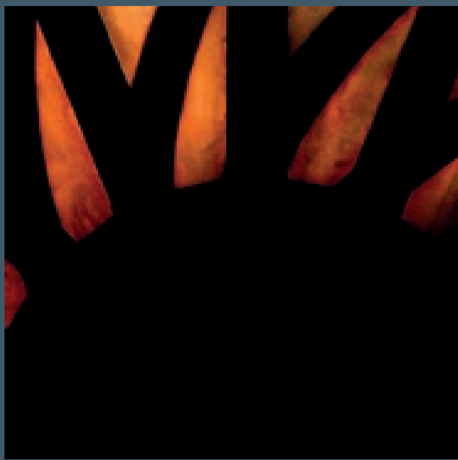
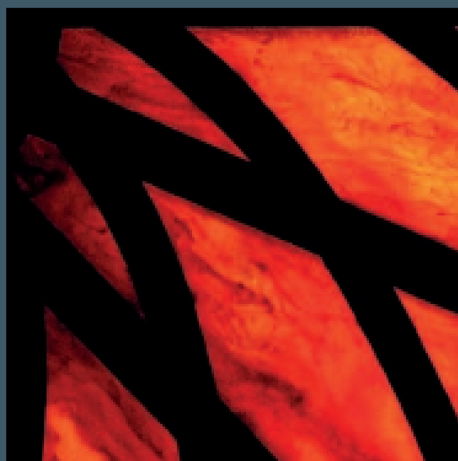
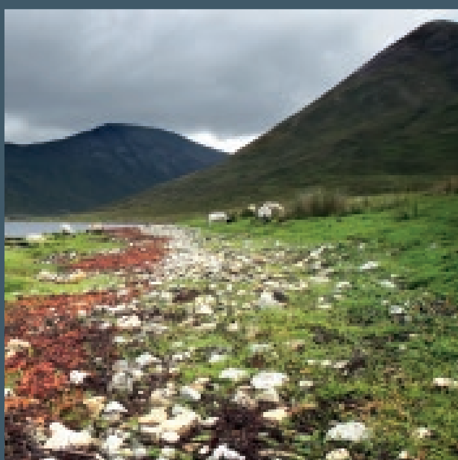
# THE SCOTTISH AMERICAN INVESTMENT COMPANY P.L.C.

SAINTS
For income and growth







Annual Report and Financial Statements
31 December 2013

BAILLIE GIFFORD

# Contents



**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.**

**SAINTS currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's Ordinary Shares can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream investment products.**

**The Trust's Ordinary Shares are excluded from the FCA's restrictions that apply to non-mainstream investment products because they are shares in an investment trust.**

**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, from another appropriately authorised financial adviser.**

**If you have sold or otherwise transferred all of your ordinary shares in The Scottish American Investment Company P.L.C., 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.**

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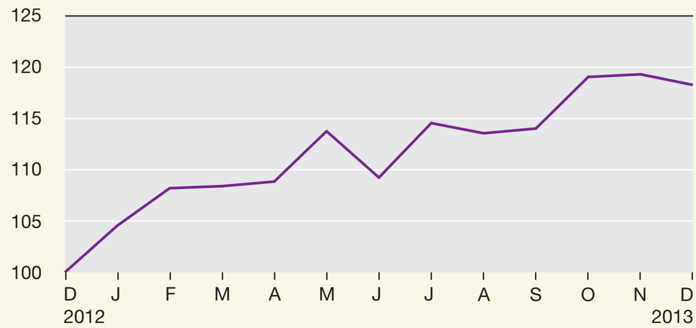
# Financial Highlights – Year to 31 December 2013

| Share Price 18.3% | NAV 16.6% | Benchmark* 21.1% |
|---|---|---|

## Share Price

(figures rebased to 100 at 31 December 2012)

Share price total return

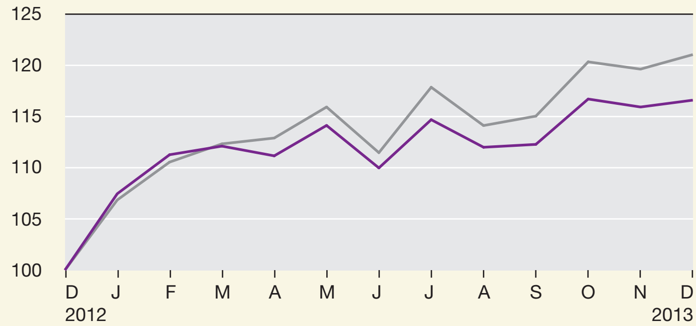



## NAV and Benchmark

(figures rebased to 100 at 31 December 2012)

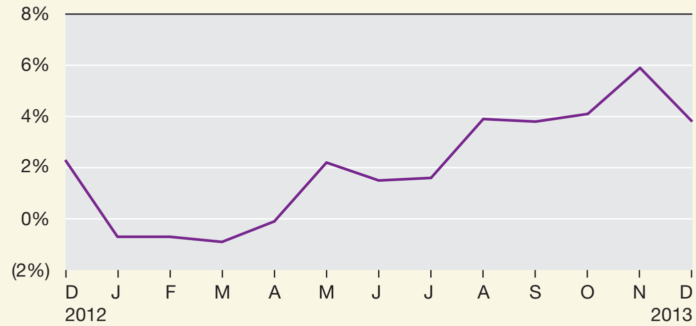
Benchmark* total return

NAV total return (after deducting borrowings at fair value)




## Discount

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




* The Company's benchmark index is 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms).
Source: Thomson Reuters Datastream/Baillie Gifford & Co.

Past performance is not a guide to future performance.

# Strategic Report

This Strategic Report, which includes pages 2 to 19 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006. This report is a new requirement and contains many of the disclosures previously contained within the Business Review section of the Directors' Report.

## Chairman's Statement

Sir Brian Ivory, Chairman

### Overview

In the five years since the 2008 global financial crisis, central banks, particularly in the large developed economies, have provided an extraordinary level of support by maintaining interest rates at exceptionally low levels and pursuing quantitative easing policies or, simply put, 'printing money'.

2013 may prove to have been the high water mark for these policies with their strong advocate, the US Federal Reserve, now reducing its bond buying programme. This change to the investing environment will no doubt present challenges but, for the period covered by this report, there has been a strong gain in net asset value and, if the recommended final distribution is approved, an increased full year dividend of 10.2p per share will maintain the record of growing the dividend in real terms over time.

### Performance

Net asset value (NAV) per share, on the fair value measure, rose 12% to 247.0p. The total return for the year (capital and income) was 17%.

The main explanation for this strong NAV result was the performance of stock markets in the developed economies. These form the largest part of the SAINTS portfolio and they rose sharply in 2013. A fall in the market value of the Company's debenture borrowings also served to boost NAV at fair value.

The NAV total return lagged the benchmark total return of 21% because of SAINTS greater allocation to Emerging Markets and the emphasis on securing income well above average yields in equity markets. The weighting to Emerging Markets reflects that the long term potential here remains considerable.

### Benchmark

The current composite benchmark (50% FTSE All-Share, 50% All-World ex UK) no longer reflects the reality that SAINTS is now a Global Equity Income trust with a relatively small UK equity exposure. The FTSE All-World Index would be more appropriate and it has been decided to make the change, effective from the start of 2014.

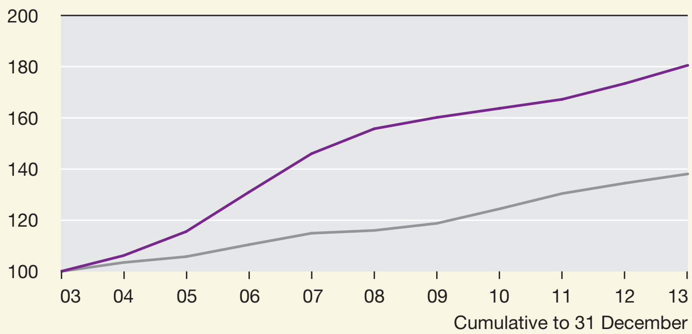
### Revenues and Dividend

Investment income and earnings per share were at broadly similar levels to last year, at £18.4m and 10.21p per share respectively. The fact that investment income did not increase reflects changes in the composition of the portfolio in the last two years, away from bonds and towards equities. The immediate effect of this is to lower the current year income forecast but with improved prospects for capital and income growth over the long term.

A final dividend of 2.6p is recommended which will take the full year dividend to 10.2p per share, 4.1% higher than the 2012 dividend of 9.8p and also ahead of inflation of 2.7% as measured by RPI.

### Dividend versus RPI

(figures rebased to 100 at 31 December 2003)




Source: Thomson Reuters Datastream/Baillie Gifford & Co.

SAINTS dividend

RPI

### Borrowings

SAINTS' borrowings take the form of a single £80m debenture which is due for repayment in April 2022. During 2013, the borrowings mainly funded a range of higher yielding commercial property and bond investments.

The book value of the debenture is £85.9m which, at the year end, was equivalent to approximately 25% of shareholders' funds. The estimated market or fair value of the debenture was £100.6m, a decline from the previous year's value of £109.2m. We expect further declines in both the debenture's book and market values as it approaches its final redemption value of £80m.

### Regulation

To comply with the Alternative Investment Fund Managers Directive, a major piece of EU legislation, the Company is required to appoint a single Alternative Investment Fund Manager (AIFM) as well as a Depositary. As a result, the Company intends amending its contractual arrangements with our managers, the partnership of Baillie Gifford & Co and OLIM Property Ltd. This will see our contractual counterparty become Baillie Gifford & Co Ltd, a wholly owned subsidiary of the Baillie Gifford partnership. In turn Baillie Gifford & Co Ltd will delegate investment management to Baillie Gifford & Co and also to OLIM Property Ltd. SAINTS has agreed to appoint BNY Mellon as Depositary.

## Articles of Association

At the AGM, the Company is seeking shareholder approval to amend the Articles to delete the provision which prohibits the distribution of any surplus arising from the realisation of investments. The Board believes that the removal of this restriction will give the Company greater flexibility in its distribution policy in the long term. Further details can be found in the Directors' Report on page 26.

## Management Arrangements

On a more personal note, after ten years as manager, Patrick Edwardson will step aside from day to day responsibility of managing the portfolio and the current Deputy Manager, Dominic Neary, will become Manager. Dominic already manages the equity investments, which represent approximately 80% of the portfolio. Patrick will remain closely involved with the management of SAINTS particularly with issues of asset allocation.

## Outlook

Global economic growth has improved but remains below trend and valuation measures suggest stock markets are not lowly rated. This, together with the impact that less supportive monetary policy may have, suggests the outlook for capital returns is modest. However, many companies are very profitable and cash-generative and there is scope for dividend payout ratios to rise.

## The Board and the AGM

The AGM will be held at 11am on Thursday 3 April at Baillie Gifford's offices at Calton Square, 1 Greenside Row, Edinburgh (see map on page 54). The Managers will make a presentation on the investment portfolio. There will also be an opportunity to ask questions and the Directors and Managers look forward to meeting you there.

I would like to finish by thanking Sir Menzies Campbell who will be retiring from the Board at the AGM after six years. The Board and Managers have been very fortunate to have had the benefit of his wise counsel over this period as well as gaining from the singular insight that he has lent to discussions of wider political and global relevance.

Sir Brian Ivory, CBE
Chairman
19 February 2014

# Year's Summary

The following information illustrates how SAINTS has performed over the year to 31 December 2013.

| | 31 December 2013 | 31 December 2012 | % change |
|---|---|---|---|
| Total assets (before deduction of debenture)* | £428.3m | £401.8m | |
| Debenture (book value) | £85.9m | £86.5m | |
| Shareholders' funds | £342.4m | £315.3m | |
| | | | |
| Net asset value per ordinary share (debenture at fair value) | 247.0p | 220.5p | 12.0 |
| Net asset value per ordinary share (debenture at book value) | 258.1p | 237.7p | 8.6 |
| Share price | 256.3p | 225.5p | 13.7 |
| FTSE All-Share Index | 3,609.6 | 3,093.4 | 16.7 |
| FTSE All-World Ex UK Index (in sterling terms) | 242.5 | 205.1 | 18.2 |
| Benchmark composite index† | | | 17.5 |
| | | | |
| Premium (debenture at fair value) | 3.8% | 2.3% | |
| Discount (debenture at book value) | (0.7%) | (5.1%) | |
| | | | |
| Revenue earnings per ordinary share | 10.21p | 10.22p | (0.1) |
| Dividends paid and payable in respect of the year | 10.20p | 9.80p | 4.1 |
| Ongoing charges | 0.90% | 0.94% | |

| Year to 31 December | 2013 | 2012 |
|---|---|---|
| **Total returns (%)#** | | |
| Net asset value (debenture at fair value) | 16.6% | 12.3% |
| Net asset value (debenture at book value) | 12.8% | 11.7% |
| Share price | 18.3% | 13.0% |
| Benchmark composite Index† | 21.1% | 12.2% |

| Year to 31 December | 2013 | 2013 | 2012 | 2012 |
|---|---|---|---|---|
| **Year's high and low** | **High** | **Low** | **High** | **Low** |
| Net asset value (debenture at fair value) | 258.3p | 220.9p | 229.3p | 197.9p |
| Net asset value (debenture at book value) | 275.0p | 238.1p | 245.0p | 217.1p |
| Share price | 263.5p | 225.5p | 236.8p | 208.3p |
| Premium/(discount) – debenture at fair value | 5.9% | (2.8%) | 6.8% | (0.8%) |
| Premium/(discount) – debenture at book value | 0.7% | (8.7%) | (1.3%) | (8.0%) |

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Net return per ordinary share** | | |
| Revenue | 10.21p | 10.22p |
| Capital | 19.58p | 15.96p |
| Total | 29.79p | 26.18p |

* Net of current liabilities.
† The Company's benchmark is 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms).
# Source: Thomson Reuters Datastream/Baillie Gifford & Co.

