and approved at least annually. This review includes the risk management processes and systems and limits for each risk area.

The risk limits, which are set by the AIFM and approved by the Board, take into account the objectives, strategy and risk profile of the portfolio. These limits, including leverage (see page 66), are monitored and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables in the portfolio. Exceptions from limits monitoring and stress testing are escalated to the AIFM and reported to the Board along with remedial measures being taken.

Going Concern

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 19 to the Financial Statements. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis.

Accordingly, the Financial Statements have been prepared on the going concern basis as it is the Directors' opinion, having assessed the principal risks and other matters set out in the Viability Statement on page 9, that the Company will continue in operational existence for a period of at least 12 months from the date of approval of these Financial Statements.

Corporate Broker

The Company has conducted a review of the role of its corporate broker; this formed part of the continuing process of revisiting our relationships with all third party providers. The Board selected five firms to tender submissions and set out the criteria to be used in evaluating these; a range of factors was considered, including but not limited to the breadth and depth of experience within each firm in following areas: market knowledge and market making capacity, research provision, corporate advisory work, sales and marketing and regulatory engagement, as well as the proposed remuneration structures.

On the basis of the submissions received, all five firms presented to the Company Secretaries to be evaluated against the framework set out by the Board, as a result of which two firms – one of which was the incumbent broker, Cenkos – were selected to present to the Board. The result of this was a decision to extend the engagement of Cenkos Securities plc and to broaden the mandate by appointing Jefferies Hoare Govett (a division of Jefferies International Limited) as joint broker to the Company.

Scottish Mortgage is now of a scale where the appointment of joint brokers is the norm and the Board hopes that the new arrangement will build on the excellent work which Cenkos have done over the years to broaden the market for our shares and bring them to the attention of new buyers. We believe that the additional resources available to us from Cenkos and Jefferies working in tandem will bring significant benefit to the Company and is in the clear interests of shareholders. The new arrangement took effect from 1 April 2017.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Managers meet regularly with shareholders and their representatives and report shareholders' views to the Board. The Chairman is available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the Company's registered office, or through the Company's brokers, Cenkos Securities and Jefferies (see contact details on the back cover).

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the meeting and published at www.scottishmortgageit.com. The notice period for the Annual General Meeting is at least twenty working days. Shareholders and potential investors may obtain up-to-date information on the Company at www.scottishmortgageit.com.

Corporate Governance and Stewardship

The Company has given discretionary voting powers to Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests and report their actions to the Board.

The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and has asked the Managers to take these issues into account. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' statement of compliance with the UK Stewardship Code can be found on the Managers' website at www.bailliegifford.com. The Managers' policy has been reviewed and endorsed by the Board.

The Managers are signatories to the United Nations Principles for Responsible Investment and the Carbon Disclosure Project and are also members of the International Corporate Governance Network.

By order of the Board
John Scott
Chairman
12 May 2017

Audit Committee Report

The Audit Committee consists of all independent Directors. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. The Chairman of the Committee, Mr LJ Dowley, is a Chartered Accountant. The Committee's authority and duties are clearly defined within its written terms of reference which are available on request from the Company Secretary and at www.scottishmortgageit.com. The terms of reference are reviewed annually.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process.

At least once a year the Committee meets with the external Auditor without any representative of the Manager being present.

Main Activities of the Committee

The Committee met twice during the year and KPMG LLP, the external Auditor, attended both meetings. Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provided reports on their monitoring programmes for these meetings.

The matters considered, monitored and reviewed by the Committee during the course of the year included the following:

- the preliminary results announcement and the Annual and Interim Reports;
- the Company's accounting policies and practices and the implementation of the Managers' valuation policy for investments in unquoted companies;
- the regulatory changes impacting the Company;
- the fairness, balance and understandability of the Annual Report and Financial Statements and whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the effectiveness of the Company's internal control environment;
- re-appointment, remuneration and engagement letter of the external Auditor;
- the policy on the engagement of the external Auditor to supply non-audit services;
- the independence, objectivity and effectiveness of the external Auditor;
- the need for the Company to have its own internal audit function;
- internal controls reports received from the Managers and custodian; and
- the arrangements in place within Baillie Gifford & Co whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Internal Audit

The Committee continues to believe that the compliance and internal controls systems and the internal audit function in place within the Investment Managers provide sufficient assurance that a sound system of internal control which safeguards shareholders' investment and the Company's assets is maintained. An internal audit function, specific to the Company is therefore considered unnecessary.

Financial Reporting

The Committee considers that the most significant area of risk likely to impact the Financial Statements is the existence and valuation of investments as they represent 98.4% of total assets.

The majority of the investments are in quoted securities and market prices are readily available from independent external pricing sources. The Committee reviewed Baillie Gifford's Report on Internal Controls which details the controls in place regarding recording and pricing of investments.

The Committee reviewed the Managers' valuation policy for investments in unquoted companies and approved the valuations of the unlisted investments following a detailed review of the valuation of each investment and relevant challenge where appropriate.

The value of all the listed investments at 31 March 2017 was agreed to external price sources and the holdings agreed to confirmations from the Company's custodian. Confirmations of uncertificated unlisted investments were obtained from the relevant investee companies.

The Managers and Auditor confirmed to the Committee that they were not aware of any material misstatements in the context of the Financial Statements as a whole and that the Financial Statements are in accordance with applicable law and accounting standards.

Audit Tender

Following the audit tender process held in the year to 31 March 2016, the Board unanimously decided to reappoint KPMG as Auditor.

In accordance with mandatory audit rotation requirements, the Committee intends to undertake a further tender process during the year to 31 March 2020.

Internal Controls and Risk Management

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on pages 31 and 32. No significant weaknesses were identified in the year under review.

External Auditor

To fulfil its responsibility regarding the independence of the external Auditor, the Committee reviewed:

- A report from the Auditor describing the arrangements to identify, report and manage any conflicts of interest and received confirmation of their independence; and
- The extent of non-audit services provided by the external Auditor. Non-audit fees for the year to 31 March 2017 were £2,871 and related to the certification of financial information for the debenture trustee and the provision of Indian tax services. The Committee does not believe that this has impaired the Auditor's independence.

The effectiveness of the external Auditor was reviewed and the Committee considered:

- The Auditor's fulfilment of the agreed audit plan;
- Feedback from the Secretaries on the performance of the audit team;

Governance Report

- The Audit Quality Inspection Report from the FRC; and
- Detailed discussion with audit personnel to challenge audit processes and deliverables.

To fulfil its responsibility for oversight of the external audit process the Committee considered and reviewed:

- The Auditor's engagement letter;
- The Auditor's proposed audit strategy;
- The audit fee; and
- A report from the Auditor on the conclusion of the audit.

Although KPMG LLP, or its predecessor firms, have been Auditor for over twenty seven years, the audit partners/directors responsible for the audit are rotated at least every five years in accordance with professional and regulatory standards in order to protect independence and objectivity and to provide fresh challenge to the business. Mr J Waterson was appointed audit director during the year and will continue as audit director until the conclusion of the 2020 audit.

KPMG have confirmed that they believe they are independent within the meaning of regulatory and professional requirements and that the objectivity of the audit director and staff is not impaired. KPMG also acted as Auditor to the Manager until June 2016 and Ms C Burnet, the previous Scottish Mortgage audit partner, had taken the lead relationship partner role with Baillie Gifford during 2013. A separate audit director had been responsible for the Baillie Gifford audit and KPMG had outlined the procedures that would be put in place in the unlikely event that a conflict of interest should arise.

Having carried out the review process described above, the Committee is satisfied that the Auditor remains independent and effective.

There are no contractual obligations restricting the Committee's choice of external Auditor.

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 37 to 41.

By order of the Board
Justin Dowley
Audit Committee Chairman
12 May 2017

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of the Companies Act 2006.

Statement by the Chairman

The Directors' Remuneration Policy is subject to shareholder approval every three years or sooner if an alteration to the policy is proposed. The Remuneration Policy which is set out below was approved at the Annual General Meeting in June 2014. No changes are proposed to the policy and an ordinary resolution for the approval of the Remuneration Policy will be put to the members at the forthcoming Annual General Meeting on 29 June 2017.

Directors' fees were last increased on 1 April 2014. Over this time there has been a significant increase in the level of the work of both the Board in general and for the Audit Committee and its Chair in particular. This additional work has largely been attributable to the rising number of unlisted company investments held within the portfolio and the level of scrutiny over the pricing of these assets. The calibre and diligence of all Board members in this regard has been very important in enabling the Managers to invest in this area for the long term benefit of shareholders.

The Board felt it was appropriate to review the level of the Directors' and Chairmen's fees, in light of the increased workload. The Board believe that significant changes in fee levels can only be justified by reference to substantive changes such as this significant increase in workload.

In consideration of the circumstances set out above, the Board has agreed the following new remuneration levels:

	£ per annum
Chairman's fee	60,000
Chairman of the Audit Committee's fee	50,000
Director's fee	40,000

This will also allow the Board to continue to attract members of a high calibre in future as the Board believes these new fee levels remain commensurate with those offered by comparator boards.

Directors' Remuneration Policy

The Board is composed wholly of non-executive Directors, none of whom has a service contract with the Company. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co Limited, who have been appointed by the Board as the Company Secretaries, provide comparative information when the Board considers the level of Directors' fees.

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. The Board believes that the fees paid to the Directors should reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable

investment trusts and prevailing rates of retail price inflation. Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

Directors are not eligible for any other remuneration or benefits apart from the reimbursement of allowable expenses. There are no performance conditions relating to Directors' fees and there are no long term incentive schemes or pension schemes. No compensation is payable on loss of office.

Limits on Directors' Remuneration

The fees for the Directors are payable six monthly in arrears and are determined within the limit set out in the Company's Articles of Association which is currently £300,000 in aggregate. Any change to this limit requires shareholder approval.

