THE TIMES

Emma Powell ***Tempus***

Buy, sell or hold: today's best share tips

Recession-proof dividend is the goal

SCOTTISH AMERICAN INV CO

Dividend yield	**Discount to net asset value**
2.8%	2.7%

Companies that have earned a place in traditional income funds by paying a high dividend can end up painting themselves into a corner. Diverting cash that might have been handed back to shareholders to shore up the balance sheet or fund investment in growing the business itself often receives harsh punishment.

Scottish American Investment Company eschews the traditional high-yielding names, in the hope of delivering a dividend that grows faster than the rate of inflation — a feat that the FTSE 250 constituent could manage even amid this year's runaway consumer prices.

The trust shares the same bias towards growth companies as its Baillie Gifford stablemates. Like other funds managed by the Edinburgh-based investment house, Scottish American backs companies that it thinks are capable of generating high capital growth as well as growing the dividend. Global equities account for 86 per cent of the trust's holdings, topped up with property and fixed income.

Most UK income funds pick stocks based upon the yield offered by the shares vaulting a certain threshold, say 4 or 5 per cent. The usual stalwarts of UK income funds, energy majors like BP and Shell or cigarette companies like British American Tobacco, don't appear in Scottish American's portfolio. Instead, the tech companies Microsoft and Apple and the Danish pharmaceutical group Novo Nordisk are among its largest holdings.

For traditional income investors those selections make for a bizarre approach. Each of those three stocks offer dividend yields of less than 1.5 per cent at the current price. But then also consider that all three stocks have each delivered a total return, which includes share price gains, of more than 150 per cent over the past five years.

Scottish American is looking for companies capable of consistent earnings growth that can fund a steadily rising dividend, even in a recession. Compared with the benchmark, the FTSE All World Index, the companies in the portfolio have on average far less debt, an indication not only of an ability to potentially withstand rising finance costs, but also that dividend payments haven't been made at the expense of weakening the financial security of the company. The bulk of the trust's holdings fit into two buckets: those it thinks can generate compound earnings growth of roughly 8-10 per cent a year — Procter & Gamble and PepsiCo — and those that could deliver a more rapid increase of 10-15 per cent, including the American lithium producer Albemarle.

As dividends go, Scottish American is as sturdy as they come. The trust, which was founded in 1873, hasn't cut its cash return to shareholders in more than 80 years. The trade-off? Investors will need to stomach a lower dividend yield, which amounted to 2.6 per cent based upon last year's 12.675p a share payment.

Over the past five years, the dividend paid by Scottish American has risen at a compound annual rate of 3.2 per cent, beating inflation over the same period but hardly shooting the lights out. But during the first half of this year, dividend payments rose by 8.6 per cent as the rate of inflation accelerated. This year, dividends paid from its equity holdings are on track to increase by around 10 per cent, which would provide a good base to push the dividend higher on an annual basis for the full financial year.

Scottish American's real appeal is in the total return the shares have generated compared with peers. The shares have outperformed all bar one London-listed equity income trusts over the past decade, delivering a total return of almost 207 per cent.

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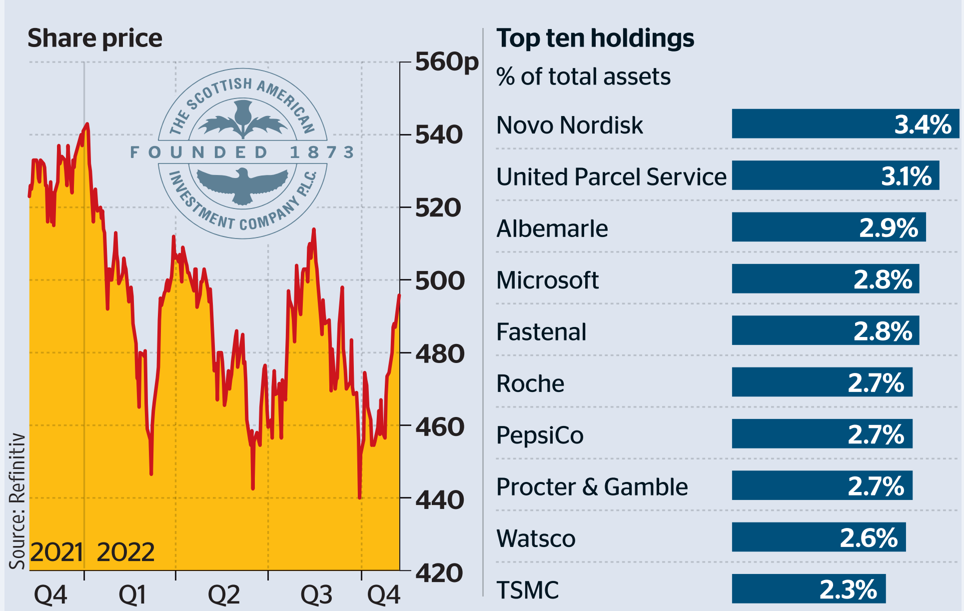

ADVICE Buy
WHY Over the long term, the shares could deliver a high compound total return

Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates.

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A Key Information Document is available by visiting bailliegifford.com

SAINTS dividends

2017	2018	2019	2020	2021
11.1	11.5	11.875	12.0	12.675

Source: Baillie Gifford & Co. Total dividend per ordinary share (net). Pence per share. As at 31 December 2021.

Annual Past Performance to 30 September Each Year (Net %)

	2018	2019	2020	2021	2022
The Scottish American Investment Company P.L.C.	9.6	13.6	8.7	16.3	-7.2

Source: Morningstar. Share price, total return, GBP. Past performance is not a guide to future returns.