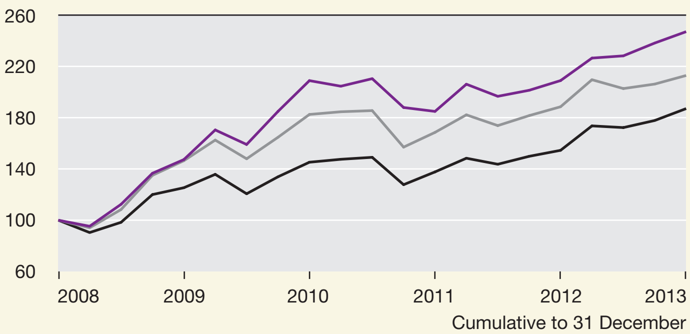
Past performance is not a guide to future performance.

# Five Year Summary

The following charts indicate how SAINTS has performed relative to its benchmark index, 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms), the relationship between share price and net asset value and a comparison of the dividends to the RPI over the five year period to 31 December 2013.

## Five Year Total Return Performance

(figures rebased to 100 at 31 December 2008)



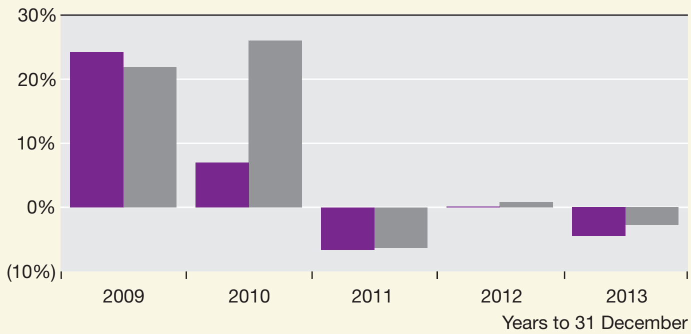

Source: Thomson Reuters Datastream/Baillie Gifford & Co.

Share price total return

NAV total return (book value)

Benchmark* total return

## Relative Annual Net Asset Value and Share Price Total Returns (relative to the benchmark* total return)



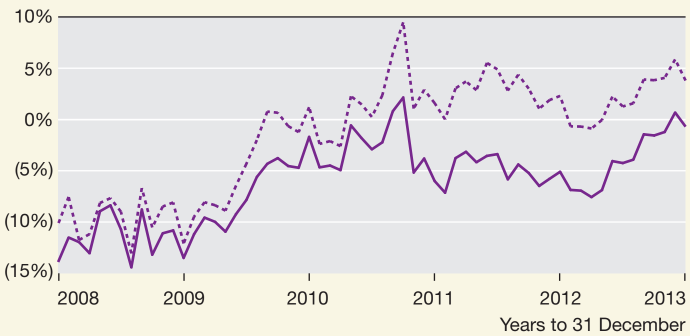

Source: Thomson Reuters Datastream/Baillie Gifford & Co.

NAV total return (fair value) relative to benchmark* total return

Share price total return relative to benchmark* total return

## Premium/(discount) to Net Asset Value

(plotted on a monthly basis)




Source: Thomson Reuters Datastream/Baillie Gifford & Co.

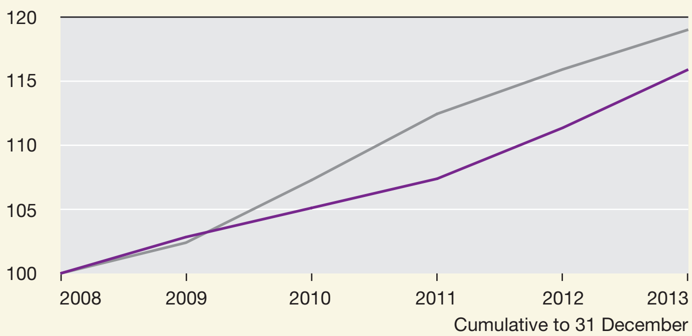
SAINTS premium/(discount) – book value

SAINTS premium/(discount) – fair value

The premium/(discount) is the difference between SAINTS' quoted share price and its underlying net asset value.

## Dividend versus RPI

(figures rebased to 100 at 31 December 2008)




Source: Thomson Reuters Datastream.

RPI

SAINTS dividend

* The portfolio benchmark against which performance has been measured is 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms). For the purposes of the above graphs the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

Past performance is not a guide to future performance.

# Business Review

## Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006. The Company carries on business as an investment trust. The Company has obtained approval as an investment trust from HM Revenue & Customs for accounting periods commencing on or after 1 January 2012 and has continued to conduct its affairs in compliance with the ongoing requirements of section 1158.

## Objective and Policy

SAINTS' objective is to increase capital and grow income in order to deliver real dividend growth.

SAINTS' policy is to invest mainly in equity markets, but other investments may be held from time to time including bonds, property and other asset classes.

The Board believes that a flexible approach to investment is important. As market valuations across and within different asset classes vary over time, the ability to adjust asset allocation and portfolio positioning in response to these variations is important. There are no pre-defined maximum or minimum exposure levels for asset classes, sectors or regions.

The Board also believes that a medium to long term approach is likely to lead to the best investment returns. SAINTS' performance in any one year is likely to differ from that of its benchmark index, sometimes by a significant amount. Financial markets are volatile, particularly over short time periods, but the Manager is encouraged to view such volatility as giving rise to investment opportunities rather than as a risk to be avoided.

In order to achieve real growth in the dividend, the income generated from SAINTS' assets needs to grow over the medium to longer term at a faster rate than inflation. Consequently, the focus of the portfolio is on listed equities. Investments are regularly considered and made in a broad range of other asset types and markets. Derivative and structured instruments may also be used with prior Board approval, either to hedge an existing investment or a currency exposure or to exploit an investment opportunity.

The equity portfolio consists of shares listed both in the UK and in overseas markets. The portfolio is diversified across a range of holdings with little regard paid to the weighting of individual companies in the composite benchmark index. The number of individual companies will vary over time and the portfolio is managed on a global basis rather than as a series of regional sub-portfolios.

Investments are made in markets other than listed equity markets when prospective returns appear to be superior to those from equity markets or are considered likely to exceed SAINTS' borrowing costs. The list of these other investments will vary from time to time as opportunities are identified but include investment grade bonds, high yield bonds, property, forestry, private equity and other asset types.

As an investment trust, SAINTS is able to borrow money and does so when the Board and Managers have sufficient conviction that the assets funded by borrowed monies will generate a return in excess of the cost of borrowing. Whenever long term borrowings cannot be fully invested in such manner, the borrowed funds are used to purchase a diversified portfolio of similar maturity bonds to the borrowings. This has the effect of hedging out much of the interest rate risk and removing the mismatch between borrowing costs and associated investment returns. Gearing levels are discussed by the Board and Managers at every Board meeting and monitored between meetings. The Board will not take out additional borrowings if this takes the level of effective gearing beyond 130%.

The starting position for investment of shareholders' funds is 100% exposure to equity markets. The allocation to equity markets at any point in time will reflect the Board's and Managers' views on prospective returns from equities and the full range of alternative investment opportunities but, in broad terms, SAINTS will gear up through the use of borrowings if equity markets look undervalued and will hold cash or invest in non-equity assets when equity markets look overvalued.

The exposure to listed equities is set within a range of 75% to 125% of shareholders' funds in normal circumstances. The number of individual equities held will vary over time but, in order to diversify risk, will typically be in a range between 50 and 100.

The Board monitors the aggregate exposure to any one entity across the whole investment portfolio. The maximum exposure at time of investment to any one entity is 15% of total assets. The Board is notified in advance of any transaction that would take an individual equity holding above 5% of shareholders' funds. SAINTS does from time to time invest in other UK listed investment companies. The maximum permitted investment in such companies is 15% of gross assets.

An overview by the Manager is given on pages 9 to 11 and a detailed analysis of the Company's investment portfolio held at the year end is set out on pages 12 to 18.

## Business Model and Board Oversight

Investment management of the portfolio is undertaken by the appointed investment managers Baillie Gifford & Co and OLIM Property Limited. When assessing the performance of the Company and the Managers, the Board looks at dividend growth and at net asset value total returns relative to the benchmark total return. The Board believes it is appropriate to make this assessment over a medium to long term timeframe, at least three to five years, in accordance with the medium to long term approach taken to investment.

The Board monitors closely the activities of the Managers, the composition of the investment portfolio and the level of gearing to ensure these exposures are identified and to judge whether or not prospective investment returns are commensurate with the nature and size of these exposures.

The Board sets a number of guidelines and places limits and restrictions on the Managers in order to minimise the risk of permanent loss of capital. Within these constraints, the Board encourages the Managers to maximise long term capital and income growth rather than minimise short term volatility in the capital value of the investment portfolio. The main source of both long term return and short term volatility in SAINTS' portfolio is likely to be the investments in listed equities.

The Board also monitors SAINTS' revenue position and receives regular estimates from the Managers of likely income growth. The level of dividend in any one year is set after assessing the income generated by the portfolio in that year, the level of revenue reserves and long term trends in income.

## Discount/Premium

The Board has powers to buy back its own shares at a discount to net asset value and to hold such shares in treasury as well as to issue new shares and re-issue treasury shares at a premium to net asset value.

The Company issues shares at such times as the premium indicates that demand is not being met by natural liquidity in the market.

Buy-back powers have been used in the past in circumstances when large lines of stock cannot be absorbed by the market. The discount or premium, in absolute terms and relative to other similar investment trust companies, and the composition of the share register is discussed at every Board meeting. While there is no discount target the Board is aware that discount volatility is unwelcome to many shareholders and that share price performance is the measure used by most investors. The Board oversees the Managers' marketing programme which is designed to stimulate demand for the Company's shares, provide effective communication to existing and potential shareholders and maintain the profile of the Company.

During the year the Company issued no ordinary shares, and no shares were bought back.

## 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 debentures at fair value) compared to the benchmark;

— the movement in the share price;

— the premium/discount (after deducting debentures at fair value);

— ongoing charges;

— earnings per share; and

— dividend per share.

The one, five and ten year records of the KPI's are shown on pages 4, 5 and 19.

In addition to the above, the Board considers peer group comparative performance.

## Principal Risks

As explained on page 22 there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The principal risks associated with the Company are as follows:

***Market Risk*** – The Company's assets consist mainly of listed securities and its principal 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 18 to the financial statements on pages 44 to 48.

***Regulatory Risk*** – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment 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. 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.

***Operational/Financial Risk*** – failure of Baillie Gifford's accounting 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. Baillie Gifford have 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.

***Premium/Discount Volatility*** – the premium/discount at which the Company's shares trade can change. The Board monitors the level of premium/discount and the Company has authority to issue new shares and to buy back its existing shares.

***Gearing Risk*** – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

All borrowings require the prior approval of the Board and gearing levels are discussed by the Board and Managers at every meeting. The majority of the Company's investments are in quoted securities that are readily realisable.

***Political Risk*** – the Board is aware that the Scottish Referendum Vote introduces elements of political uncertainty which may have practical consequences; developments will be closely monitored and considered by the Board and Managers.

## 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, these requirements do not apply to the Company.

## Gender Representation

The Board comprises six Directors, five male and one female. The Company has no employees. The Board's policy on diversity is set out on page 21.

## 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 24.

The Strategic Report which includes pages 2 to 19 was approved by the Board on 13 February 2014.

Sir Brian Ivory
Chairman
19 February 2014

# Managers' Review

## Overview

The investment result in 2013 was good in absolute terms but it lagged the return on the benchmark. The NAV per share rose from 220.5p to 247.0p on the fair value measure and the total return, which includes both capital movements and income receipts, was 16.6%. The total return on the benchmark was 21%.

The year opened with strong gains in most stockmarkets and buoyant conditions in bond markets. The general expectation was for an improving world economy and for central banks to continue to support growth by keeping interest rates low and following quantitative easing programs. However, improvement in the US economy prompted a change of tack by its central bank, the Federal Reserve. From May onwards, there was much speculation about when and how the Federal Reserve would begin to withdraw the extraordinary level of stimulus it had supplied into the US economy since the financial crisis.

The Federal Reserve did not in fact begin reducing its quantitative easing program until December, but the prospect of that reduction roiled markets at various points through the year. Financial markets in the emerging economies were more affected than those of the developed economies.