The basic and additional fees paid to Directors in respect of the year ended 31 March 2017 and the expected fees payable in respect of the year ending 31 March 2018 are set out in the table below. The fees payable to the Directors in the subsequent financial periods will be determined following an annual review of the Directors' fees.

	Expected fees for year ending 31 Mar 2018 £	Fees for year ending 31 Mar 2017 £
Chairman's fee	60,000	45,000
Chairman of Audit Committee's fee	50,000	35,000
Director's fee	40,000	30,000
Total aggregate annual fees that can be paid to the Directors in any year under the Directors' Remuneration Policy, as set out in the Company's Articles of Association	300,000	300,000

Annual Report on Remuneration

An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in KPMG LLP's report on pages 38 to 41.

Directors' Remuneration for the Year (audited)

The Directors who served during the year received the following remuneration in the form of fees and taxable benefits. This represents the entire remuneration paid to the Directors.

Name	2017 Fees £	2017 Taxable benefits* £	2017 Total £	2016 Fees £	2016 Taxable benefits* £	2016 Total £
John Scott (Chairman)	45,000	1,256	46,256	45,000	1,335	46,335
Justin Dowley (Audit Committee Chairman)	33,769	2,524	36,293	17,192	1,646	18,838
Michael Gray (retired 23 June 2015)	–	–	–	6,962	–	6,962
Professor John Kay	30,000	1,097	31,097	30,000	2,520	32,520
Professor Patrick Maxwell (appointed 1 April 2016)	30,000	2,576	32,576	–	–	–
Fiona McBain	30,000	1,141	31,141	30,000	1,264	31,264
Gordon McQueen (retired 30 June 2016)	8,750	3,066	11,816	35,000	4,650	39,650
Dr Paola Subacchi	30,000	3,175	33,175	30,000	3,241	33,241
	207,519	14,835	222,354	194,154	14,656	208,810

* Comprises travel and subsistence expenses incurred by or on behalf of Directors in the course of travel to attend Board and Committee meetings held at the Company's registered office in Edinburgh. These amounts have been grossed up for income tax and, if applicable, National Insurance contributions.

Directors' Interests

Name	Nature of interest	Ordinary 5p shares held at 31 March 2017	Ordinary 5p shares held at 31 March 2016
John Scott	Beneficial	233,238	233,238
Justin Dowley	Beneficial	201,775	199,717
Professor John Kay	Beneficial	32,792	32,792
Professor Patrick Maxwell	Beneficial	32,280	–
Fiona McBain	Beneficial	6,083	6,021
Dr Paola Subacchi	Beneficial	16,490	16,366

The Directors at the year end, and their interests in the Company, were as shown above. There have been no changes intimated in the Directors' interests up to 11 May 2017.

Statement of Voting at Annual General Meeting

At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.4% were in favour, 0.4% were against and votes withheld were 0.2%. At the last Annual General Meeting at which the Directors' Remuneration Policy was considered (June 2014), 99.2% of votes received were in favour, 0.5% were against and votes withheld were 0.3%.

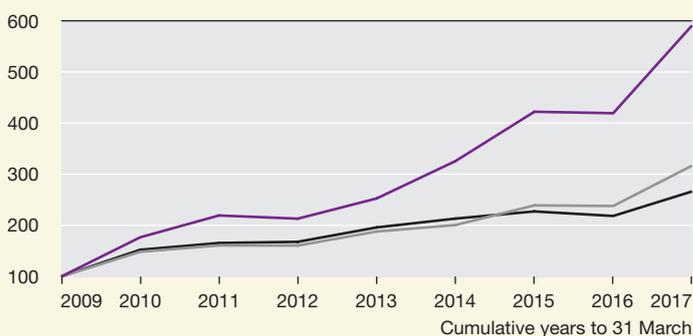
Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration and distributions to shareholders.

	2017 £'000	2016 £'000	Change %
Directors' remuneration	222	209	6.2
Dividends	39,084	37,671	3.8
Share buy-backs	19,558	3,199	511.4

Company Performance

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark* (figures have been rebased to 100 at 31 March 2009)



Source: Thomson Reuters Datastream.#

— Scottish Mortgage share price

— Benchmark†

— FTSE All-Share Index

* All figures are total return (assuming all dividends are reinvested).

† Benchmark: FTSE All-World Index (in sterling terms).

See disclaimer on page 70.

Past performance is not a guide to future performance.

The graph compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares in the component parts of the FTSE All-Share Index. This index was chosen for comparison purposes, as it is a widely used measure of performance for UK listed companies (benchmark provided for information purposes only).

Approval

The Directors' Remuneration Report on pages 35 and 36 was approved by the Board of Directors and signed on its behalf on 12 May 2017.

John Scott
Chairman

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with applicable law and UK Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the Company's pages on the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in Respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that the issuer and business face; and
- we consider that the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board
John Scott
12 May 2017

Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Financial Statements:

- The maintenance and integrity of the Baillie Gifford & Co website is the responsibility of Baillie Gifford & Co; the work carried out by the auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Independent auditor's report

to the members of Scottish Mortgage Investment Trust PLC only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Scottish Mortgage Investment Trust PLC for the year ended 31 March 2017 set out on pages 42 to 61. In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Overview		
Materiality:	£53.9m (2016: £39.7m)	
financial statements as a whole	1% (2016: 1%) of Total Assets	
Risks of material misstatement		2017 vs 2016
Recurring risks	Valuation of unquoted investments	▲
	Carrying amount of quoted investments	◀▶

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
<p>Valuation of unquoted investments</p> <p>(£700.2 million; 2016: £465.6 million)</p> <p><i>Refer to page 33 (Audit Committee Report), page 46 (accounting policy) and pages 51 - 52 (financial disclosures).</i></p>	<p>Subjective valuation</p> <p>13% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control design: Documenting and assessing the design and implementation of the investment valuation processes and controls; — Control observation: Attendance at certain monthly valuation meetings with the investment manager to assess their discussion and review of the investment valuations; — Control observation: Attending the interim and year-end Audit Committee meeting where we assessed the effectiveness of the Audit Committee's challenge and approval of unlisted investment valuations; — Historical Comparisons: Assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations; — Methodology choice: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected; — Our valuations experience: Challenging the investment manager on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable and we obtained an understanding of existing and prospective investee company cashflows to understand whether borrowings can be serviced or whether refinancing may be required. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;

The risk	Our response
	<ul style="list-style-type: none"> — Comparing valuations: Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation. — Assessing transparency: Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments.
<p>Carrying amount of quoted investments (£4,598.1 million; 2016: £3,456.5 million)</p> <p><i>Refer to page 33 Audit Committee Report, page 46 (accounting policy) and pages 51 - 52 (financial disclosures).</i></p> <p>Low risk, high value The company’s portfolio of quoted investments makes up 85% of the company’s total assets (by value) and is considered to be one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control design: Documenting and assessing the processes in place to record investment transactions and to value the portfolio; — Tests of detail: Agreeing the valuation of 100 per cent of investments in the portfolio to externally quoted prices; and — Enquiry of custodians: Agreeing 100 per cent of investment holdings in the portfolio to independently received third party confirmations from investment custodians.

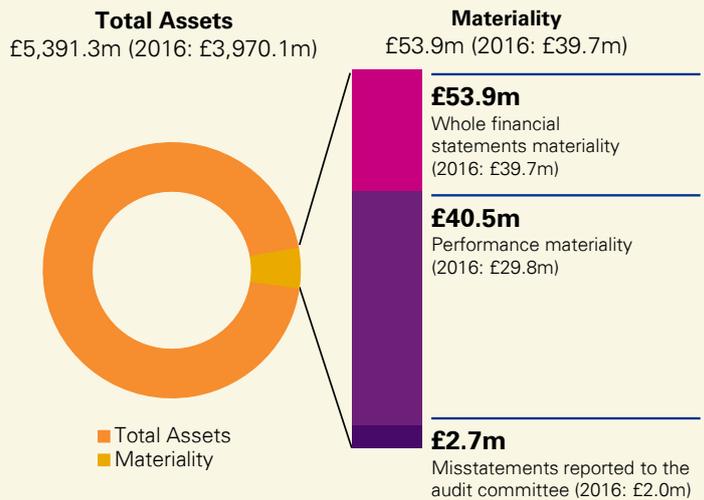
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £53.9m (2016: £39.7m), determined with reference to a benchmark of total assets, of which, it represents 1% (2016: 1%).

In addition, we applied materiality of £794k (2016: £1.06m) to investment income, investment management fees and borrowing costs for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the company’s members’ assessment of the financial performance of the company.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2.7m (2016: £2.0m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the Baillie Gifford & Co head office in Edinburgh.



4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability on page 9, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company's continuing in operation over the 10 years to 31 March 2027; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

- In particular, we are required to report to you if:
 - we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy; or
 - the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 32 and 9, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 30 to 32 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Waterson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

12 May 2017

Income Statement

For the year ended 31 March

	Notes	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Gains/(losses) on investments	9	–	1,354,245	1,354,245	–	(6,647)	(6,647)
Currency losses	14	–	(42,958)	(42,958)	–	(7,212)	(7,212)
Income	2	27,796	–	27,796	32,910	–	32,910
Investment management fee	3	(3,558)	(10,674)	(14,232)	(2,881)	(8,642)	(11,523)
Other administrative expenses	4	(3,544)	–	(3,544)	(3,176)	–	(3,176)
Net return before finance costs and taxation		20,694	1,300,613	1,321,307	26,853	(22,501)	4,352
Finance costs of borrowings	5	(4,837)	(14,510)	(19,347)	(4,568)	(13,704)	(18,272)
Net return on ordinary activities before taxation		15,857	1,286,103	1,301,960	22,285	(36,205)	(13,920)
Tax on ordinary activities	6	(1,721)	–	(1,721)	(857)	–	(857)
Net return on ordinary activities after taxation		14,136	1,286,103	1,300,239	21,428	(36,205)	(14,777)
Net return per ordinary share	7	1.07p	97.31p	98.38p	1.66p	(2.81p)	(1.15p)

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in this statement derive from continuing operations.