Over the full year, stockmarkets in developed economies performed very well. Anticipation of stronger economic growth and better profits outweighed the impact of less supportive monetary policy. There was a mixed performance across developed economy bond markets, with government bonds falling in price as future interest rate hikes were discounted and credit markets rising as optimism on the economy translated into greater willingness to lend. In contrast, stockmarkets outside of the big developed economies struggled to make much headway, and bonds and currencies fell. Growth in these economies was disappointing and their competitiveness, willingness to reform and ability to finance external deficits were all questioned.

The portfolio was fully invested throughout the year with the major part being in shares of companies listed on developed world stockmarkets. This positioning helps explain the good absolute return for the year. However, relative to the benchmark, we had a large allocation to emerging market stocks which was unhelpful. Stock selection across the equity portfolio was also poor. We continue to believe the long term prospects for emerging markets are very good.

The gain in fair value NAV was also boosted by a fall in the market value of SAINTS' debenture borrowings (this fall being caused by a sell-off in the gilt market). The debenture borrowings effectively fund the property portfolio, which performed well, and various bond investments on which a net loss was incurred.

Full detail on the performance of the portfolio is provided below. In a change from last year, the commentary and performance numbers for the forestry and property investment fund holdings are included in the Equities section.

Income totalled £18.4m which compares to £18.6m in 2012. The small decline is explained largely by changes to the composition of the portfolio: over the last two years, we have reduced our bond investments and increased our equity investments, thereby causing a fall in the immediate yield on the portfolio but, we believe, an improvement in its potential for growth in both capital and income.

## Equities

Over the year an average of 80% of the portfolio was invested in equities. Expressed as a percentage of shareholders' funds the figure was 100%. The total return on equity investments for the year was 14.0%.

Over the long-term we expect to have shareholders' funds fully invested in equity markets in order to maximise long-term income growth. In 2013 the equity allocation returned to this long-term position after a period of lower allocation to equities. The fact that we have had a lower allocation in recent years reflects a range of factors, including attractive valuations on non-equity investments (in particular credit markets), portfolio income considerations and some nervousness about equity markets given the tough economic conditions. The economic outlook is still challenging but the valuation case for favouring credit markets over equity markets no longer holds. We therefore funded an increase in the equity allocation out of sales from the bond portfolio.

Global equity markets made strong gains in aggregate over 2013, however the headline total return performance of over 20% for SAINTS' comparative index masks the divergent performance of developed and emerging markets. Buoyed by encouraging economic data from the United States, signs of stabilisation across a number of European economies, and the implementation of decisive policies to promote growth and reflation in Japan, developed markets showed strong returns. Emerging economy stockmarkets however remained broadly flat, held back by concerns surrounding the impact of the Chinese government's tightening policies and the potential ramifications of the withdrawal of quantitative easing measures by the major developed economies.

During 2013 we purchased seven new holdings for the equity portfolio. Two of these, SK Telecom and Total Access Communications, are mobile telecommunications companies in Asia. While SK Telecom is a leading service provider in Korea, one of the world's most advanced mobile communications markets, Total Access Communications is the number two mobile communications provider in Thailand which is only just beginning to offer 3G services to its customers. There are however key features common to each investment case, including an improvement in the regulatory backdrop and increasingly stable competitive environments, which we do not believe are reflected in the stocks' current valuations. For the remaining new buys there is no single, over-riding theme behind the purchases, other than a belief that their competitive strengths will be employed to generate profitable long-term growth in their businesses. We bought into Kraft Foods Group, the US-focused food company, following its demerger from Kraft's international business. We believe that the management team will be successful in its efforts to reinvigorate and grow the company's business through the increased sales and profitability of its many leading brands. Lancashire Holdings provides specialty insurance and reinsurance products, and has an excellent track record of prudent business management and consistently profitable underwriting.

M6-Metropole is a French free-to-air television broadcaster which is ultimately controlled by the Mohn family, through their unlisted German media conglomerate, Bertelsmann. Nippon Prologis, the Japanese real estate investment trust, was bought through a secondary offering of the company's shares, the proceeds of which were used to fund the purchase of a collection of attractive additions to their portfolio of high-quality Japanese logistics facilities. Norsk Hydro is involved in all aspects of the manufacture of aluminium, and enjoys significant cost advantages over its competitors thanks to its low-cost bauxite feedstock and company-owned hydro-electric power supply for its smelters.

Funding for these purchases came from a variety of sources, including reductions from the bond portfolio and the complete sale of 13 equity holdings. In some cases this continued the theme of reduction in the portfolio's exposure to specific high-quality, dependable businesses where we believe that valuations had become excessively high. British American Tobacco, GlaxoSmithKline, L'Oréal, Massmart, Meitec and Wood Group fall into this category. We also sold out of holdings where we have become less confident of the company's business prospects. Falling into this category are BP, Impala Platinum, National Grid, Petrobras, Royal Dutch Shell and Vale. We also sold the small holding in Recall, the document management solutions company, that we received as a result of its spin-out from the holding in Brambles.

These transactions left the portfolio with 96 equity holdings at the year end, providing exposure to a broad range of industries, countries and dividend yields. This figure includes a small number of listed investment funds that we have in recent years reported on separately from the main equity portfolio. The largest of these holdings is Cambium Global Timberland, a fund that invested in forestry plantations in various locations around the world. This has been a very disappointing investment for us with its net asset value falling since its launch in 2007 and its share price moving to a large discount. In 2013, Cambium's board, with our support and encouragement, decided to realise its portfolio and wind up the fund. This will be a protracted process because of the illiquid nature of the fund's assets but given this decision and the now smaller portion it represents of SAINTS' portfolio, we felt that reporting on it separately was no longer appropriate. We will however continue to comment on it as we report on the equity portfolio. The other holdings are listed property funds. Some of these are also now in wind up while for others the decision to own them is more reflective of stock specific considerations than a broad asset class view. Again, we therefore feel it is inappropriate to report on them separately from the main equity portfolio.

In 2013 the investment returns of the equity portfolio lagged the exceptionally strong performance of the benchmark. The difference can be attributed in a number of ways. Considering the contribution of geographic positioning to this performance, the exposure to emerging markets notably detracted from performance, as did the positioning in North America and the United Kingdom. Looking at the sectors and industries in which we invested, the portfolio benefited particularly from the positioning in banks and software and computer services, but lost ground in a number of other areas, most notably basic materials, consumer services and industrials.

At the stock level the range of returns across the portfolio was broad. The strongest contributors to the equity portfolio's performance were Baidu, the Chinese internet company, Hikari Tsushin, the Japanese retailer, and M6 Metropole, one of the new purchases in 2013 noted above. Conversely Cambium Global Timberland, AES Tiete and Penn West exploration detracted most from returns, albeit the latter two made healthy contributions to the portfolio's income stream for the year. Generally across the portfolio dividend growth has been reliable and a number of the holdings returned excess cash to shareholders as special dividends.

Corporate balance sheets on the whole remain healthy, and there are signs of an increasing emphasis on strong dividend policies. Certainly, if history is a guide, there is plenty of room for dividend growth to outpace earnings growth, with global payout ratios remaining close to historic lows.

## Bonds

Our bond investments represented 13% of the portfolio at the start of the year but a combination of net selling and falls in value meant this figure dropped to 7% by year end. The investment result was poor, -1% in sterling terms.

The largest individual bond investment is an index linked bond issued by the government of Brazil. This holding has been in the portfolio since 2006 and up until last year had performed very well. During 2012 we re-assessed the investment case and reduced the holding by half. In 2013, its price fell significantly as capital retreated from emerging markets and as confidence in the Brazilian economy faltered. The Brazilian currency also lost value causing our losses, when measured in sterling, to be greater still. Mid-way through the year we were tempted into buying more of these bonds, thinking their price had fallen to a very attractive level. We believe this view will ultimately prove correct but the transaction has been costly so far with further price falls experienced since the addition. We also bought back into two bonds issued by the government of Venezuela. These bonds had been held very profitably during 2012 and we were hoping to repeat that experience this year. So far, this has not been possible with the market price of the bonds tending to fall since purchase.

We enjoyed a much more positive experience with our other bond holdings. These holdings represented a diverse range of opportunities drawn from credit markets and, reflecting the generally buoyant conditions in those markets, we benefited from rising prices and some well-timed sales.

The largest of these holdings was the Athena Debt Opportunities, a pooled fund managed by a specialist investment company called Prytania. It invests in structured debt instruments such as securitisations and collateralised loan obligations, instruments which enjoyed a particularly strong year. The unit price of the Athena Fund rose from $122 at the start of the year to $148 by year end. We believe it can still deliver good returns from this higher level but the investment case is less compelling than it was and we reduced the holding by a quarter during the year.

Another pooled fund owned during the year was the Baillie Gifford High Yield Bond Fund. This too gained in value during the year, prompting us to exit. We also sold most of our directly held credit market instruments, again on valuation grounds. The only one remaining is Semper Finance, a euro-denominated instrument where returns are dependent on a pool of housing association mortgage loans in Germany.

Lastly, we sold out of Everglades Re. This was an insurance-linked security, which is the name given to bonds where the investment return is dependent on the frequency and severity of specified natural events, in this case Floridian hurricanes. An influx of capital to this market has pushed up prices to high levels and prospective returns now barely compensate for the insurance risk being taken.

## Direct Property

The direct property investments are managed by OLIM Property Limited, a specialist property manager. The portfolio consists of 16 commercial properties in a variety of locations across the United Kingdom. There were no purchases or sales during the year and all were occupied and producing rental income. The total return was 11%.

The property portfolio is valued twice yearly by Jones Lang LaSalle. Eight properties rose in value during 2013, three were unchanged and five fell. The capital value of the whole portfolio rose from £38.65m to £39.6m. Total rental income received in 2013 was £3.2m which was approximately 1% more than the amount received in 2012.

Investment activity in the UK property market picked up last year and prices have begun to rise gently. We anticipate this will continue and have decided to increase our allocation by approximately £10m. OLIM have already identified one new property which was acquired in January 2014 and we hope to complete other purchases during 2014.

## Outlook

We welcome the fact that the US economy is now strong enough for the Federal Reserve to begin reducing its program of quantitative easing. We are also heartened by the tentative recovery underway in the United Kingdom. However, SAINTS' portfolio is a global one, with investments chosen from stockmarkets around the world and with many of the companies held being multi-national businesses trading in many different countries and regions.

The global economy seems to be growing at somewhere between 2½% and 3% in real terms and between 5% and 6% in nominal terms. Growth at this level is below what most think of as the sustainable, trend rate. For each country or region that has exceeded expectations recently, or shown signs of stabilisation after a period of weakness, there are others where economic strength and vitality appears to have weakened.

Of course we are hopeful that growth will accelerate to a more satisfying pace but, for now, we must acknowledge that low nominal GDP growth constrains what the corporate sector can produce by way of sales and profits growth. We are also mindful that should the global economy accelerate, there will be less need for the extraordinary measures taken in recent years by many central banks: quantitative easing would be withdrawn more quickly and interest rates might rise.

Our outlook is therefore a restrained one. We expect profits to grow, but not dramatically. Valuations across most stockmarkets have risen considerably in recent years, not perhaps to levels that are overtly expensive but at least to a point where further gains seem unlikely in the absence of profits growth. And the very powerful support provided by central banks may now be slowly withdrawn. All of this suggests that capital growth from the current point is likely to be modest. However, we see potential for dividends from listed companies to grow more quickly than earnings because cashflow and balance sheets are strong and dividend payout ratios are low. This should allow SAINTS to maintain its record of delivering real dividend growth for shareholders.

Patrick Edwardson
Baillie Gifford & Co
19 February 2014

# Performance Attribution for the year to 31 December 2013

| Portfolio breakdown | Average allocation SAINTS % | Average allocation benchmark % | Total return SAINTS % | Total return benchmark % |
|---|---|---|---|---|
| Global Equities | 100.4 | 100.0 | 14.0 | 21.1 |
| Bonds | 12.1 | | (1.2) | |
| Direct Property | 11.2 | | 11.0 | |
| Deposits | 1.2 | | – | |
| Debenture at book value | (24.9) | | 6.8 | |
| **Portfolio Total Return (debenture at book value)** | | | **13.6** | **21.1** |
| Other items* | | | (0.8) | |
| **Fund Total Return (debenture at book value)** | | | **12.8** | **21.1** |
| Adjustment for change in fair value of debenture | | | 3.8 | |
| **Fund Total Return (debenture at fair value)** | | | **16.6** | **21.1** |

The above returns are calculated on a total returns basis with net income reinvested.