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 46 to 61 are an integral part of the Financial Statements.

Balance Sheet

As at 31 March

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		5,298,338		3,922,124
Current assets					
Debtors	10	16,293		4,051	
Cash and cash equivalents	19	76,643		43,973	
			92,936		48,024
Creditors					
Amounts falling due within one year	11	(367,973)		(303,486)	
Net current liabilities					
			(275,037)		(255,462)
Total assets less current liabilities					
			5,023,301		3,666,662
Creditors					
Amounts falling due after more than one year	12		(149,710)		(209,218)
			4,873,591		3,457,444
Capital and reserves					
Called up share capital	13		71,086		71,086
Capital redemption reserve	14		19,094		19,094
Capital reserve	14		4,754,597		3,313,502
Revenue reserve	14		28,814		53,762
Shareholders' funds					
	15		4,873,591		3,457,444
Net asset value per ordinary share					
(after deducting borrowings at book)*	19		358.7p		263.4p
Net asset value per ordinary share					
(after deducting borrowings at fair value)*	19		354.6p		259.2p
Net asset value per ordinary share					
(after deducting borrowings at par)*	16		359.0p		263.8p

The Financial Statements of Scottish Mortgage Investment Trust PLC (Company registration No. SC007058) were approved and authorised for issue by the Board and were signed on its behalf on 12 May 2017.

John Scott
Chairman

The accompanying notes on pages 46 to 61 are an integral part of the Financial Statements.

* See Glossary of Terms on page 71.

Statement of Changes in Equity

For the year ended 31 March 2017

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2016		71,086	19,094	3,313,502	53,762	3,457,444
Net return on ordinary activities after taxation	14	–	–	1,286,103	14,136	1,300,239
Ordinary shares bought back into treasury	13	–	–	(19,558)	–	(19,558)
Ordinary shares issued from treasury	13	–	–	174,550	–	174,550
Dividends paid during the year	8	–	–	–	(39,084)	(39,084)
Shareholders' funds at 31 March 2017		71,086	19,094	4,754,597	28,814	4,873,591

For the year ended 31 March 2016

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2015		71,086	19,094	3,173,033	70,005	3,333,218
Net return on ordinary activities after taxation		–	–	(36,205)	21,428	(14,777)
Ordinary shares bought back into treasury	13	–	–	(3,199)	–	(3,199)
Ordinary shares issued from treasury	13	–	–	179,873	–	179,873
Dividends paid during the year	8	–	–	–	(37,671)	(37,671)
Shareholders' funds at 31 March 2016		71,086	19,094	3,313,502	53,762	3,457,444

The accompanying notes on pages 46 to 61 are an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 March

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Cash flows from operating activities					
Net return on ordinary activities before taxation		1,301,960		(13,920)	
Net (gains)/losses on investments		(1,354,245)		6,647	
Currency losses		42,958		7,212	
Finance costs of borrowings		19,347		18,272	
Overseas withholding tax refunded		124		935	
Overseas withholding tax incurred		(1,755)		(1,792)	
Changes in debtors and creditors		443		(216)	
Cash from operations			8,832		17,138
Interest paid			(19,484)		(18,422)
Net cash outflow from operating activities			(10,652)		(1,284)
Cash flows from investing activities					
Acquisitions of investments		(723,418)		(619,851)	
Disposals of investments		686,952		445,699	
Realised currency gain		6,927		3,848	
Net cash outflow from investing activities			(29,539)		(170,304)
Equity dividends paid	8	(39,084)		(37,671)	
Ordinary shares bought back into treasury		(19,574)		(3,184)	
Ordinary shares sold from treasury		169,422		179,873	
Bank loans repaid		(37,903)		(111,963)	
Bank loans drawn down		–		111,963	
Net cash inflow from financing activities			72,861		139,018
Increase/(decrease) in cash and cash equivalents			32,670		(32,570)
Cash and cash equivalents at start of period	19		43,973		76,543
Cash and cash equivalents at end of period*	19		76,643		43,973

* Cash and cash equivalents represent cash at bank and short term money market deposits repayable on demand.

The accompanying notes on pages 46 to 61 are an integral part of the Financial Statements.

Notes to the Financial Statements

1 Principal Accounting Policies

The Financial Statements for the year to 31 March 2017 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and on the basis of the accounting policies set out below which are unchanged from the prior year and have been applied consistently. The Company has early adopted the amendments to section 34 of FRS 102 regarding fair value hierarchy disclosures (see note 9 on page 51).

(a) Basis of Accounting

All of the Company's operations are of a continuing nature and the Financial Statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust under section 1158 of the Corporation Tax Act 2010 will be retained.

The Financial Statements have been prepared in accordance with The Companies Act 2006, applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014. In order to reflect better the activities of the trust and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

The Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK, and the Company and its investment manager, who are subject to the UK's regulatory environment, are also UK based.

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when it becomes a party to the contractual provisions of the instrument.

The Company has only one material segment being that of an investment trust company investing in a portfolio of long term investments chosen on a global basis.

(b) Accounting Estimates, Assumptions and Judgements

The preparation of the Financial Statements requires the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets and liabilities, at the reporting date. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates. The key sources of estimation and uncertainty are disclosed in section (c) below and relate to the assumptions used in the determination of the fair value of the unlisted investments and the consolidation decision.

(c) Investments

Purchases and sales of investments are accounted for on a trade date basis. All investments are designated as valued at fair value through profit or loss upon initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed security investments is bid value, or in the case of holdings on certain recognised overseas exchanges, at last traded prices.

Listed investments include Open Ended Investment Companies ('OEICs') authorised in the UK; these are valued at closing price and are classified for valuation purposes according to the principal geographical area of the underlying holdings.

Unlisted Investments

Unlisted investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Managers. The Managers' unlisted investment policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines ('IPEV'). These methodologies can be categorised as follows:

- Market Approach (a. Price of Recent Investment; b. Multiples; c. Industry Valuation Benchmarks; and d. Available Market Prices);
- Income Approach (Discounted Cash Flows); and
- Replacement Cost Approach (Net Assets).

The nature of the unlisted portfolio currently (generally young, rapidly growing companies using technology to create new, or disrupt existing, business models) will influence the valuation methodology applied. The price of a recent investment or available market prices for secondary transactions are likely to be the most appropriate approaches. Methodologies using multiples or discounted cash flows are likely to be inappropriately subjective where earnings are very low. An absence of relevant industry peers will often preclude the application of the Industry Valuation Benchmarks method. The Replacement Cost Approach is likely to result in a misleadingly conservative valuation of the typical companies within the current unlisted portfolio, where financial net assets are less important than intangible technological assets.

The policy, however, recognises that the robustness of a transaction based valuation will erode as the length of time from the relevant transaction increases. Additionally, the background to the transaction must be considered. In these cases, alternative techniques consistent with IPEV guidelines may have to be employed.

The unlisted investments are valued according to a three monthly cycle of measurement dates. The fair value of the unlisted investments will be reviewed before the next scheduled three monthly measurement date on the following occasions:

- At the year end and half year end of Scottish Mortgage; and
- Where there is an indication of a change in fair value as defined in the IPEV guidelines (commonly referred to as 'trigger' events).

The Company has a majority holding in the shares of the Level E Maya Fund. The Company has taken advantage of the exemption from preparing consolidated accounts available in FRS 102 for investments held as part of an investment portfolio with a view to subsequent resale.

Gains and losses arising from changes in the fair value of investments are considered to be realised to the extent that they are readily convertible to cash, without accepting adverse terms, at the Balance Sheet date. Fair value gains on unlisted investments are not considered to be readily convertible to cash and are therefore treated as unrealised. The treatment of listed investments is dependent upon the individual circumstances of each holding.

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if they have a maturity or period of notice of not more than one working day.

(e) Income

- (i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.
- (ii) Interest from fixed interest securities is recognised on an effective interest rate basis. Where income returns are for a non-fixed amount, the impact of these returns on the effective interest rate is recognised once such returns are known. If there is reasonable doubt that a return will be received, its recognition is deferred until that doubt is removed.
- (iii) Franked income is stated net of any tax credits.
- (iv) Unfranked investment income includes the taxes deducted at source.
- (v) Interest receivable on deposits is recognised on an accruals basis.
- (vi) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.
- (vii) Special dividends are treated as repayments of capital or income depending on the facts of each particular case.

(f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Income Statement except as follows: where they relate directly to the acquisition or disposal of an investment (transaction costs), in which case they are recognised as capital within losses/gains on investments; and where they are connected with the maintenance or enhancement of the value of investments, in which case they are charged 25:75 to the revenue account and capital reserve.

(g) Long Term Borrowings and Finance Costs

Long term borrowings are carried in the Balance Sheet at amortised cost, representing the cumulative amount of net proceeds after issue, plus accrued finance costs attributable to the stepped interest debentures. The finance costs of such borrowings are allocated 25:75 to the revenue column of the Income Statement and capital reserve at a constant rate on the carrying amount. Issue costs are written off at a constant rate over the life of the borrowings. Gains and losses on the repurchase or early settlement of debt is wholly charged to capital.

(h) Taxation

The tax effect of different items of income and expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective tax rate for the accounting period.

Deferred taxation is provided on all timing differences, calculated at the current tax rate relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it will be more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(i) Foreign Currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or revenue reserve as appropriate.

(j) Capital Reserve

Gains and losses on disposal of investments, changes in fair value of investments held, exchange differences of a capital nature and the amount by which other assets and liabilities valued at fair value differ from their book cost are dealt with in this reserve. Purchases of the Company's own shares are also funded from this reserve. 75% of management fees and finance costs are allocated to the capital reserve in accordance with the Company's objective of combining capital and income growth.