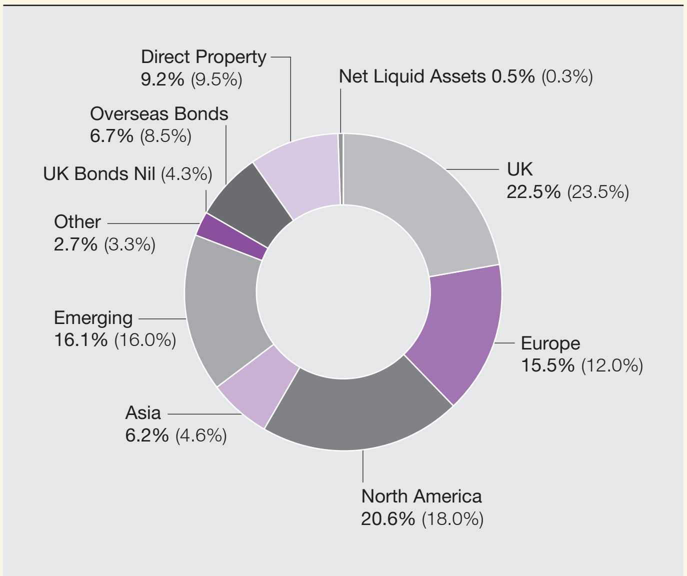
Past performance is not a guide to future performance.

Source: Baillie Gifford & Co.

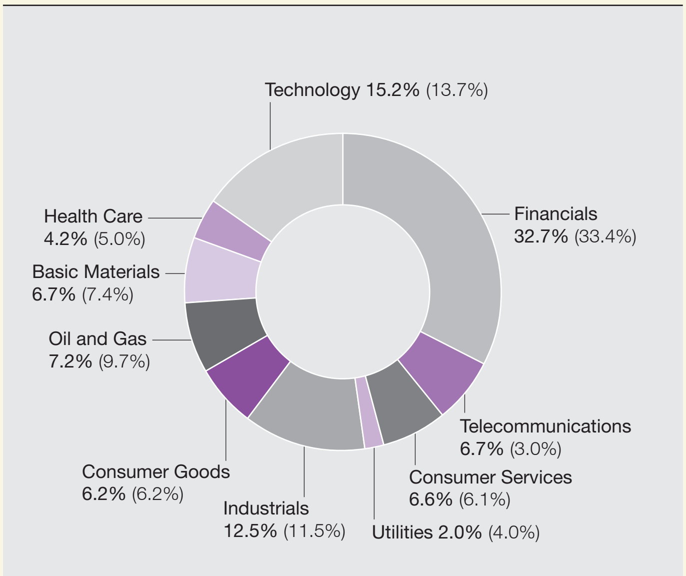
* Includes Baillie Gifford and OLIM management fees.

# Distribution of Portfolio

## Geographical as at 31 December 2013 (2012)




## Equities by Sector as at 31 December 2013 (2012)



## Thirty Largest Equity Holdings

| Name | Business | 2013 Value £'000 | 2013 % of total assets | 2012 Value £'000 |
|---|---|---|---|---|
| Amlin | Property and casualty insurance | 11,165 | 2.6 | 5,906 |
| Rio Tinto | Mining | 10,012 | 2.3 | 6,600 |
| Progressive | Property and casualty insurance | 9,893 | 2.3 | 10,518 |
| Baillie Gifford Greater China Fund | Chinese equities investment fund | 9,802 | 2.3 | 8,734 |
| Total | Integrated oil company | 8,854 | 2.1 | 3,321 |
| Samsung Electronics | Electronic devices | 7,978 | 1.9 | 6,735 |
| Vodafone | Mobile telecommunication services | 7,584 | 1.8 | 3,773 |
| Taiwan Semiconductor Manufacturing | Semiconductor manufacturer | 7,454 | 1.7 | 7,478 |
| Analog Devices | Integrated circuits | 5,688 | 1.3 | 3,253 |
| Japan Residential Investment Company | Japanese residential property fund | 5,625 | 1.3 | 5,156 |
| Baidu | Online search engine | 5,616 | 1.3 | 2,233 |
| Hiscox | Property and casualty insurance | 5,610 | 1.3 | 1,359 |
| M6-Metropole TV | Television broadcasting | 5,525 | 1.3 | – |
| SK Telecom | Mobile telecommunication services | 5,291 | 1.2 | – |
| Philip Morris International | Cigarette manufacturer | 5,151 | 1.2 | 6,162 |
| Jeronimo Martins | Food retailer | 5,038 | 1.2 | 5,054 |
| Rexam | Beverage can manufacturer | 5,015 | 1.2 | 4,584 |
| Norsk Hydro | Aluminium producer | 4,955 | 1.1 | – |
| SAP | Business software developer | 4,876 | 1.1 | 4,620 |
| Svenska Handelsbanken | Banking | 4,861 | 1.1 | 3,598 |
| Roche Holdings | Pharmaceuticals | 4,780 | 1.1 | 3,495 |
| United Parcel Service | Courier services | 4,767 | 1.1 | 2,495 |
| Doric Nimrod Air Two | Aircraft leasing | 4,725 | 1.1 | 4,620 |
| Aberforth Geared Income Trust | UK small-cap equities fund | 4,652 | 1.1 | 2,974 |
| Konecranes | Lifting equipment | 4,634 | 1.1 | 3,555 |
| New York Community Bancorp | Banking | 4,619 | 1.1 | 3,656 |
| Linear Technology | Integrated circuits | 4,619 | 1.1 | 3,543 |
| Penn West Energy Trust | Oil exploration and production | 4,516 | 1.1 | 5,962 |
| Cambium Global Timberland | Forestry investment fund | 4,500 | 1.1 | 6,600 |
| China Mobile | Mobile telecommunication services | 4,393 | 1.0 | 3,471 |
| | | **182,198** | **42.5** | **129,455** |

## Investment Changes

| | Valuation at 31 December 2012 £'000 | Net acquisitions/ (disposals) £'000 | Appreciation/ (depreciation) £'000 | Valuation at 31 December 2013 £'000 |
|---|---|---|---|---|
| United Kingdom Equities | 94,466 | (9,007) | 10,830 | 96,289 |
| Overseas Equities | 216,251 | 24,153 | 21,138 | 261,542 |
| Total Equities | 310,717 | 15,146 | 31,968 | 357,831 |
| Direct Property | 38,650 | – | 950 | 39,600 |
| Bonds | 51,287 | (21,560) | (1,110) | 28,617 |
| **Total Investments** | **400,654** | **(6,414)** | **31,808** | **426,048** |
| Net Liquid Assets | 1,126 | 1,305 | (166) | 2,265 |
| **Total Assets** | **401,780** | **(5,109)** | **31,642** | **428,313** |

The figures above for total assets are made up of total net assets before deduction of the debenture.

# Classification of Investments

| Classification<br>Equities: | UK<br>% | Overseas<br>% | 2013<br>Total<br>% | 2012<br>Total<br>% |
|---|---|---|---|---|
| Oil and gas producers | 0.9 | 3.6 | 4.5 | 5.7 |
| Oil equipment, services and distribution | – | 1.5 | 1.5 | 1.8 |
| **Oil and Gas** | **0.9** | **5.1** | **6.0** | **7.5** |
| Chemicals | – | 0.5 | 0.5 | 0.5 |
| Mining | 3.2 | 0.8 | 4.0 | 5.2 |
| Industrial metals and mining | – | 1.1 | 1.1 | – |
| **Basic Materials** | **3.2** | **2.4** | **5.6** | **5.7** |
| Construction and materials | – | 0.6 | 0.6 | 0.6 |
| General industrials | 1.2 | 2.4 | 3.6 | 2.9 |
| Electronic and electrical equipment | – | 0.5 | 0.5 | 0.4 |
| Industrial engineering | – | 0.8 | 0.8 | 0.9 |
| Industrial transportation | – | 2.0 | 2.0 | 1.4 |
| Support services | 1.9 | 1.1 | 3.0 | 2.7 |
| **Industrials** | **3.1** | **7.4** | **10.5** | **8.9** |
| Automobiles and parts | – | 1.0 | 1.0 | 0.8 |
| Food producers | – | 1.6 | 1.6 | 0.6 |
| Leisure goods | – | 0.8 | 0.8 | – |
| Personal goods | – | – | – | 0.7 |
| Tobacco | 0.6 | 1.2 | 1.8 | 2.7 |
| **Consumer Goods** | **0.6** | **4.6** | **5.2** | **4.8** |
| Health care equipment and services | – | 0.5 | 0.5 | 0.8 |
| Pharmaceuticals and biotechnology | – | 3.0 | 3.0 | 3.1 |
| **Health Care** | **–** | **3.5** | **3.5** | **3.9** |
| Food and drug retailers | – | 2.9 | 2.9 | 3.2 |
| General retailers | – | 1.3 | 1.3 | 1.5 |
| Media | – | 1.3 | 1.3 | – |
| **Consumer Services** | **–** | **5.5** | **5.5** | **4.7** |
| Mobile telecommunications | 1.8 | 3.8 | 5.6 | 2.3 |
| **Telecommunications** | **1.8** | **3.8** | **5.6** | **2.3** |
| Electricity | 0.7 | 1.0 | 1.7 | 2.2 |
| Gas, water and multi-utilities | – | – | – | 0.9 |
| **Utilities** | **0.7** | **1.0** | **1.7** | **3.1** |
| Banks | 0.8 | 2.5 | 3.3 | 2.9 |
| Non-life insurance | 4.8 | 2.3 | 7.1 | 4.4 |
| Life insurance | 0.6 | – | 0.6 | 1.0 |
| Real estate | 0.1 | 4.8 | 4.9 | 5.5 |
| Financial services | 0.9 | 3.2 | 4.1 | 4.5 |
| Equity investment instruments | 5.0 | 2.3 | 7.3 | 7.6 |
| **Financials** | **12.2** | **15.1** | **27.3** | **25.9** |
| Software and computer services | – | 7.6 | 7.6 | 6.3 |
| Technology hardware and equipment | – | 5.1 | 5.1 | 4.3 |
| **Technology** | **–** | **12.7** | **12.7** | **10.6** |
| **Total Equities** | **22.5** | **61.1** | **83.6** | |
| Total Equities – 2012 | 23.5 | 53.9 | | **77.4** |
| **Direct Property** | **9.2** | **–** | **9.2** | **9.5** |
| **Bonds** | **–** | **6.7** | **6.7** | **12.8** |
| **Net Liquid Assets** | **0.2** | **0.3** | **0.5** | **0.3** |
| **Total Assets** | **31.9** | **68.1** | **100.0** | |
| Total Assets – 2012 | 45.9 | 54.1 | | **100.0** |
| **Debenture** | **(20.1)** | **–** | **(20.1)** | **(21.5)** |
| **Equity Shareholders' Funds** | **11.8** | **68.1** | **79.9** | |
| Equity Shareholders' Funds – 2012 | 24.4 | 54.1 | | **78.5** |
| **Number of equity investments** | **23** | **73** | **96** | **101** |

# List of Investments at 31 December 2013

| Classification | Name | Fair value £'000 | % of total assets |
|---|---|---|---|
| **United Kingdom Equities** | | | |
| Oil and gas producers | BG Group | **3,932** | **0.9** |
| Mining | BHP Billiton | 3,601 | |
| | Rio Tinto | 10,012 | |
| | | **13,613** | **3.2** |
| General industrials | Rexam | **5,015** | **1.2** |
| Support services | Capita | 3,884 | |
| | Experian | 2,691 | |
| | Hays | 1,795 | |
| | | **8,370** | **1.9** |
| Tobacco | Imperial Tobacco | **2,360** | **0.6** |
| Mobile telecommunications | Vodafone | **7,584** | **1.8** |
| Electricity | Scottish & Southern Energy | **3,146** | **0.7** |
| Banks | HSBC | **3,466** | **0.8** |
| Non-life insurance | Amlin | 11,165 | |
| | Hiscox | 5,610 | |
| | Lancashire Holdings | 3,887 | |
| | | **20,662** | **4.8** |
| Life insurance | Aviva | **2,473** | **0.6** |
| Real estate | Terra Catalyst Fund | **630** | **0.1** |
| Financial services | Provident Financial | **3,839** | **0.9** |
| Equity investment instruments | Aberforth Geared Income Trust | 4,652 | |
| | Catco Reinsurance Opportunities | 4,250 | |
| | Doric Nimrod Air Two | 4,725 | |
| | Ecofin Water and Power Opportunities | 3,928 | |
| | International Oil and Gas Technology Fund | 1,898 | |
| | Level E Maya Fund# | 1,746 | |
| | | **21,199** | **5.0** |
| **Total United Kingdom Equities** | | **96,289** | **22.5** |