2 Income

	2017 £'000	2016 £'000
Income from investments		
UK dividend income	3,840	6,645
UK other investment income*	60	78
Overseas dividends	22,491	24,253
Overseas interest	1,361	1,697
	27,752	32,673
Other income		
Deposit interest	44	162
Interest on withholding tax reclaimed	–	75
	44	237
Total income	27,796	32,910
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	26,391	30,976
Interest from financial assets designated at fair value through profit or loss	1,361	1,697
Interest from financial assets not at fair value through profit or loss	44	237
	27,796	32,910

* Includes OEIC income.

3 Investment Management Fee

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Investment management fee	3,558	10,674	14,232	2,881	8,642	11,523

Details of the Investment Management Agreement are disclosed on page 27. With effect from 1 April 2017 Baillie Gifford & Co Limited's annual management fee is 0.30% on the first £4 billion of total assets less current liabilities (excluding short term borrowings for investment purposes) and 0.25% thereafter. For the year to 31 March 2017 the management fee was 0.30% of total assets less current liabilities (excluding short term borrowings for investment purposes). The management fee is calculated quarterly and levied on all assets, including holdings in collective investment schemes (OEICs) managed by Baillie Gifford & Co; however the OEICs' share class held by the Company does not itself attract a management fee. The Company's holding in the Baillie Gifford Global Discovery OEIC was sold during the year.

The investment management fee is charged 25% to revenue and 75% to capital.

4 Other Administrative Expenses

	2017 £'000	2016 £'000
General administrative expenses (including share issuance expenses)	3,358	3,103
Directors' fees (see Directors' Remuneration Report page 36)	208	194
Auditor's remuneration for audit services	25	25
Auditor's remuneration for non-audit services – certification of financial information for the debenture trustees	1	1
– provision of Indian tax services	2	3
	3,594	3,326
Share issuance expenses deducted from gross issuance proceeds*	(50)	(150)
Other administrative expenses charged to revenue	3,544	3,176

* See note 14.

5 Finance Costs of Borrowings

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	1,433	4,298	5,731	1,153	3,460	4,613
Debentures repayable wholly or partly in more than five years	3,404	10,212	13,616	3,415	10,244	13,659
	4,837	14,510	19,347	4,568	13,704	18,272

The finance costs are charged 25% to revenue and 75% to capital.

6 Tax on Ordinary Activities

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Overseas taxation	1,845	–	1,845	1,792	–	1,792
Overseas tax refunded	(124)	–	(124)	(935)	–	(935)
	1,721	–	1,721	857	–	857

	2017 £'000	2016 £'000
The tax charge for the year is lower (2016 – higher) than the standard rate of corporation tax in the UK of 20% (2016 – 20%)		
The differences are explained below:		
Net return on ordinary activities before taxation	1,301,960	(13,920)
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2016 – 20%)	260,392	(2,784)
Capital returns not taxable	(262,257)	2,772
Income not taxable (UK dividends)	(768)	(1,329)
Income not taxable (overseas dividends)	(4,346)	(4,689)
Adjustment to income received from OEICs for tax purposes	3	4
Current year management expenses and non-trade loan relationship deficit not utilised	6,976	6,026
Overseas withholding tax	1,845	1,792
Overseas withholding tax refunded	(124)	(935)
Tax charge for the year	1,721	857

At 31 March 2017 the Company had surplus management expenses and losses on non-trading loan relationships of £222 million (2016 – £188 million) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

7 Net Return per Ordinary Share

	2017 Revenue	2017 Capital	2017 Total	2016 Revenue	2016 Capital	2016 Total
Net return per ordinary share	1.07p	97.31p	93.38p	1.66p	(2.81p)	(1.15p)

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £14,136,000 (2016 – £21,428,000), and on 1,321,667,362 (2016 – 1,290,467,928) ordinary shares, being the weighted average number of ordinary shares (excluding treasury shares) during the year.

Capital return per ordinary share is based on the net capital return for the financial year of £1,286,103,000 (2016 – net capital loss of £36,205,000), and on 1,321,667,362 (2016 – 1,290,467,928) ordinary shares, being the weighted average number of ordinary shares (excluding treasury shares) during the year.

There are no dilutive or potentially dilutive shares in issue.

8 Ordinary Dividends

	2017	2016	2017 £'000	2016 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 4 July 2016)	1.58p	1.55p	20,795	19,758
Interim (paid 2 December 2016)	1.39p	1.38p	18,289	17,913
	2.97p	2.93p	39,084	37,671

Also set out below are the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £14,136,000 (2016 – £21,428,000).

	2017	2016	2017 £'000	2016 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 2 December 2016)	1.39p	1.38p	18,289	17,913
Proposed final dividend per ordinary share (payable 3 July 2017)	1.61p	1.58p	21,873	20,738
	3.00p	2.96p	40,162	38,651

9 Fixed Assets – Investments

As at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities/funds	4,565,355	5,463	–	4,570,818
Listed debt securities	–	27,277	–	27,277
Unlisted equities	–	–	700,243	700,243
Total financial asset investments	4,565,355	32,740	700,243	5,298,338

As at 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities/funds	3,415,656	23,580	–	3,439,236
Listed debt securities	–	17,241	–	17,241
Unlisted equities	–	–	465,647	465,647
Total financial asset investments	3,415,656	40,821	465,647	3,922,124

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 102, the preceding tables provide an analysis of these investments based on the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

Fair Value Hierarchy

The fair value hierarchy used to analyse the fair values of financial assets is described below. The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The valuation techniques used by the Company are explained in the accounting policies on page 46.

	Equities* £'000	Bonds £'000	Total £'000
Cost of investments at 1 April 2016	2,378,424	9,864	2,388,288
Investment holding gains at 1 April 2016	1,526,459	7,377	1,533,836
Value of investments at 1 April 2016	3,904,883	17,241	3,922,124
Movements in year:			
Purchases at cost	715,492	–	715,492
Sales – proceeds	(693,523)	–	(693,523)
– gains on sales	240,259	–	240,259
Changes in investment holding gains and losses	1,103,950	10,036	1,113,986
Value of investments at 31 March 2017	5,271,061	27,277	5,298,338
Cost of investments at 31 March 2017	2,640,652	9,864	2,650,516
Investment holding gains at 31 March 2017	2,630,409	17,413	2,647,822
Value of investments at 31 March 2017	5,271,061	27,277	5,298,338

* Includes funds.

The purchases and sales proceeds figures above include transaction costs of £261,000 (2016 – £275,000) and £312,000 (2016 – £325,000) respectively.

Of the gains on sales during the year of £240,259,000 (2016 – gains of £236,024,000) a net gain of £140,787,000 (2016 – gain of £193,357,000) was included in the investment holding gains/(losses) at the previous year end.

9 Fixed Assets – Investments (continued)

	2017 £'000	2016 £'000
Net gains on investments designated at fair value through profit or loss on initial recognition		
Gains on sales	240,259	236,024
Changes in investment holding gains	1,113,986	(242,671)
	1,354,245	(6,647)

During the year the Company had a holding in an Open Ended Investment Company ('OEIC') managed by Baillie Gifford & Co, the Company's investment manager. The share class held in the OEIC does not attract a management fee. At 31 March the Company held:

	2017 C income shares held	2017 Value £'000	2017 % of fund held	2016 C income shares held	2016 Value £'000	2016 % of fund held
Baillie Gifford Global Discovery Fund	–	–	–	2,554,821	18,607	7.8

10 Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Accrued income	3,534	2,917
Sales for subsequent settlement	6,571	–
Share issuance proceeds awaiting settlement	5,128	–
Other debtors and prepayments	1,060	1,134
	16,293	4,051

None of the above debtors is a financial asset designated at fair value through profit or loss. The carrying amount of debtors is a reasonable approximation of fair value.

11 Creditors – Amounts falling due within one year

	2017 £'000	2016 £'000
State Street Bank and Trust Company loan	–	34,787
National Australia Bank Limited loan	159,936	139,150
The Royal Bank of Scotland plc 1 year loan	131,947	114,799
The Royal Bank of Scotland plc 3 year loan	67,973	–
Purchases for subsequent settlement	–	7,926
Other creditors and accruals	8,117	6,824
	367,973	303,486

Included in other creditors is £4,037,000 (2016 – £2,967,000) in respect of the investment management fee.

Borrowing facilities at 31 March 2017

A 1 year US\$165 million revolving loan facility has been arranged with The Royal Bank of Scotland plc.

A 2 year US\$200 million revolving loan facility has been arranged with National Australia Bank Limited.

A 3 year US\$85 million loan facility has been arranged with The Royal Bank of Scotland plc.

At 31 March 2017 drawings were as follows:

The Royal Bank of Scotland plc	US\$165 million (revolving facility) at an interest rate (at 31 March 2017) of 1.525% per annum US\$85 million at an interest rate of 1.945% per annum
National Australia Bank Limited	US\$200 million (revolving facility) at an interest rate (at 31 March 2017) of 1.792% per annum

At 31 March 2016 drawings were as follows:

The Royal Bank of Scotland plc	US\$165 million (revolving facility) at an interest rate (at 31 March 2016) of 1.1169% per annum US\$85 million at an interest rate of 1.945% per annum (see note 12)
State Street Bank and Trust Company	US\$50 million at an interest rate of 1.70% per annum
National Australia Bank Limited	US\$200 million at an interest rate of 1.43% per annum

The main covenants which are tested monthly relating to the above loans are:

- (i) Total borrowings shall not exceed 35% of the Company's net asset value.
- (ii) The Company's minimum net asset value shall be £1,000 million.
- (iii) The Company shall not change the investment manager without prior written consent of the lenders.

During the year the US\$50 million 2 year loan with State Street was repaid. The US\$165 million 1 year revolving loan with The Royal Bank of Scotland plc ('RBS') was refinanced with a US\$165 million 1 year revolving loan from RBS.