# Unlisted.

| Classification | Name | Fair value £'000 | % of total assets |
|---|---|---|---|
| **Overseas Equities** | | | |
| Oil and gas producers | Lukoil | 2,100 | |
| | Penn West Energy Trust | 4,516 | |
| | Total | 8,854 | |
| | | **15,470** | **3.6** |
| Oil equipment, services and distribution | Aker Solutions | 3,357 | |
| | Seadrill | 3,069 | |
| | | **6,426** | **1.5** |
| Chemicals | Monsanto | **2,217** | **0.5** |
| Mining | China Shenhua Energy | **3,261** | **0.8** |
| Industrial metals and mining | Norsk Hydro | **4,955** | **1.1** |
| Construction and materials | Quanta Services | **2,613** | **0.6** |
| General industrials | General Cable | 2,028 | |
| | Konecranes | 4,634 | |
| | Mitsui | 842 | |
| | Sumitomo | 2,908 | |
| | | **10,412** | **2.4** |
| Electronic and electrical equipment | Elswedy Electric | **2,317** | **0.5** |
| Industrial engineering | Atlas Copco | **3,630** | **0.8** |
| Industrial transportation | Sichuan Expressway | 760 | |
| | United Parcel Service | 4,767 | |
| | Zhejiang Expressway | 2,882 | |
| | | **8,409** | **2.0** |
| Support services | Brambles | 2,602 | |
| | IHS Inc | 2,035 | |
| | | **4,637** | **1.1** |
| Automobiles and parts | Harley-Davidson | **4,217** | **1.0** |
| Food producers | Kraft Foods Group | 3,817 | |
| | Nestlé | 2,834 | |
| | | **6,651** | **1.6** |
| Leisure goods | Nintendo | **3,581** | **0.8** |
| Tobacco | Philip Morris International | **5,151** | **1.2** |
| Health care equipment and services | Cochlear | **2,068** | **0.5** |
| Pharmaceuticals and biotechnology | Johnson and Johnson | 3,649 | |
| | Novozymes | 2,438 | |
| | Roche Holdings | 4,780 | |
| | Teva Pharmaceuticals | 1,678 | |
| | | **12,545** | **3.0** |
| Food and drug retailers | China Resources Enterprise | 3,098 | |
| | Jeronimo Martins | 5,038 | |
| | McDonalds | 4,221 | |
| | | **12,357** | **2.9** |
| General retailers | Amazon.com | 2,886 | |
| | eBay | 2,715 | |
| | | **5,601** | **1.3** |
| Media | M6-Metropole TV | **5,525** | **1.3** |

| Classification | Name | Fair value £'000 | % of total assets |
|---|---|---|---|
| **Overseas Equities (continued)** | | | |
| Mobile telecommunications | China Mobile | 4,393 | |
| | Hikari Tsushin | 3,872 | |
| | SK Telecom | 5,291 | |
| | Total Access Communications | 2,629 | |
| | | **16,185** | **3.8** |
| Electricity | AES Tiete | **4,331** | **1.0** |
| Banks | Itau Unibanco | 1,220 | |
| | New York Community Bancorp | 4,619 | |
| | Svenska Handelsbanken | 4,861 | |
| | | **10,700** | **2.5** |
| Non-life insurance | Progressive | **9,893** | **2.3** |
| Real estate | Cambium Global Timberland | 4,500 | |
| | Forterra Trust | 2,831 | |
| | Industrial & Infrastructure Fund | 3,234 | |
| | Invista European Real Estate Trust*† | 132 | |
| | Japan Residential Investment Company | 5,625 | |
| | Nippon Prologis REIT | 3,103 | |
| | Tamar European Industrial Fund | 1,050 | |
| | | **20,475** | **4.8** |
| Financial services | BM&F Bovespa | 1,958 | |
| | Brasil Insurance Participacoes e Administracao | 2,707 | |
| | Hong Kong Exchanges and Clearing | 1,482 | |
| | Moody's | 4,236 | |
| | Partners Group | 3,521 | |
| | | **13,904** | **3.2** |
| Equity investment instruments | Baillie Gifford Greater China Fund | 9,802 | |
| | International Mezzanine# | 43 | |
| | | **9,845** | **2.3** |
| Software and computer services | Baidu | 5,616 | |
| | Dolby Laboratories | 3,539 | |
| | Exact | 2,500 | |
| | Google | 2,705 | |
| | Microsoft | 3,073 | |
| | SAP | 4,876 | |
| | Solera Holdings | 2,727 | |
| | Taiwan Semiconductor Manufacturing | 7,454 | |
| | | **32,490** | **7.6** |
| Technology hardware and equipment | Analog Devices | 5,688 | |
| | Apple | 2,260 | |
| | Asustek Computer | 1,131 | |
| | Linear Technology | 4,619 | |
| | Samsung Electronics | 7,978 | |
| | | **21,676** | **5.1** |
| **Total Overseas Equities** | | **261,542** | **61.1** |
| **Total Equities** | | **357,831** | **83.6** |

* Includes a holding in warrants.
† Includes a holding in preference shares.
\# Unlisted.

| Classification | Name | Fair value £'000 | % of total assets |
|---|---|---|---|
| **Direct Property** | | | |
| Direct Property | See table below. | **39,600** | **9.2** |
| **Bonds** | | | |
| Euro denominated | Semper Finance FRN SLP 2015# | **3,070** | **0.7** |
| US dollar denominated | Athena Debt Opportunities Fund | 13,786 | |
| | Venezuelan Government Bonds 2026/2031 | 2,065 | |
| | | **15,851** | **3.7** |
| Brazilian real denominated | Brazil CPI Linked 15/05/2045 | **9,696** | **2.3** |
| **Total Bonds** | | **28,617** | **6.7** |
| **Total Investments** | | **426,048** | **99.5** |
| Net Liquid Assets | | 2,265 | 0.5 |
| **Total Assets** | | **428,313** | **100.0** |

#Unlisted.

# Property Portfolio

| Location | Type | Tenant | 2013 Value £'000 | 2013 % of total assets | 2012 Value £'000 |
|---|---|---|---|---|---|
| Dundee | Public House | J D Wetherspoon Plc | 950 | 0.2 | 900 |
| Dunfermline | Shop | W H Smith Retail Holdings Ltd | 1,650 | 0.4 | 1,800 |
| Earley | Public House | Spirit Pub Company (Managed) Limited | 2,250 | 0.5 | 2,500 |
| Kenilworth | Nursing Home | Care UK Community Partnership Limited | 5,900 | 1.4 | 5,500 |
| Market Deeping | Warehouse | Metalrax plc | 750 | 0.2 | 1,050 |
| Newport Pagnell | Car showroom | Reg Vardy (Property Management) Limited | 3,500 | 0.8 | 3,200 |
| New Romney | Holiday Village | Park Resorts Ltd | 8,600 | 2.0 | 7,750 |
| Oban | Shop | W H Smith Retail Holdings Ltd | 1,300 | 0.3 | 1,300 |
| Otford | Public House | Spirit Pub Company (Managed) Limited | 1,800 | 0.4 | 1,800 |
| Perth | Bank | Bank of Scotland | 2,050 | 0.5 | 2,200 |
| Portsmouth | Public House | J D Wetherspoon Plc | 2,100 | 0.5 | 2,000 |
| Reading | Restaurant | Bella Italia Restaurants Ltd | 1,100 | 0.2 | 1,100 |
| Redditch | Warehouse | Metalrax plc | 1,350 | 0.3 | 1,250 |
| Sunderland | Office and Leisure | Various | 3,850 | 0.9 | 4,100 |
| Torquay | Public House | Mitchells & Butler Retail Ltd | 1,250 | 0.3 | 1,100 |
| Winchester | Public House | Fuller Smith & Turner Plc | 1,200 | 0.3 | 1,100 |
| | | | **39,600** | **9.2** | **38,650** |

# Ten Year Record

## Capital

| At 31 December | Total assets £'000 | Debenture stocks and loans £'000 | Shareholders' funds £'000 | Net asset value per share (book) * p | Net asset value per share (fair) * p | Share price p | Premium/ (discount) † (book) p | Premium/ (discount) † (fair) p |
|---|---|---|---|---|---|---|---|---|
| 2003 | 340,546 | 89,260 | 251,286 | 185.8 | 181.9 | 149.3 | (19.6) | (17.9) |
| 2004^ | 361,691 | 89,760 | 271,931 | 205.3 | 197.1 | 167.5 | (18.4) | (15.0) |
| 2005 | 426,021 | 89,430 | 336,591 | 254.1 | 241.2 | 218.8 | (13.9) | (9.3) |
| 2006 | 462,673 | 89,079 | 373,594 | 282.0 | 272.6 | 241.3 | (14.4) | (11.5) |
| 2007 | 460,094 | 88,708 | 371,386 | 280.3 | 272.7 | 240.0 | (14.4) | (12.0) |
| 2008 | 289,087 | 88,312 | 200,775 | 151.5 | 145.3 | 130.5 | (13.9) | (10.2) |
| 2009 | 365,067 | 87,892 | 277,175 | 209.2 | 206.0 | 181.0 | (13.5) | (12.1) |
| 2010 | 418,269 | 87,446 | 330,823 | 249.7 | 242.5 | 245.5 | (1.7) | 1.2 |
| 2011 | 381,166 | 86,972 | 294,194 | 221.7 | 205.3 | 208.5 | (6.0) | 1.6 |
| 2012 | 401,780 | 86,467 | 315,313 | 237.7 | 220.5 | 225.5 | (5.1) | 2.3 |
| **2013** | **428,313** | **85,931** | **342,382** | **258.1** | **247.0** | **256.3** | **(0.7)** | **3.8** |

* Net asset value per ordinary share has been calculated after deducting the debenture at either book value or fair value.

† Premium/(discount) is the difference between SAINTS' quoted share price and its underlying net asset value at either book value or fair value.

## Revenue

| Year to 31 December | Gross revenue £'000 | Available for ordinary shareholders £'000 | Earnings per ordinary share # p | Dividend per ordinary share (net) p | Ongoing charges ‡ % |
|---|---|---|---|---|---|
| 2003 | 11,412 | 7,913 | 5.82 | 5.65 | 0.13 |
| 2004^ | 13,707 | 8,379 | 6.30 | 6.00 | 0.96 |
| 2005 | 13,986 | 9,000 | 6.80 | 6.53 | 0.80 |
| 2006 | 15,326 | 10,002 | 7.55 | 7.40 | 0.78 |
| 2007 | 17,751 | 11,345 | 8.56 | 8.25 | 0.80 |
| 2008 | 20,901 | 13,905 | 10.50 | 8.80 | 0.84 |
| 2009 | 17,194 | 11,989 | 9.05 | 9.05 | 1.02 |
| 2010 | 16,379 | 11,271 | 8.51 | 9.25 | 0.90 |
| 2011 | 17,316 | 12,346 | 9.32 | 9.45 | 0.89 |
| 2012 | 18,556 | 13,564 | 10.22 | 9.80 | 0.94 |
| **2013** | **18,421** | **13,541** | **10.21** | **10.20** | **0.90** |

## Gearing Ratios

| Year to 31 December | Equity gearing ¶ | Potential gearing § |
|---|---|---|
| 2003 | 3 | 36 |
| 2004^ | 6 | 33 |
| 2005 | 10 | 27 |
| 2006 | 5 | 24 |
| 2007 | 5 | 24 |
| 2008 | 0 | 44 |
| 2009 | (3) | 32 |
| 2010 | (4) | 26 |
| 2011 | (1) | 30 |
| 2012 | (2) | 27 |
| **2013** | **4** | **25** |

\# The calculation of earnings per ordinary share is based on the revenue column of the return on ordinary activities after taxation in the Income Statement and the weighted average number of ordinary shares in issue.

‡ Calculated as total operating costs divided by average net asset value (with debt at fair value) in accordance with AIC guidelines.

¶ Total assets (including all debt used for investment purposes) less cash, bonds (ex convertibles) and property divided by shareholders' funds.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds.

## Cumulative Performance (taking 2003 as 100)

| At 31 December | Net asset value per share | Net asset value total return | Share price | Share price total return | Benchmark | Benchmark total return | Earnings per ordinary share | Dividends per ordinary share (net) | Retail price index |
|---|---|---|---|---|---|---|---|---|---|
| 2003 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 2004^ | 110 | 114 | 112 | 117 | 108 | 111 | 108 | 106 | 103 |
| 2005 | 137 | 145 | 147 | 157 | 117 | 137 | 117 | 116 | 106 |
| 2006 | 152 | 164 | 162 | 179 | 140 | 155 | 130 | 131 | 110 |
| 2007 | 151 | 168 | 161 | 184 | 154 | 165 | 147 | 146 | 115 |
| 2008 | 82 | 94 | 87 | 105 | 160 | 122 | 180 | 156 | 116 |
| 2009 | 113 | 138 | 121 | 155 | 118 | 153 | 155 | 160 | 119 |
| 2010 | 134 | 172 | 164 | 219 | 143 | 178 | 146 | 164 | 124 |
| 2011 | 119 | 158 | 140 | 194 | 161 | 168 | 160 | 167 | 130 |
| 2012 | 128 | 177 | 151 | 219 | 148 | 189 | 176 | 173 | 134 |
| **2013** | **139** | **200** | **172** | **259** | **161** | **229** | **175** | **181** | **138** |
| **Compound annual returns** | | | | | | | | | |
| 5 year | 11.2% | 16.3% | 14.5% | 19.8% | 0.2% | 13.3% | (0.6%) | 3.0% | 3.5% |
| 10 year | 3.3% | 7.2% | 5.6% | 10.0% | 4.9% | 8.6% | 5.8% | 6.1% | 3.3% |

Baillie Gifford & Co was appointed as Investment Managers and Secretaries of the Company with effect from 1 January 2004. On the same date the Company also changed its benchmark from 65% FTSE All-Share Index and 35% FTSE World Ex UK Index to 70% FTSE All-Share Index and 30% FTSE World Ex UK Index. With effect from 1 January 2009, the Company's benchmark became 50% FTSE All-Share Index and 50% FTSE All-World ex UK Index. For the purposes of the above tables the returns on these benchmarks for their respective periods have been linked to form a single benchmark.

^ The figures prior to 2004 have not been restated for the changes in accounting policies implemented in 2005.

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 an extensive pool of knowledge and experience. Baillie Gifford & Co, a leading UK investment management firm established in 1908, have acted as Managers and Secretaries since 1 January 2004.

## Directors

**Sir Brian Ivory, CBE, CA**

**Sir Brian joined the Board in 2000 and was appointed Chairman in 2001.** He is also the Chairman of the Nomination Committee. He is a director of Remy Cointreau SA, Insight Investment Management Ltd and is chairman of Marathon Asset Management (Services) Ltd and Arcus European Infrastructure Fund GP LLP and deputy chairman of Shawbrook Bank Limited. He was formerly chairman of Highland Distillers Plc and of the Trustees of the National Galleries of Scotland and a director of HBOS Plc.

**The Rt Hon Sir Menzies Campbell, CH, CBE, QC, MP**

**Sir Menzies joined the Board in December 2007.** He was Leader of the Liberal Democrat party until October 2007. He was elected as an MP in 1987, and was Foreign Affairs Spokesman before becoming Deputy Leader of his party. He qualified as an advocate in Scotland, being admitted to the Faculty of Advocates in 1968 and becoming Queen's Counsel in 1982.

**Eric Hagman, CBE, CA**

**Mr Hagman joined the Board in 2005 and became the Chairman of the Audit Committee in 2009.** He joined Arthur Andersen in 1971 and became the managing partner in Scotland in 1982. He spent the last five years until 2002 in London as a managing partner on the UK Leadership Team. He is a director of The Royal College of Art, Baxters and is a member of UBS Wealth Management's UK regional advisory group. He was formerly a trustee of the National Galleries of Scotland and a director of British Polythene Industries plc, Glen Group plc, Scottish Financial Enterprise and Scottish Enterprise.

**Lord Kerr of Kinlochard, GCMG**

**Lord Kerr joined the Board in 2002 and was appointed senior independent director in 2012.** He was Head of the Diplomatic Service from 1997 to 2002, having previously been Ambassador to the European Union and then to the United States. He is a director of Rio Tinto Plc and Scottish Power.

**Rachel Lomax**

**Ms Lomax joined the Board in 2008.** She served as Deputy Governor of the Bank of England between 2003 and 2008, having previously been Permanent Secretary at the Department for Transport, the Department for Work and Pensions and the Welsh Office. She was previously Chief of Staff to the President of the World Bank, Head of the Economic and Domestic Secretariat at the Cabinet Office. She worked for many years at HM Treasury, where she was Principal Private Secretary to the Chancellor of the Exchequer and deputy Chief Economic Adviser. She is a director of HSBC Holdings, Heathrow Limited, Imperial College London, the Centre for Economic Policy Research (CEPR), The City UK and the Supervisory Board of Arcus European Infrastructure Fund GP LLP and is president of the Institute of Fiscal Studies.

**From left to right: The Rt Hon Sir Menzies Campbell, Rachel Lomax, Sir Brian Ivory, Eric Hagman, Peter Moon, Lord Kerr of Kinlochard.**

**Peter Moon**

**Mr Moon joined the Board in 2005.** He was chief investment officer of the Universities Superannuation Scheme Limited fund from 1992 until August 2009. He is chairman of Bell Potter (UK) Limited and is a director of First Property plc and Arden Partners plc and is a former director of MBNA Europe and is a former Member of the National Association of Pension Funds Investment Committee. Prior to joining Universities Superannuation Scheme, Mr Moon managed investments at the British Airways Pension Fund and the National Provident Institution, which he joined in 1978.

All Directors are members of the Nomination and Audit Committees.

## Managers and Secretaries

SAINTS is managed by Baillie Gifford & Co, an investment management firm formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been involved in investment management since 1908.

Baillie Gifford & Co are one of the largest investment trust managers in the UK and currently manage eight investment trusts. Baillie Gifford & Co also manage 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 & Co total around £104 billion. Based in Edinburgh, they are one of the leading privately owned investment management firms in the UK, with 39 partners and a staff of around 780.

The manager of SAINTS is Patrick Edwardson, a partner of Baillie Gifford & Co. The deputy manager is Dominic Neary. Patrick has overall responsibility for the portfolio and asset allocation, Dominic has particular responsibility for the equity portfolio. Both work closely with the other specialist equity, bond and multi-asset class investors at Baillie Gifford. The property investments are managed separately by OLIM Property Limited, a specialist property manager.

The firm of Baillie Gifford & Co is authorised and regulated by the Financial Conduct Authority.

# Directors' Report

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 December 2013.

## Corporate Governance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2012 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 and the recommendations of the AIC Code.

### The Board

The Board has overall responsibility for the Company's affairs. It has a number of matters reserved for its approval including strategy, investment policy, currency hedging, gearing, 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.

The Board currently comprises six Directors all of whom are non-executive. 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 Managers and Secretaries, Baillie Gifford & Co, and, in the context of a Board comprising entirely non-executive Directors, there is no chief executive officer. The senior independent director is Lord Kerr of Kinlochard.

The Directors believe that the Board has a balance of skills and experience which 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 page 20.

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. The Board has agreed that all the Directors will retire at each Annual General Meeting and, if appropriate, offer themselves for re-election.

### Independence of Directors

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

Sir Brian Ivory and Lord Kerr of Kinlochard have served on the Board for more than nine years. The Directors recognise the importance of succession planning for company boards and review the Board composition annually. However 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 independent. Following a formal performance evaluation, the Board has concluded that, notwithstanding their length of service, Sir Brian Ivory and Lord Kerr of Kinlochard remain independent. Their actions and decisions have confirmed their independence and the Directors believe their length of service has been 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 following table shows the attendance record for the Board and Committee meetings held during the year. All Directors attended the Annual General Meeting.

## Directors' Attendance at Meetings

| | Board | Audit Committee | Nomination Committee |
|---|---|---|---|
| **Number of meetings** | **6** | **2** | **2** |
| Sir Brian Ivory | 6 | 2 | 2 |
| The Rt Hon Sir Menzies Campbell | 6 | 2 | 2 |
| Eric Hagman | 6 | 2 | 2 |
| Lord Kerr of Kinlochard | 6 | 2 | 2 |
| Rachel Lomax | 6 | 2 | 2 |
| Peter Moon | 5 | 2 | 1 |

### Nomination Committee

The Nomination Committee consists of the whole Board 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, Board appraisal, succession planning, training and identifying and nominating new candidates for appointment to the Board. MacDonald Kinnaird have been engaged to identify suitable candidates for Board refreshment. MacDonald Kinnaird has no other connection with the Company or Directors. 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. The Committee's terms of reference are available on request from the Company and from SAINTS' page on the Managers' website: **www.saints-it.com**.

### Performance Evaluation

An appraisal of the Chairman, each Director and a performance evaluation and review of the Board as a whole and its Committees was carried out during the year. The Chairman and each Director completed a performance evaluation questionnaire and each Director had an interview with the Chairman. The appraisal of the Chairman was led by Lord Kerr of Kinlochard. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the Board, training and development requirements, the contribution of individual Directors and the overall effectiveness of the Board and its Committees. Following this process it was concluded that there was a diverse range of skills within the Board, and 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 were no significant changes to the Chairman's other commitments during the year.

### Induction and Training

New Directors appointed to the Board are provided with an induction programme which is tailored to the particular circumstances of the appointee. Workshops were provided during the year on industry and regulatory matters. Directors receive other relevant 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 27 and 28.

### 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 and not absolute assurance against material misstatement or loss.

The Board confirms that there is a process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance 'Internal Control: Revised Guidance for Directors on the Combined Code'.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal control systems and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review.

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to the Managers and Secretaries, Baillie Gifford & Co, under the terms of the Management Agreement. The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly, including the maintenance of effective operational and compliance controls and risk management have also been delegated to Baillie Gifford & Co. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

The Baillie Gifford & Co Business Risk & Internal Audit and Compliance Departments provide the Audit Committee with regular reports on Baillie Gifford & Co's 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 auditors and a copy is submitted to the Audit Committee.

The Company's investments are segregated from those of Baillie Gifford & Co and its other clients through the appointment of The Bank of New York Mellon SA/NV as independent custodian of the Company's investments. The custodian prepares a report on its internal controls which is independently reviewed by KPMG LLP.

A risk map is prepared which identifies the significant risks faced by the Company and the key controls employed to manage these risks.

These procedures ensure that consideration is given regularly to the nature and extent of the 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 the risks identified. 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.

### Accountability and Audit

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are set out on pages 29 to 31.

### 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 18 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. The Company has no short term borrowings and the redemption date for the Company's debenture is April 2022. Accordingly, the financial statements have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

## Audit Committee

An Audit Committee has been established consisting 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. Mr E Hagman, Chairman of the Committee, is a Chartered Accountant. Its authority and duties are clearly defined within its written terms of reference which are available on request from the Company and on SAINTS' page of the Managers' website **www.saints-it.com**. The terms of reference are reviewed annually and were updated during the year to ensure best practice and compliance with the 2012 UK Corporate Governance Code.

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 Audit Plc, the external auditor, attended both meetings. Representatives from the Manager's Business Risk & Internal Audit and Compliance Departments also attended these meetings and provided reports on their monitoring programmes.

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 half-yearly reports;

— The Company's accounting policies and practices;

— The regulatory changes impacting the Company;

— The fairness, balance and understandability of the Annual Report 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;

— Reappointment, 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;

— The terms of the Investment Management Agreement; 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 issue likely to impact the financial statements is the existence and valuation of investments and property as they represent 99.5% 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 properties are valued on an open market basis by Jones Lang LaSalle. The Committee approve the Valuation Report provided by Jones Lang LaSalle and review the property valuations twice a year.

The Auditor confirmed to the Committee that the investments had been valued in accordance with the stated accounting policies. The value of all the investments had been agreed to external price sources and the portfolio holdings agreed to confirmations from the Company's custodian.

The Auditor also confirmed that title to properties had been agreed to confirmations from the Company's solicitors and valuations to the report provided by Jones Lang LaSalle.

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.

### *External Auditor*

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

— The audit plan for the current year;

— A report from the auditor describing their arrangements to identify, report and manage any conflicts of interest; and

— The extent of non-audit services provided by the external auditors. Non-audit fees for the year to 31 December 2013 were £900 and related to the certification of financial information for the debenture trustee. The Committee does not believe that this has impaired the Auditor's independence.

To assess the effectiveness of the external auditors, the Committee reviewed and considered:

— The Auditor's fulfilment of the agreed audit plan;

— Responses to the ICAS Annual Audit Assessment questionnaire; and

— The Audit Quality Inspection Report from the FRC.

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 Audit Plc has been auditor for 9 years, the audit partners 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. Ms Burnet, the current partner, was appointed over a year ago and will continue as partner until the conclusion of the 2016 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 partner and staff is not impaired. KPMG also act as auditor to the Manager and Ms Burnet took on the lead relationship partner role with Baillie Gifford during 2013. A separate audit director is responsible for the Baillie Gifford audit and KPMG have outlined the procedures that would be put in place in the unlikely event that a conflict of interest should arise. The Committee is satisfied with the Auditor's independence.

Having carried out the review described above, the Committee is satisfied that the Auditor remains independent and effective and as such, has not considered it necessary to conduct a tender process for the appointment of its Auditor at this stage.

The Committee has noted the amendments to the UK Corporate Governance Code and, in particular, the recommendation to put the external audit contract out to tender at least every ten years. In accordance with the FRC guidance the Committee will consider undertaking a tender process to coincide with the five year rotation cycle of the current partner Ms Burnet.

KPMG Audit Plc has instigated an orderly wind down of its business and has proposed that KPMG LLP be appointed as Auditor in succession to KPMG Audit Plc. On the recommendation of the Committee, the Board has decided to put KPMG LLP forward to be appointed as Auditor and a resolution concerning their appointment will be put to the forthcoming Annual General Meeting of the Company. There are no contractual obligations restricting the Committee's choice of external auditor.

### 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.

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 is published on SAINTS' page of the Managers' website subsequent to the meeting. 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 from SAINTS' page of the Managers' website, **www.saints-it.com**.

### Corporate Governance and Stewardship

The Company has given discretionary voting powers to the investment managers, Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests.

The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and have asked the Managers to take these issues into account as long as the investment objectives are not compromised. 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.

### 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.

### 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.

### 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.

## Investment Managers

An Investment Management Agreement between the Company and Baillie Gifford & Co 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 Management Agreement is terminable on not less than six months' notice. 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 relatively low total expense ratio (ongoing charges) is in the best interest of all shareholders. 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.

Details of the fee arrangements with Baillie Gifford & Co are shown on page 37.

The Board considers the Company's investment management and secretarial arrangements on an ongoing basis and a formal review is conducted annually. The Board considers, amongst others, the following topics in its review: the quality of policy guidance; success of investment strategy and investment performance; the administrative services provided by the Secretaries; quality and coverage of Board papers; the marketing efforts undertaken by the Managers; comparative costs; and communication with shareholders. Following the most recent review it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co as Managers, on the terms agreed, is in the interests of shareholders as a whole.