The US\$200 million 2 year loan with National Australia Bank ('NAB') was repaid and refinanced with a revolving US\$200 million 2 year loan from NAB.

Subsequent to the year end, on 6 April 2017, the Company issued the following private placement unsecured loan notes:

- £45 million at a coupon of 3.05% maturing on 7 April 2042
- £30 million at a coupon of 3.30% maturing on 6 April 2044
- £30 million at a coupon of 3.12% maturing on 6 April 2047

A further unsecured loan note was agreed for funding on 30 September 2020 to refinance the £20 million 8–14% stepped interest debenture stock maturing on 30 September 2020:

- £20 million at a coupon of 3.65% maturing on 6 April 2044

Additionally, the US\$165 million 1 year revolving loan with RBS was repaid on 11 April 2017 and replaced with a US\$40 million 1 year revolving loan with RBS.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2017 £'000	2016 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	20,932	21,134
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,784	74,747
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	53,319	53,523
£675,000 4½% irredeemable debenture stock			675	675
Bank loans:				
The Royal Bank of Scotland plc 3 year loan (see note 11)			–	59,139
			149,710	209,218

Debenture stocks

The debenture stocks are stated at the cumulative amount of net proceeds after issue, plus accrued finance costs attributable to the stepped interest debentures. The cumulative effect is to increase the carrying amount of borrowings by £4,035,000 (2016 – £4,404,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

Borrowing Limits

Under the terms of the Articles of Association and the Debenture Trust Deeds, total borrowings should not exceed a sum equal to one half of the adjusted total of capital and reserves at the Company's year end.

13 Called Up Share Capital

	2017 Number	2017 £'000	2016 Number	2016 £'000
Allotted, called up and fully paid ordinary shares of 5p each	1,358,569,485	67,928	1,312,524,485	65,626
Treasury shares of 5p each	63,161,395	3,158	109,206,395	5,460
Total	1,421,730,880	71,086	1,421,730,880	71,086

The Company's authority permits it to hold shares bought back 'in treasury'. Such treasury shares may be subsequently either sold for cash (at, or at a premium to, net asset value per ordinary share) or cancelled. In the year to 31 March 2017 a total of 7,005,000 (2016 – 1,250,000) ordinary shares with a nominal value of £350,000 (2016 – £63,000) were bought back at a total cost of £19,558,000 (2016 – £3,199,000) and held in treasury. At 31 March 2017 the Company had authority to buy back a further 193,072,120 ordinary shares.

Under the provisions of the Company's Articles the share buy-backs were funded from the capital reserve.

In the year to 31 March 2017, the Company sold 53,050,000 ordinary shares from treasury at a premium to net asset value, with a nominal value of £2,653,000 raising net proceeds of £174,550,000 (31 March 2016 – 68,100,000 ordinary shares raising net proceeds of £179,873,000). At 31 March 2017 the Company had authority to issue or sell from treasury a further 83,302,448 ordinary shares.

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 April 2016	71,086	19,094	3,313,502	53,762	3,457,444
Gains on sales	–	–	240,259	–	240,259
Changes in investment holding gains and losses	–	–	1,113,986	–	1,113,986
Exchange differences	–	–	6,927	–	6,927
Exchange differences on loans	–	–	(49,885)	–	(49,885)
Shares bought back into treasury	–	–	(19,558)	–	(19,558)
Shares issued from treasury	–	–	174,600	–	174,600
Share issuance expenses	–	–	(50)	–	(50)
Investment management fee charged to capital	–	–	(10,674)	–	(10,674)
Finance costs of borrowings charged to capital	–	–	(14,510)	–	(14,510)
Dividends paid in year	–	–	–	(39,084)	(39,084)
Revenue return on ordinary activities after taxation	–	–	–	14,136	14,136
At 31 March 2017	71,086	19,094	4,754,597	28,814	4,873,591

The capital reserve includes investment holding gains of £2,647,822,000 (2016 – gains of £1,533,836,000) as disclosed in note 9. The revenue reserve and the capital reserve (to the extent it constitutes realised profits) are distributable.

15 Shareholders' Funds

	2017 £'000	2016 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	4,873,591	3,457,444

Total shareholders' funds have been calculated in accordance with the provisions of FRS 102. However, the net asset value per share figures in note 16 have been calculated on the basis of shareholders' rights to reserves as specified in the Articles of Association of the Company. A reconciliation of the two figures is as follows:

	2017	2016
Shareholders' funds attributable to ordinary shares (as above)	£4,873,591,000	£3,457,444,000
Number of ordinary shares in issue at the year end*	1,358,569,485	1,312,524,485
Shareholders' funds per ordinary share	358.7p	263.4p
Additions/(deductions) – expenses of debenture issue	(0.1p)	(0.1p)
– allocation of interest on borrowings	0.4p	0.5p
Net asset value per ordinary share	359.0p	263.8p

* Excluding shares held in treasury.

16 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net assets attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	2017	2016	2017 £'000	2016 £'000
Ordinary shares	359.0p	263.8p	4,877,626	3,461,848
			2017 £'000	2016 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows:				
Total net assets at the start of the year			3,461,848	3,337,950
Total recognised gains and losses for the year			1,300,239	(14,777)
Dividends paid in the year			(39,084)	(37,671)
Adjustment to debentures			(369)	(328)
Shares bought back			(19,558)	(3,199)
Shares issued from treasury			174,550	179,873
Total net assets at 31 March			4,877,626	3,461,848

Net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the debentures at par/nominal value (see note 19)) and on 1,358,569,485 (2016 – 1,312,524,485) ordinary shares, being the number of ordinary shares (excluding treasury shares) in issue at the year end. Shareholders' funds as reported on the face of the Balance Sheet have been calculated in accordance with the provisions of FRS 102. A reconciliation of the two sets of figures under these two conventions is given in note 15.

17 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 36.

No Director has a contract of service with the Company. During the year no Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

18 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a capital commitment amounting to US\$23,600,000 (2016 – US\$18,930,000) in respect of five (2016 – four) subscription agreements: Innovation Works Development Fund, L.P. with a total commitment of US\$15.00 million which expires on 21 May 2020, Sinovation Fund III, L.P. with a total commitment of US\$10.00 million which expires on 31 December 2025, WI Harper Fund VII QP L.P. with a total commitment of US\$10.00 million which expires on 3 March 2019, WI Harper Fund VIII L.P. with a total commitment of US\$10.00 million which expires on 31 July 2024 and ARCH Venture Fund IX, L.P. with a total commitment of US\$10.00 million which expires on 6 July 2026. At 31 March 2017 US\$15.00 million, US\$2.25 million, US\$9.34 million, US\$4.67 million and US\$0.95 million (2016 – US\$12.83 million, US\$1.50 million, US\$8.74 million, US\$3.00 million and US\$ Nil) have been drawn down on each of these agreements respectively.

19 Financial Instruments

As an Investment Trust, the Company invests in listed and unlisted equities and makes other investments so as to achieve its investment objective of maximising total return, whilst also generating dividend growth, from a focused and actively managed global portfolio. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise the short term volatility. Risk provides the potential for both losses and gains and in assessing risk, the Board encourages the Managers to exploit the opportunities that risk affords.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

Market Risk

The fair value of future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board reviews and agrees policies for managing these risks and the Company's Investment Managers both assess the exposure to market risk when making individual investment decisions and monitor the overall level of market risk across the investment portfolio on an ongoing basis. Details of the Company's investment portfolio are shown in note 9 and on pages 21 to 23.

19 Financial Instruments (continued)

Currency Risk

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results). Consequently, movements in exchange rates may affect the sterling value of those items.

The Investment Managers monitor the Company's exposure to foreign currencies and report to the Board on a regular basis. The Investment Managers assess the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the country in which a company is listed is not necessarily where it earns its profits. The movement in exchange rates on earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the company is quoted.

Foreign currency borrowings can limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments.

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

As at 31 March 2017	Investments £'000	Cash and cash equivalents £'000	Loans and debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	3,311,569	67,547	(359,856)	(890)	3,018,370
Euro	1,055,007	–	–	998	1,056,005
Hong Kong dollar	308,730	–	–	–	308,730
Swedish krona	246,984	–	–	1,865	248,849
Brazilian real	27,277	–	–	546	27,823
Danish krone	47,104	–	–	–	47,104
Indonesian rupiah	17,659	–	–	–	17,659
Indian rupee	78,537	–	–	–	78,537
Total exposure to currency risk	5,092,867	67,547	(359,856)	2,519	4,803,077
Sterling	205,471	9,096	(149,710)	5,657	70,514
	5,298,338	76,643	(509,566)	8,176	4,873,591

* Includes net non-monetary assets of £10,000.

As at 31 March 2016	Investments £'000	Cash and cash equivalents £'000	Loans and debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	2,389,758	11,196	(347,874)	(656)	2,052,424
Euro	745,466	–	–	(7,018)	738,448
Hong Kong dollar	190,964	–	–	–	190,964
Swedish krona	156,525	–	–	–	156,525
Brazilian real	17,241	–	–	408	17,649
Danish krone	54,045	–	–	61	54,106
Polish zloty	5,270	–	–	–	5,270
Japanese yen	7,826	–	–	68	7,894
Indonesian rupiah	12,933	–	–	–	12,933
Indian rupee	42,009	–	–	114	42,123
Total exposure to currency risk	3,622,037	11,196	(347,874)	(7,023)	3,278,336
Sterling	300,087	32,777	(150,080)	(3,676)	179,108
	3,922,124	43,973	(497,954)	(10,699)	3,457,444

* Includes net non-monetary assets of £34,000.

19 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2017, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the Financial Statement amounts. The analysis is performed on the same basis for 2016.