Under a formal management agreement, OLIM Property Limited is appointed manager of the Company's property portfolio. Details of its fees are shown on page 37. The agreement can be terminated on three months' notice. On termination, OLIM Property Limited is entitled to a pro rata proportion of its fees to the date of termination. It is the Board's view that the continuation of OLIM Property Limited's appointment on the terms agreed is in the interest of shareholders as a whole.

## Directors

Information about the Directors, including their relevant experience, can be found on page 20.

All Directors will retire at the Annual General Meeting and, with the exception of Sir Menzies Campbell who will stand down after the Annual General Meeting, will offer themselves for re-election. Following formal performance evaluation, their performance continues to be effective and they remain committed to the Company. The Board recommends their re-election to shareholders.

### Director Indemnification and Insurance

The Company has entered into 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/her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

The Company maintains Directors' and Officers' Liability Insurance.

## Dividends

The Board recommends a final dividend of 2.60p per ordinary share which, together with the interim dividends already paid, makes a total of 10.20p for the year. If approved, the recommended final dividend on the ordinary shares will be paid on 11 April 2014 to shareholders on the register at the close of business on 7 March 2014. The ex-dividend date is 5 March 2014. The Company's Registrar offers a Dividend Reinvestment Plan (see page 53) and the final date for the receipt of elections for reinvestment of this dividend is 21 March 2014.

## Major Interests in the Company's Shares

| Name | No. of ordinary 25p shares held at 31 December 2013 | % of issue |
|---|---|---|
| Brewin Dolphin Limited | 6,660,412 | 5.0 |
| DC Thomson & Co Ltd | 4,100,000 | 3.1 |

There have been no changes to the major interests in the Company's shares intimated up to 18 February 2014.

## Share Capital

### Capital structure

The Company's capital structure consists of 132,675,943 ordinary shares of 25p each (2012 – 132,675,943 ordinary shares). There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attaching 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 on page 55.

## Purchase of Own Shares

The Company's buy-back authority was last renewed at the AGM on 4 April 2013 in respect of 19,888,123 shares of 25p each (equivalent to 14.99% of its then issued share capital). No shares were bought back during the year under review and no shares are held in treasury.

The principal reasons for share buy-backs are:

(i) to enhance the net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value; and

(ii) to address any imbalance between the supply of and demand for SAINTS' shares that results in a discount of the quoted market price to the published net asset value per share.

The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to make market purchases of up to 14.99% of the Company's ordinary shares in issue at the date of passing of the resolution, such authority to expire at the Annual General Meeting of the Company to be held in 2015. Such purchases will only be made through the market for cash at prices below the most recently calculated net asset value per ordinary share, which will result in an increase in value of the remaining ordinary shares. Any such shares purchased shall either be cancelled or held in treasury. In accordance with the Listing Rules of the UK Listing Authority, the maximum price (excluding expenses) that may be paid on the exercise of the authority must not exceed 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 of the price of the last independent trade and the highest current independent bid on the London Stock Exchange.

The minimum price that may be paid will be 25p per share. Purchases of 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. Your attention is drawn to Resolution 14 in the Notice of Annual General Meeting.

## Share Issuance Authority

Resolution 12 in the Notice of Annual General Meeting seeks to renew the Directors' general authority to issue shares up to an aggregate nominal amount of £11,055,222. This amount represents 33.33% of the Company's total ordinary share capital currently in issue and meets institutional guidelines. No issue of ordinary shares will be made pursuant to the authorisation in Resolution 12 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution 13, which is proposed as a special resolution, seeks to renew the Directors' authority to issue shares or sell shares held in treasury on a non-pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount of £3,316,898 (representing 10% of the issued ordinary share capital of the Company as at 18 February 2014). The authorities sought in Resolutions 12 and 13 will continue until the conclusion of the Annual General Meeting to be held in 2015 or on the expiry of 15 months from the passing of this resolution, if earlier.

Such authorities will only be used to issue shares or re-sell shares from treasury at a premium to net asset value and only when the Directors believe that it would be in the best interests of the Company to do so.

The Directors consider that the authority to issue/sell shares is advantageous should the shares trade at a premium to the net asset value and natural liquidity is unable to meet demand.

The Company does not hold any shares in treasury as at 18 February 2014.

## Articles of Association

The Company conducts its affairs so that it qualifies as an investment trust and an investment company.

The statutory rules governing investment trusts and investment companies were amended recently and the rule which prohibited an investment trust or company from distributing any surplus arising from the realisation of its investments was repealed. This gives companies greater flexibility with regard to paying dividends.

In order to comply with the previous statutory regime, the Company has a provision in its Articles which expressly prohibits the distribution of any surplus arising from the realisation of any investment. In the light of the current statutory rules, the Board no longer considers it appropriate to have such a prohibition in the Articles and therefore proposes that it is deleted. Resolution 15 will, if passed, remove this prohibition by deleting article 145. The Board believes that the removal of this restriction will give the Company greater flexibility in the long-term as it will allow distributions to be made from any surplus arising from the realisation of an investment.

A copy of the new Articles marked to show the change being made by Resolution 15 is available for inspection at the registered address of the Company and at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW.

## 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 auditors are 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 auditors are aware of that information.

## Independent Auditors

The Company's independent auditor, KPMG Audit Plc, has instigated an orderly wind-down of its business and has notified the Company that it is not seeking re-appointment at the Annual General Meeting. KPMG have proposed that KPMG LLP be appointed as Auditor in succession to KPMG Audit Plc. This change is purely administrative and there will be no adverse impact on investors' interests as a result. A resolution to appoint KPMG LLP as independent auditor of the Company will be put to the forthcoming Annual General Meeting. There is no impact on the terms in which the Auditor will be retained. The Company has received a statutory statement from KPMG Audit Plc pursuant to section 519 of the Companies Act 2006 which is enclosed as an appendix on page 57 to this Annual Report in accordance with section 520 of the Companies Act 2006.

A resolution authorising the Directors to determine the Auditors' remuneration will also be proposed at the Annual General Meeting.

## Recommendation

The Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting as, in its opinion, they are in the best interests of the shareholders as a whole.

By order of the Board
Sir Brian Ivory
19 February 2014

# Directors’ Remuneration Report

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

## Statement by the Chairman

The requirements regarding the content of the Directors’ Remuneration Report and its approval by shareholders have recently changed. Resolutions will be proposed at the forthcoming Annual General Meeting for the approval of the Directors’ Remuneration Policy and the Annual Report on Remuneration as set out below. Thereafter, shareholders will be asked to approve the Annual Report on Remuneration each year and the Directors’ Remuneration Policy every three years or sooner if an alteration to the policy is proposed.

As explained in last year’s Annual Report, following a review of the Directors’ fees during 2012, with effect from 1 January 2013 the Chairman’s fee was increased from £31,000 to £35,000 and the Directors’ fees were increased from £17,500 to £20,000. The Audit Committee Chairman’s additional fee increased from £2,500 to £3,000 per annum. The last increase prior to this was on 1 January 2010. The Board reviewed the level of fees during the year and it was agreed that there would be no further increase to the Chairman’s and Directors’ fees.

## Directors’ Remuneration Policy

An ordinary resolution for the approval of the Remuneration Policy will be put to the members at the forthcoming Annual General Meeting. If approved by shareholders, the Directors’ Remuneration Policy will be effective immediately upon the passing of the resolution.

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, who have been appointed by the Board as Managers and 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. 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.

The fees for the non-executive Directors are payable quarterly in arrears and are determined by the Company, from time to time, in general meeting. Currently, Directors’ remuneration shall not exceed £25,000 per annum per Director with a maximum additional remuneration of £25,000 per annum for the Chairman. Any change to this limit requires shareholder approval. Non-executive 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.

The basic and additional fees payable to Directors in respect of the year ended 31 December 2013 and the fees payable in respect of the year ending 31 December 2014 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 and subject to the maximum of £25,000 per annum per Director and a maximum additional remuneration of £25,000 per annum for the Chairman.

| | Expected fees for year ending 31 Dec 2014 £ | Fees for year ending 31 Dec 2013 £ |
|---|---|---|
| Non-executive Director fee | 20,000 | 20,000 |
| Additional fee for Chairman | 15,000 | 15,000 |
| Additional fee for Chairman of the Audit Committee | 3,000 | 3,000 |

## 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 their report on pages 30 and 31.

### Directors’ Remuneration for the Year (audited)

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

| Name | 2013 £ | 2012 £ |
|---|---|---|
| **Directors who served during the year:** | | |
| Sir Brian Ivory (Chairman) | 35,000 | 31,000 |
| The Rt Hon Sir Menzies Campbell | 20,000 | 17,500 |
| Eric Hagman | 23,000 | 20,000 |
| Lord Kerr of Kinlochard | 20,000 | 17,500 |
| Rachel Lomax | 20,000 | 17,500 |
| Peter Moon | 20,000 | 17,500 |
| David Price (retired 5 April 2012) | – | 4,615 |
| | **138,000** | **125,615** |

### Sums Paid to Third Parties (audited)

A sum of £30,500 (2012 – £26,500) was paid to Enitar Ltd in respect of Sir Brian Ivory’s Director’s fees. These payments were for making his services available as a Director of the Company.

## Directors' Interests (audited)

| Name | Nature of interest | Ordinary 25p shares held at 31 December 2013 | Ordinary 25p shares held at 31 December 2012 |
|---|---|---|---|
| Sir Brian Ivory | Beneficial | 31,000 | 31,000 |
| The Rt Hon Sir Menzies Campbell | Beneficial | 2,620 | 2,517 |
| Eric Hagman | Beneficial | 2,000 | 2,000 |
| Lord Kerr of Kinlochard | Beneficial | 117,656 | 111,356 |
| Rachel Lomax | Beneficial | 35,458 | 32,652 |
| Peter Moon | Beneficial | 10,000 | 10,000 |

Under the Articles of Association, the Directors are required to hold 2,000 shares in the Company.

The Directors at the year end, and their interests in the Company at 31 December, were as shown above. There have been no other changes intimated in the Directors' interests up to 18 February 2014.

### 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, 96.7% were in favour, 2.4% were against and votes withheld were 0.9%.

### Relative Importance of Spend on Pay

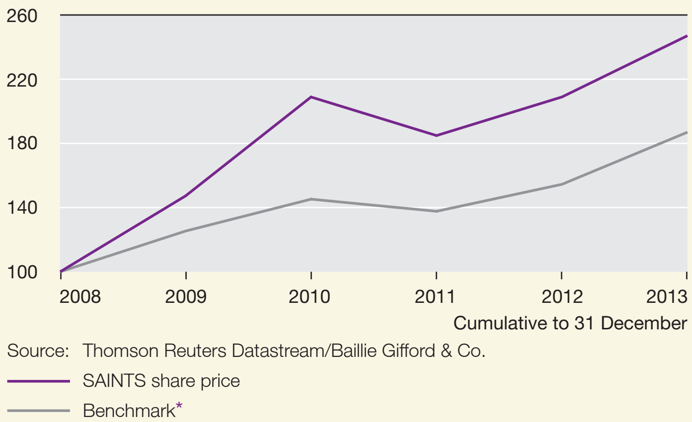
As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

### Company Performance

The graph opposite 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 benchmark index. This index was chosen for comparison purposes, as it is the index against which the Company has measured its performance over the period covered by the graph.

## Performance Graph

(figures rebased to 100 at 31 December 2008)




Source: Thomson Reuters Datastream/Baillie Gifford & Co.

All figures are total return (assuming net dividends reinvested).

* With effect from 1 January 2009 the portfolio benchmark against which performance has been measured is 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms). For the purposes of the above graph the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

Past performance is not a guide to future performance.

## Approval

The Directors' Remuneration Report on pages 27 and 28 was approved by the Board of Directors and signed on its behalf on 19 February 2014.

Sir Brian Ivory
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 (UK Generally Accepted Accounting Practice). 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 year. 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 Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors have delegated responsibility to the Managers for the maintenance and integrity of the Company's page on the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed within the Directors and Management section, confirm that, to the best of their knowledge:

— the financial statements, which have been prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), give a true and fair view of the assets, liabilities, financial position and net return of the Company;

— 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 performance, business model and strategy; and

— the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
Sir Brian Ivory
19 February 2014

**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 The Scottish American Investment Company P.L.C. ('the Company')

## Opinions and conclusions arising from our audit

## Our opinion on the financial statements is unmodified

We have audited the financial statements of The Scottish American Investment Company P.L.C. for the year ended 31 December 2013 set out on pages 32 to 48. In our opinion the financial statements:

— give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its net return for the year then ended;

— have been properly prepared in accordance with UK Accounting Standards; and

— have been prepared in accordance with the requirements of the Companies Act 2006

## 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 were as follows:

**Carrying amount of Listed Equity and Bond Investments**

Refer to page 23 (Audit Committee section of the Directors' Report), page 36 (accounting policy) and pages 39 to 41 (financial disclosures).

— ***The risk:*** The Company's portfolio of listed equity and bond investments makes up 88.5% of total assets (by value) and is considered to be the key driver of the Company's capital and revenue performance. We do not consider these investments to be at 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.