	2017 £'000	2016 £'000
US dollar	150,919	102,621
Euro	52,800	36,922
Hong Kong dollar	15,437	9,548
Swedish krona	12,442	7,826
Indian rupee	3,927	2,106
Danish krone	2,355	2,705
Brazilian real	1,391	883
Polish zloty	–	264
Japanese yen	–	395
Indonesian rupiah	883	647
	240,154	163,917

Interest Rate Risk

Interest rate movements may affect directly:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- the fair value of the Company's fixed-rate borrowings; and
- the interest payable on the Company's variable rate borrowings.

Interest rate movements may also impact upon the market value of the Company's investments outwith fixed income securities. The effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The Board reviews on a regular basis the amount of investments in cash and fixed income securities and the income receivable on cash deposits, floating rate notes and other similar investments.

The Company finances part of its activities through borrowings at approved levels. The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board. Movements in interest rates, to the extent that they affect the market value of the Company's fixed rate borrowings, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value at fair value.

19 Financial Instruments (continued)

Interest Rate Risk (continued)

The interest rate risk profile of the Company's financial assets and liabilities at 31 March is shown below:

Financial Assets

	2017 Fair value £'000	2017 Weighted average interest rate	2017 Weighted average period until maturity *	2016 Fair value £'000	2016 Weighted average interest rate	2016 Weighted average period until maturity *
Floating rate:						
Brazilian bonds (index linked)	27,277	9.7%	28 years	17,241	11.0%	29 years
Cash and short term deposits:						
Other overseas currencies	67,547	–	n/a	11,196	–	n/a
Sterling	9,096	0.1%	n/a	32,777	0.3%	n/a

* Based on expected maturity date.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the Interbank market rates.

Financial Liabilities

The interest rate risk profile of the Company's bank loans and debentures (at amortised cost) and the maturity profile of the undiscounted future cash flows in respect of the Company's contractual financial liabilities at 31 March are shown below.

Interest Rate Risk Profile

The interest rate risk profile of the Company's financial liabilities at 31 March was:

	2017 £'000	2016 £'000
Floating rate – US\$ denominated	291,883	114,799
Fixed rate – Sterling denominated	149,710	150,079
– US\$ denominated	67,973	233,076
	509,566	497,954

Maturity Profile

The maturity profile of the Company's financial liabilities at 31 March was:

	2017 Within 1 year £'000	2017 Between 1 and 5 years £'000	2017 More than 5 years £'000	2016 Within 1 year £'000	2016 Between 1 and 5 years £'000	2016 More than 5 years £'000
Repayment of loans and debentures	359,856	20,000	125,675	288,736	79,139	125,675 *
Accumulated interest on loans and debentures to maturity date	18,060	52,487	33,022	18,094	55,125	44,209
	377,916	72,487	158,697	306,830	134,264	169,884

* Includes £675,000 irredeemable debenture stock.

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2017 would have decreased total net assets and total return on ordinary activities by £3,729,000 (2016 – £2,177,000) and would have increased the net asset value per share (with borrowings at fair value) by 0.55p (2016 – increased by 0.84p). A decrease of 100 basis points would have had an equal but opposite effect.

19 Financial Instruments (continued)

Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Managers. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore performance may well diverge from the short term fluctuations of the benchmark. The Board provides guidance to the Managers on the level of unlisted investments.

Other Price Risk Sensitivity

Fixed asset investments are valued at bid prices which equate to their fair value. A full list of the Company's investments is given on pages 21 to 23. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector and a list of the 30 largest investments by their aggregate market value are contained in the Strategic Report.

93.8% (2016 – 99.5%) of the Company's net assets are invested in quoted equities. A 3% increase in quoted companies equity valuations at 31 March 2017 would have increased total assets and total return on ordinary activities by £137,125,000 (2016 – £103,177,000). A decrease of 3% would have had an equal but opposite effect.

Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is potentially significant but the majority of the Company's assets are investments in quoted securities that are believed to be readily realisable. The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

The Company has the power to take out borrowings, which give it access to additional funding when required.

Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

This risk is managed as follows:

- where the Investment Managers make an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- the Board regularly receives information from the Investment Managers on the credit ratings of those bonds and other securities in which the Company has invested;
- the Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The Depositary has delegated the custody function to Bank of New York Mellon SA/NV London Branch. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Manager monitors the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board;
- investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Investment Managers. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations at the same time as any transfer of cash or securities away from the Company is completed;
- transactions involving derivatives, and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the Investment Managers of the creditworthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board; and
- cash is held only at banks that are regularly reviewed by the Managers.

Credit Risk Exposure

The maximum exposure to direct credit risk at 31 March was:

	2017 £'000	2016 £'000
Fixed interest investments	27,277	17,241
Cash and short term deposits	76,643	43,973
Debtors and prepayments	16,293	4,051
	120,213	65,265

None of the Company's financial assets is past due or impaired.

19 Financial Instruments (continued)

Fair Value of Financial Assets and Financial Liabilities

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the Balance Sheet with the exception of long term borrowing. Long term borrowings in relation to debentures are included in the accounts at the amortised amount of net proceeds after issue, plus accrued finance costs in accordance with FRS 102. The fair value of bank loans is calculated with reference to government bonds of comparable maturity and yield. A comparison with the fair value (closing offer value) is as follows:

	2017 Par/nominal £'000	2017 Book £'000	2017 Fair £'000	2016 Par/nominal £'000	2016 Book £'000	2016 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	20,932	27,295	20,000	21,134	29,540
6.875% debenture stock 2023	75,000	74,784	95,250	75,000	74,747	89,044
6–12% stepped interest debenture stock 2026	50,000	53,319	83,028	50,000	53,523	85,927
4½% irredeemable debenture stock	675	675	712	675	675	649
Total debentures	145,675	149,710	206,285	145,675	150,079	205,160
Fixed rate loans		67,973	68,083		233,076	233,687
Floating rate loans		291,883	291,883		114,799	114,799
Total borrowings		509,566	566,251		497,954	553,646

All short term floating rate borrowings are stated at fair value, which is considered to be equal to their par value.

Deducting long term borrowings at fair value would have the effect of reducing the net asset value per share from 358.7p to 354.6p. Taking the market price of the ordinary shares at 31 March 2017 of 366.1p, this would have given a premium to net asset value of 3.2% as against a premium of 2.1% on a debt at book basis. At 31 March 2016 the effect would have been to reduce the net asset value from 263.4p to 259.2p. Taking the market price of the ordinary shares at 31 March 2016 of 262.5p, this would have given a premium to net asset value of 1.3% as against a discount of 0.3% on a debt at book basis.

Deducting long term borrowings at par value would have the effect of increasing the net asset value per share from 358.7p to 359.0p. Taking the market price of the ordinary shares at 31 March 2017 of 366.1p, this would have given a premium to net asset value of 2.0% as against a premium of 2.1% on a debt at book basis. At 31 March 2016 the effect would have been to increase the net asset value from 263.4p to 263.8p. Taking the market price of the ordinary shares at 31 March 2016 of 262.5p, this would have given a discount to net asset value of 0.5% as against a discount of 0.3% on a debt at book basis.

Capital Management

The capital of the Company is its share capital and reserves as set out in notes 13 and 14 together with its borrowings (see notes 11 and 12). The objective of the Company is to maximise total return from a portfolio of long term investments chosen on a global basis, enabling the Company to provide capital and dividend growth. The Company's investment policy is set out on page 7. In pursuit of the Company's objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern and details of the related risks and how they are managed are set out on pages 8 and 9 and on pages 31 and 32. The Company has the authority to issue and buy back its shares (see page 7) and changes to the share capital during the year are set out in notes 13 and 14. The Company does not have any externally imposed capital requirements other than the covenants on its loans and debentures which are detailed in notes 11 and 12.

20 Subsequent Events

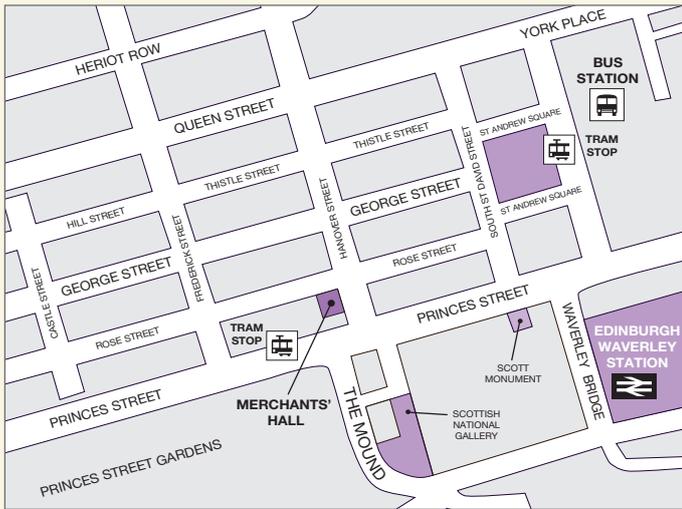
Subsequent to the year end, on 6 April 2017, the Company issued the following private placement unsecured loan notes:

- £45 million at a coupon of 3.05% maturing on 7 April 2042.
- £30 million at a coupon of 3.30% maturing on 6 April 2044.
- £30 million at a coupon of 3.12% maturing on 6 April 2047.

A further unsecured loan note was agreed for funding on 30 September 2020 to refinance the £20 million 8–14% stepped interest debenture stock maturing on 30 September 2020:

- £20 million at a coupon of 3.65% maturing on 6 April 2044.

Annual General Meeting



The Annual General Meeting of the Company will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh, EH2 2EP on Thursday, 29 June 2017 at 4.30pm.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 917 2112.

Baillie Gifford may record your call.

If you are unable to attend the Annual General Meeting, you may wish to consider registering for the Scottish Mortgage Investor Forum in London on 22 June – see page 70 for details.

 **By Rail:** Edinburgh Waverley

 **By Bus:** Lothian Buses local services include: 1, 3, 4, 15, 19, 22, 25, 29, 30, 31, 33, 34, 37, 41

Notice is hereby given that an Annual General Meeting of Scottish Mortgage Investment Trust PLC (the 'Company') will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh EH2 2EP on Thursday 29 June 2017 at 4.30 pm for the purposes of considering and, if thought fit, passing the following Resolutions, of which Resolutions 1 to 12 and 14 will be proposed as ordinary Resolutions and Resolutions 13 and 15 will be proposed as special resolutions:

1. To receive and adopt the Company's Annual Report and Financial Statements for the financial year ended 31 March 2017, together with the Reports of the Directors and the Auditor's report thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Report on Remuneration for the financial year ended 31 March 2017.
4. To declare a final dividend of 1.61p per Ordinary Share.
5. To re-elect Mr LJ Dowley as a Director of the Company.
6. To re-elect Professor JA Kay as a Director of the Company.
7. To re-elect Professor PH Maxwell as a Director of the Company.
8. To re-elect Ms FC McBain as a Director of the Company.
9. To re-elect Dr P Subacchi as a Director of the Company.
10. To re-appoint KPMG LLP as Independent Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the Financial Statements are laid before the Company.
11. To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.

12. That:

- (a) the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the 'Act') to allot shares in the Company, or to grant rights to subscribe for or convert any security into shares in the Company, up to a maximum nominal amount of £6,861,847.40; and
- (b) the authority given by this Resolution:
 - (i) shall be in substitution for all pre-existing authorities under section 551 of the Act; and
 - (ii) unless renewed, revoked or varied in accordance with the Act, shall expire on 29 September 2018 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2018 save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require the allotment of shares in the Company, or the grant of rights to subscribe for or to convert any security into shares in the Company, after such expiry.

13. That, subject to the passing of Resolution 12 set out in the Notice of Annual General Meeting dated 26 May 2017 (the 'Allotment Authority'), the Directors be given power pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the Allotment Authority, and to sell treasury shares for cash, as if section 561(1) of the Act did not apply to such allotment or sale, provided that such power:

- (a) shall be limited to the allotment of equity securities or the sale of treasury shares up to an aggregate nominal amount of £6,861,847.40;
- (b) shall be in substitution for all pre-existing powers under sections 570 and 573 of the Act; and
- (c) shall expire at the same time as the Allotment Authority, save that the Company may before expiry of the power conferred on the Directors by this Resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry.

14. That the Directors be authorised for the purposes of LR15.4.11 of the Listing Rules of the UK Listing Authority of the Financial Conduct Authority to allot ordinary shares and to sell treasury shares for cash at a price below the net asset value per share of those shares without first offering those shares pro rata to existing Shareholders.
15. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) of the Act) of its ordinary shares, (either for retention as treasury shares for future reissue, resale, transfer or for cancellation), provided that:
- (a) the maximum number of ordinary shares hereby authorised to be purchased is 205,718,185 or, if less, the number representing approximately 14.99 per cent. of the issued share capital of the Company on the date on which this Resolution is passed;
 - (b) the minimum price (excluding expenses) which may be paid for each ordinary share shall be the nominal value of that share;
 - (c) the maximum price (excluding expenses) which may be paid for any ordinary share purchased pursuant to this authority shall not be more than the higher of:
 - (i) 5 per cent. above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
 - (ii) the higher price of the last independent trade of an ordinary share and the highest current independent bid for such a share on the London Stock Exchange; and
 - (d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2018, save that the Company may, prior to the expiry of such authority, enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract or contracts.

Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the Financial Statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com no later than 2 days (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 2 days (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

By order of the Board
Baillie Gifford & Co Limited
Company Secretaries
26 May 2017

Shareholder Information

5. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST service by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, the Baillie Gifford Children's Savings Plan or the Baillie Gifford Investment Trust ISA who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish on its website, (without payment) a statement (which is also passed to the Auditor) setting out any matter relating to the audit of the Company's accounts, including the Auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent. of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
13. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at www.scottishmortgageit.com.
14. Members have the right to ask questions at the meeting in accordance with section 319A of the Companies Act 2006.
15. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
16. As at 11 May 2017 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 1,372,369,485 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 11 May 2017 were 1,372,369,485 votes.
17. Any person holding 3 per cent. or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he/she and his/her proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
18. No Director has a contract of service with the Company.

Further Shareholder Information

How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles (see page 67). You can also find specific details about investing in Scottish Mortgage at www.scottishmortgageit.com.

Sources of Further Information on the Company

The price of shares is quoted daily in the Financial Times and can also be found on the Scottish Mortgage pages of the Baillie Gifford website at www.scottishmortgageit.com, Trustnet at www.trustnet.co.uk and on other financial websites. Company factsheets are also available on the Baillie Gifford website and are updated monthly. These are available from Baillie Gifford on request.

Scottish Mortgage Share Identifiers

ISIN GB00BLDYK618

Sedol BLDYK61

Ticker SMT

Legal Entity Identifier 213800G37DCS3Q9IJM38

The Ordinary shares of the Company are listed on the London Stock Exchange and their price is shown in the Financial Times, Daily Telegraph and The Scotsman under 'Investment Companies'.

AIC

Scottish Mortgage was one of the founding members of The Association of Investment Companies in 1932. The AIC's website www.theaic.co.uk contains detailed information about investment trusts, such as factsheets and statistics on the investment trust industry.

Key Dates

Ordinary shareholders normally receive two dividends in respect of each financial year. An interim dividend is paid at the end of November/early December and a final dividend is paid in early July. The Annual General Meeting is normally held in late June or early July.

Capital Gains Tax

For Capital Gains Tax indexation purposes, the market value (adjusted for the bonus issue of 4 for 1 and the stock split of 5 for 1) of an ordinary share in the Company as at 31 March 1982 was 6.12p.

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0370 707 1300.

This helpline also offers an automated self-service functionality (available 24 hours a day, 7 days a week) which allows you to:

- hear the latest share price;
- confirm your current share holding balance;
- confirm your payment history; and
- order Change of Address, Dividend Bank Mandate and Stock Transfer forms.

By quoting the reference number on your share certificate you can check your holding on the Registrar's website at www.investorcentre.co.uk.

They also offer a free, secure share management website service which allows you to:

- view your share portfolio and see the latest market price of your shares;
- calculate the total market value of each shareholding;
- view price histories and trading graphs;
- register to receive communications from the Company, including the Annual Report and Financial Statements, in electronic format;
- update bank mandates and change address details;
- use online dealing services; and
- pay dividends directly into your overseas bank account in your chosen local currency.

To take advantage of this service, please log in at www.investorcentre.co.uk and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate).

Dividend Reinvestment Plan

Computershare operates a Dividend Reinvestment Plan which can be used to buy additional shares instead of receiving your dividend via cheque or into your bank account. For further information log in to www.investorcentre.co.uk and follow the instructions or telephone 0370 707 1694.

Electronic Communications and Proxy Voting

If you hold stock in your own name you can choose to receive communications from the Company, and vote, in electronic format. This method reduces costs, is environmentally friendly and, for many, is convenient too. The paragraphs below explain how you can use these services.

- **Electronic Communications** If you would like to take advantage of this service, please visit our Registrar's website at www.investorcentre.co.uk and register. You will need your shareholder reference number (which is on your share certificate and tax voucher) to hand. If you then agree to the terms and conditions, in future, on the day that documents are sent to shareholders by post, you will receive an e-mail providing the website address link to the documents. After you register, paper documents will be available on request.
- **Electronic Proxy Voting** You can also return proxies electronically at www.eproxyappointment.com. If you have registered for electronic communications you will be issued a PIN number to use when returning proxies to the secure Registrar website. You do not need to register for electronic communications to use electronic proxy voting, paper proxy forms will contain a PIN number to allow you to return proxies electronically.

If you have any questions about this service please contact Computershare on 0370 707 1300.

Scottish Mortgage is an investment trust. Investment trusts offer investors the following:

- participation in a diversified portfolio of shares;
- constant supervision by experienced professional managers; and
- the Company is free from capital gains tax on capital profits realised within its portfolio although investors are still liable for capital gains tax on profits when selling their investment.

These accounts have been approved by the Directors of Scottish Mortgage Investment Trust PLC.

Analysis of Shareholders at 31 March

	2017 Number of shares held	2017 %	2016 Number of shares held	2016 %
Institutions	320,077,649	23.6	331,359,996	25.2
Intermediaries*	800,110,571	58.9	750,905,520	57.2
Individuals	65,799,588	4.8	73,511,467	5.6
Baillie Gifford				
Share Plans/ISA	159,218,024	11.7	154,416,204	11.8
Marketmakers	13,363,653	1.0	2,331,298	0.2
	1,358,569,485	100.0	1,312,524,485	100.0

* Intermediaries include wealth managers and execution-only platforms.

Automatic Exchange of Information

In order to fulfil its obligations under UK tax legislation relating to the automatic exchange of information, Scottish Mortgage Investment Trust PLC is required to collect and report information about certain categories of shareholders.

The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly, Scottish Mortgage Investment Trust PLC will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Shareholders, excluding those whose shares are held in CREST, who came on to the share register with effect from 1 January 2016 will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders <https://www.gov.uk/government/publications/exchange-of-information-account-holders>.

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors.

AIFM Remuneration

In accordance with the Directive, the AIFM remuneration policy is available at www.bailliegifford.com or on request (see contact details on the back cover) and the numerical remuneration disclosures in respect of the AIFM's relevant reporting period are available at www.bailliegifford.com.

Leverage

The Company's maximum and actual leverage levels (see Glossary of Terms on page 71) at 31 March 2017 are shown below:

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.10:1	1.10:1

Cost-effective Ways to Buy and Hold Shares in Scottish Mortgage



Press advertisement for Scottish Mortgage



The Baillie Gifford Investment Trust Share Plan available at www.scottishmortgageit.com

Baillie Gifford Savings Management Limited offers a number of plans that enable you to buy and hold shares of Scottish Mortgage cost-efficiently. Purchases and sales are normally subject to a dealing price spread and Government stamp duty of 0.5% is payable on purchases.

The Baillie Gifford Investment Trust Share Plan

- No initial charge
- No annual wrapper charge
- Normally cheaper than dealing through a stockbroker
- Invest a lump sum from £250 or monthly from just £30
- No maximum investment limits
- Stop and start saving at any time with no charge
- Twice weekly dealing (usually Tuesday and Friday)
- A withdrawal charge of just £22

The Baillie Gifford Investment Trust ISA

- Tax-efficient investment
- No set-up charge
- Flat rate annual management charge currently of £32.50 + VAT
- Lump sum investment from £2,000 currently up to a maximum of £20,000 each year
- Save monthly from £100
- A withdrawal charge of just £22

ISA Transfers

- Transfer existing ISAs from other plan managers into the Baillie Gifford ISA
- Consolidate your plans into a managed global investment
- Minimum transfer value £2,000

The Baillie Gifford Children's Savings Plan

- An excellent way for parents, grandparents or other adults to invest for a child
- No initial charge
- No annual wrapper charge
- The option of a designated account or a bare trust in favour of the child
- Flexible investment options: lump sum from £100 or monthly saving from just £25
- A withdrawal charge of just £22

Online Management Service

You can also open and manage your Share Plan/Children's Savings Plan* and/or ISA online, through our secure Online Management Service (OMS) which can be accessed through the Baillie Gifford website at www.bailliegifford.com/oms. As well as being able to view the details of your plan online, the service also allows you to:

- Obtain current valuations;
- Make lump sum investments, except where there is more than one holder;
- Sell part or all of your holdings, except where there is more than one holder;
- Switch between investment trusts, except where there is more than one holder; and
- Update certain personal details e.g. address and telephone number.

*Please note that a bare trust cannot be opened via OMS. A bare trust application form must be completed.

Certain restrictions apply for accounts where there is more than one holder.

Further information

If you would like more information on any of the plans described above, please contact the Baillie Gifford Client Relations Team (see contact details on page 69).

Risks

- Past performance is not a guide to future performance.
- Scottish Mortgage is listed on the London Stock Exchange. 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.
- Scottish Mortgage's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.
- Scottish Mortgage 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.
- Scottish Mortgage invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- Scottish Mortgage has borrowed money to make further investments (sometimes known as 'gearing' or 'leverage'). The risk is that when this money is repaid by the Company, the value of the investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company's investments fall in value, any borrowings will increase the amount of this loss.
- Scottish Mortgage can buy back its own shares. The risks from borrowing, referred to above, are increased when a Company buys back its shares.
- 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 Company might receive upon their sale.
- Scottish Mortgage can make use of derivatives which may impact on its performance.
- Scottish Mortgage charges 75% of the investment management fee and 75% of borrowing costs to capital which reduces the capital value. Also, when income is low, the remaining expenses may be greater than the total income received, meaning the capital value would be further reduced.
- You should note that tax rates and reliefs may change at any time and their value depends on circumstances.
- The favourable tax treatment of ISAs may change.
- Details of other risks that apply to investment in the savings vehicles shown on page 67 are contained in the product brochures.

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

Further details of the risks associated with investing in the Company, including how charges are applied, can be found at www.scottishmortgageit.com, or by calling Baillie Gifford on 0800 917 2112.

The information and opinions expressed within this Annual Report and Financial Statements are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co Limited, the Managers and Secretaries, and does not in any way constitute investment advice.

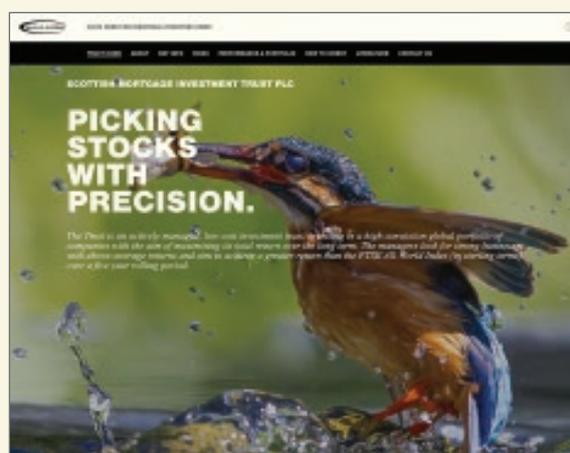
Baillie Gifford Savings Management Limited (BGSM) is the manager of The Baillie Gifford Investment Trust Share Plan, The Baillie Gifford Children's Savings Plan and The Baillie Gifford Investment Trust ISA. BGSM is wholly owned by Baillie Gifford & Co. BGSM and Baillie Gifford & Co are both authorised and regulated by the Financial Conduct Authority. Baillie Gifford only provides information about its products and does not provide investment advice.

The staff of Baillie Gifford and the Directors of Scottish Mortgage may hold shares in Scottish Mortgage and may buy or sell shares from time to time.

Communicating with Shareholders



Trust Magazine



A Scottish Mortgage web page at www.scottishmortgageit.com

Promoting Scottish Mortgage

Baillie Gifford carries out extensive marketing activity to promote Scottish Mortgage to institutional, intermediary and direct investors. The Board warmly supports the promotion of the plans described on page 67 in order to bring the merits of Scottish Mortgage to as wide an audience as possible.

Trust Magazine

Trust is the Baillie Gifford investment trust magazine which is published three times a year. It provides an insight to our investment approach by including interviews with our fund managers, as well as containing investment trust news, investment features and articles about the trusts managed by Baillie Gifford, including Scottish Mortgage. *Trust* plays an important role in helping to explain our products so that readers can really understand them. For a copy of *Trust*, please contact the Baillie Gifford Client Relations Team (see contact details opposite).

An online version of *Trust* can be found at www.bgtrustonline.com.

Scottish Mortgage on the Web

Up-to-date information about Scottish Mortgage is on the Scottish Mortgage pages of the Managers' website at www.scottishmortgageit.com. You will find full details of Scottish Mortgage, including recent portfolio information and performance figures.

Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcome. Please contact the Baillie Gifford Client Relations Team (see contact details below) and give them your suggestions. They will also be very happy to answer any questions that you may have, either about Scottish Mortgage or the plans described on page 67.

Literature in Alternative Formats

It is possible to provide copies of literature in alternative formats, such as large print or audio. Please contact the Baillie Gifford Client Relations Team for more information.

Client Relations Team Contact Details

Telephone: 0800 917 2112

Your call may be recorded for training or monitoring purposes.

E-mail: trustenquiries@bailliegifford.com

Website: www.bailliegifford.com

Fax: 0131 275 3955

Client Relations Team

Baillie Gifford Savings Management Limited
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

Scottish Mortgage specific queries

Please use the following contact details:

Website: www.scottishmortgageit.com

E-mail: scottishmortgage@bailliegifford.com

Please note that Baillie Gifford is not permitted to give financial advice. If you would like advice or if you have any questions about the suitability of any of these plans for you, please ask an authorised intermediary.

The Scottish Mortgage Investor Forums

The Scottish Mortgage Investor Forums seek to offer existing and prospective Scottish Mortgage shareholders the chance to hear presentations from the Managers, James Anderson and Tom Slater. The most recent of these events was held in Birmingham at the end of March. As there has proven to be a high level of demand over the past year for these events from shareholders, we will be looking to hold more of these in a variety of locations around the UK in the future.

The next Scottish Mortgage Investor Forum will be held on 22 June 2017. It will take place at 6.00pm at the Andaz Hotel, 40 Liverpool Street, London EC2M 7QN. At this evening event, James and Tom will be discussing their current investment enthusiasms and thoughts on the most exciting areas with potential for future growth. After the presentations attendees will have the opportunity to put their questions directly to the speakers.

Please visit www.scottishmortgageit.com to register for this event.

Details for all such Scottish Mortgage Investor Forums will be posted on this website as they become available.



Scottish Mortgage Investor Forums – Blue Sky Thinking for Tomorrow's World

Third Party Data Provider Disclaimer

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recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by you or any third party, whether or not based on the content, information or materials contained herein.

FTSE Index Data

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Glossary of Terms

Total Assets

Total assets represents total net assets less current liabilities, before deduction of all borrowings.

Net Asset Value

Net Asset Value (NAV) is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue and is stated on a cum-income basis.

Net Asset Value (Borrowings at Fair Value)

Borrowings are valued at an estimate of their market worth. The value of the borrowings at par, fair and book are set out on page 61.

Net Asset Value (Borrowings at Par)

Borrowings are valued at their nominal par value. The value of the borrowings at par, fair and book are set out on page 61.

Net Asset Value (Borrowings at Book)/Shareholders' Funds

Borrowings are valued at adjusted net issue proceeds. The value of the borrowings at par, fair and book are set out on page 61.

Discount/Premium

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Total Return

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes up.

Ongoing Charges Ratio

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value).

Gearing

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at par less cash and cash equivalents (including any outstanding trade or foreign exchange settlements) expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Equity gearing is the Company's borrowings adjusted for cash and bonds expressed as a percentage of shareholders' funds.

Leverage

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share

Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Directors

Chairman:
JPHS Scott FCII DL

LJ Dowley FCA
Professor JA Kay CBE FBA FRSE
Professor PH Maxwell DPhil
FRCP FMedSci
FC McBain ACA
Dr P Subacchi

Alternative Investment Fund Managers, Secretaries and Registered Office

Baillie Gifford & Co Limited
Calton Square
1 Greenside Row
Edinburgh
EH1 3AN
Tel: 0131 275 2000
www.bailliegifford.com

Registrar

Computershare
Investor Services PLC
The Pavilions
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Company Registration
No. SC007058
ISIN GB00BLDYK618
Sedol BLDYK61
Ticker SMT

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