— ***Our response:*** Our procedures over the existence, completeness and valuation of the Company's portfolio of listed equity and bond investments included, but were not limited to:

  — documenting and assessing the processes in place to record investment transactions and to value the portfolio;

  — agreeing 100% of the valuation of the investments to external price confirmations;

  — agreeing 100% of the investment holdings to independently received third party confirmations.

**Valuation of Property Investments**

Refer to page 23 (Audit Committee section of the Directors' Report), page 36 (accounting policy) and pages 39 to 41 (financial disclosures).

— ***The risk:*** The Company's property investments make up 9.2% of total assets (by value). Due to the uncertainty prevalent within the property market and due to the subjective nature of property valuations, we consider the valuation of properties to be at risk of significant misstatement.

— ***Our response:*** We performed the following procedures, among others, over the valuation of the Company's property investment portfolio:

  — We agreed the value of each property to the valuation report prepared for the Company by an independent firm of property specialists;

  — We evaluated the competence, capabilities and objectivity of the independent property specialists;

  — With the assistance of our own valuation specialist, we:

    — checked whether the valuation was stated as having been performed in accordance with the RICS Valuation Professional Standards;

    — considered the general portfolio value changes over the year against the IPD Index of capital growth to benchmark valuation movements;

    — for a sample of valuations, based on our experience of the property market, we assessed the reasonableness of the valuations by gaining an understanding of the nature of the property and how tenancy and income changes over the year may have affected the valuation; and

    — calculated the implied Net Initial Yield and considered the reasonableness of the implied Net Initial Yield for a sample of properties based on our knowledge of the property market and by comparison with available market evidence and CBRE's 2013 benchmark yield indices for pubs, care homes and other commercial property sectors.

  — We assessed the adequacy of the Company's disclosures in relation to the valuation of property investments by reference to the requirements of relevant accounting standards.

## Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £6.5m. This has been determined with reference to a benchmark of total assets (of which it represents 1.5%). Total assets, which is primarily composed of the Company's investment portfolio, is considered the key driver of the Company's capital and revenue performance and, as such, we consider it to be one of the principal considerations for members of the Company in assessing the financial performance of the Company.

In addition, we applied a materiality of £2 million to income from investments and rental income for which we believe misstatements of lesser amounts than materiality as a whole could be reasonably expected to influence the economic decisions of the members of the Company taken on the basis of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £323,250, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

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

## 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 for which the financial statements are prepared is consistent with the financial statements.

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 performance, business model and strategy; or

— the Audit Committee section of the Directors' 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 by the Company, 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.

Under the Listing Rules we are required to review:

— the Directors' statement, set out on page 22, in relation to going concern; and

— the part of the Corporate Governance Statement on pages 21 to 24 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

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

## Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 29, 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/auditscopeukco2013a**, 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.

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
20 Castle Terrace
Edinburgh
EH1 2EG
19 February 2014

# Income Statement

## For the year ended 31 December

| | Notes | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 | 2012 Revenue £'000 | 2012 Capital £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|---|
| Net gains on investments – securities | 9 | – | 30,858 | **30,858** | – | 25,178 | **25,178** |
| Currency (losses)/gains | 14 | – | (266) | **(266)** | – | 288 | **288** |
| Income | 2 | 18,421 | – | **18,421** | 18,556 | – | **18,556** |
| Management fees | 3 | (678) | (1,259) | **(1,937)** | (627) | (1,164) | **(1,791)** |
| Other administrative expenses | 4 | (958) | – | **(958)** | (881) | – | **(881)** |
| **Net return before finance costs and taxation** | | 16,785 | 29,333 | **46,118** | 17,048 | 24,302 | **41,350** |
| Finance costs of borrowings | 5 | (2,052) | (3,812) | **(5,864)** | (2,063) | (3,832) | **(5,895)** |
| **Net return on ordinary activities before taxation** | | 14,733 | 25,521 | **40,254** | 14,985 | 20,470 | **35,455** |
| Tax on ordinary activities | 6 | (1,192) | 457 | **(735)** | (1,421) | 705 | **(716)** |
| **Net return on ordinary activities after taxation** | | **13,541** | **25,978** | **39,519** | **13,564** | **21,175** | **34,739** |
| **Net return per ordinary share** | 7 | **10.21p** | **19.58p** | **29.79p** | **10.22p** | **15.96p** | **26.18p** |

# Statement of Total Recognised Gains and Losses

## For the year ended 31 December

| | Notes | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 | 2012 Revenue £'000 | 2012 Capital £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|---|
| Net return on ordinary activities after taxation | | 13,541 | 25,978 | **39,519** | 13,564 | 21,175 | **34,739** |
| Net gains/(losses) on investments – property | 9 | – | 950 | **950** | – | (750) | **(750)** |
| **Total recognised gains and losses for the year** | | **13,541** | **26,928** | **40,469** | **13,564** | **20,425** | **33,989** |
| **Total recognised gains and losses per ordinary share** | 7 | **10.21p** | **20.29p** | **30.50p** | **10.22p** | **15.39p** | **25.61p** |

A final dividend for the year of 2.60p is proposed (2012 – 2.50p), making a total dividend for the year of 10.20p (2012 – 9.80p). More information on dividend distributions can be found in note 8 on page 39.

The total column of the Income Statement is the profit and loss account of the Company.

All revenue and capital items in these statements derive from continuing operations.

The accompanying notes on pages 36 to 48 are an integral part of this statement.

# Balance Sheet

## As at 31 December

| | Notes | 2013 £'000 | 2013 £'000 | 2012 £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments – securities | 9 | 386,448 | | 362,004 | |
| Investments – property | 9 | 39,600 | | 38,650 | |
| | | | 426,048 | | 400,654 |
| **Current assets** | | | | | |
| Debtors | 10 | 1,158 | | 1,735 | |
| Cash and deposits | 18 | 3,956 | | 2,020 | |
| | | 5,114 | | 3,755 | |
| **Creditors** | | | | | |
| Amounts falling due within one year | 11 | (2,849) | | (2,629) | |
| **Net current assets** | | | 2,265 | | 1,126 |
| **Total assets less current liabilities** | | | 428,313 | | 401,780 |
| **Creditors** | | | | | |
| Amounts falling due after more than one year | 12 | | (85,931) | | (86,467) |
| **Total net assets** | | | **342,382** | | **315,313** |
| **Capital and reserves** | | | | | |
| Called up share capital | 13 | | 33,169 | | 33,169 |
| Share premium | 14 | | 357 | | 357 |
| Capital redemption reserve | 14 | | 22,781 | | 22,781 |
| Capital reserve | 14 | | 269,102 | | 242,174 |
| Revenue reserve | 14 | | 16,973 | | 16,832 |
| **Shareholders' funds** | | | **342,382** | | **315,313** |
| **Net asset value per ordinary share** (Debenture at fair value) | 15 | | **247.0p** | | **220.5p** |
| **Net asset value per ordinary share** (Debenture at par value) | 15 | | **258.1p** | | **237.7p** |

The Financial Statements of the Scottish American Investment Company P.L.C. (company registration number SC000489) were approved and authorised for issue by the Board and were signed on 19 February 2014.

Sir Brian Ivory
Chairman

The accompanying notes on pages 36 to 48 are an integral part of this statement.

# Reconciliation of Movements in Shareholders' Funds

## For the year ended 31 December 2013

| | Notes | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Shareholders' funds £'000 |
|---|---|---|---|---|---|---|---|
| Shareholders' funds at 1 January 2013 | | 33,169 | 357 | 22,781 | 242,174 | 16,832 | **315,313** |
| Total recognised gains and losses | | – | – | – | 26,928 | 13,541 | **40,469** |
| Dividends paid in the year | 8 | – | – | – | – | (13,400) | **(13,400)** |
| **Shareholders' funds at 31 December 2013** | | **33,169** | **357** | **22,781** | **269,102** | **16,973** | **342,382** |

## For the year ended 31 December 2012

| | Notes | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Shareholders' funds £'000 |
|---|---|---|---|---|---|---|---|
| Shareholders' funds at 1 January 2012 | | 33,169 | 357 | 22,781 | 221,749 | 16,138 | **294,194** |
| Total recognised gains and losses | | – | – | – | 20,425 | 13,564 | **33,989** |
| Dividends paid in the year | 8 | – | – | – | – | (12,870) | **(12,870)** |
| **Shareholders' funds at 31 December 2012** | | **33,169** | **357** | **22,781** | **242,174** | **16,832** | **315,313** |

The accompanying notes on pages 36 to 48 are an integral part of this statement.

# Cash Flow Statement

## For the year ended 31 December

| | Notes | 2013 £'000 | 2013 £'000 | 2012 £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 16 | | 15,644 | | 15,832 |
| **Servicing of finance** | | | | | |
| Interest paid | | (6,400) | | (6,400) | |
| **Net cash outflow from servicing of finance** | | | (6,400) | | (6,400) |
| **Taxation** | | | | | |
| Overseas tax incurred | | (735) | | (720) | |
| **Total tax paid** | | | (735) | | (720) |
| **Financial investment** | | | | | |
| Acquisitions of investments | | (76,212) | | (75,401) | |
| Disposals of investments | | 83,240 | | 78,382 | |
| Forward currency contracts | | (35) | | 292 | |
| **Net cash inflow from financial investment** | | | 6,993 | | 3,273 |
| **Equity dividends paid** | 8 | | (13,400) | | (12,870) |
| **Net cash inflow/(outflow) before financing** | | | 2,102 | | (885) |
| **Increase/(decrease) in cash** | 17 | | **2,102** | | **(885)** |

| | Notes | 2013 £'000 | 2013 £'000 | 2012 £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Reconciliation of net cash flow to movement in net debt** | 17 | | | | |
| Increase/(decrease) in cash | | | 2,102 | | (885) |
| Translation difference | | | (166) | | (260) |
| Other non-cash changes | | | 536 | | 505 |
| **Movement in net debt in the year** | | | 2,472 | | (640) |
| **Net debt at 1 January** | | | (84,447) | | (83,807) |
| **Net debt at 31 December** | | | **(81,975)** | | **(84,447)** |

The accompanying notes on pages 36 to 48 are an integral part of this statement.

# Notes to the Financial Statements

## 1 Principal Accounting Policies

The financial statements for the year to 31 December 2013 have been prepared on the basis of the accounting policies set out below, which are unchanged from the prior year and have been applied consistently.

### (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 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.

The financial statements have been prepared in accordance with the Companies Act, applicable UK accounting standards and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009. In order to reflect better the activities of the Company 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.

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.

### (b) Investments

Purchases and sales of investments in securities are accounted for on a trade date basis. Purchases and sales of investments in property are accounted for on a completion date basis.

Investments in securities are designated as fair value through profit or loss upon initial recognition. The fair value of listed security investments traded on an active market is bid value or, in the case of FTSE 100 constituents or holdings on certain recognised overseas exchanges, last traded prices. The fair value of other listed security investments and unlisted security investments uses valuation techniques, determined by the Directors, based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate. Changes in the fair value of investments in securities and gains and losses on disposal are recognised as capital items in the Income Statement.

Investments in property are valued at fair value and changes in fair value and gains and losses on disposal are recognised as capital items through the Statement of Total Recognised Gains and Losses. The valuation of property held at the year end has been estimated by professional valuers in accordance with the RICS appraisal and valuation manual.

### (c) Cash

Cash 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.

### (d) 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) Income from debt 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 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) Rental income is recognised on an accruals basis.

### (e) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows: (i) where they relate directly to the acquisition or disposal of an investment, in which case they are recognised as capital; and (ii) where they are connected with the maintenance or enhancement of the value of investments. In this respect investment and property management fees are allocated 35% to revenue and 65% to capital, in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively.

### (f) 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 on issue plus accrued finance costs. The finance costs of such borrowings are allocated 35% to revenue and 65% to capital, in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively. Finance costs include the difference between the repayable value on maturity and the proceeds received on issue which are written off on an effective interest rate basis over the life of the borrowings. Gains and losses on the repurchase or early settlement of debt is wholly charged to capital.

### (g) 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.

### (h) Foreign Currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Monetary assets and liabilities and fixed asset investment in foreign currencies are translated at the closing rates of exchange at the balance sheet date. Forward foreign exchange contracts are valued at the forward rate ruling 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 the Income Statement as capital or revenue as appropriate.

### (i) Capital Reserve

Gains and losses on disposal of investments, changes in fair value of investments held, exchange differences of a capital nature and the amounts by which other financial assets and liabilities valued at fair value differ from their book value are dealt with in this reserve. Purchases of the Company's own shares for cancellation are also funded from this reserve. 65% 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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Income from investments** | | |
| Franked investment income | 3,554 | 3,995 |
| UK unfranked investment income | 472 | 1,198 |
| Overseas dividends | 9,445 | 8,357 |
| Overseas interest | 1,700 | 1,793 |
| | **15,171** | **15,343** |
| **Other income** | | |
| Deposit interest | 12 | 9 |
| Rental income | 3,198 | 3,153 |
| Other income | 40 | 51 |
| | **3,250** | **3,213** |
| **Total income** | **18,421** | **18,556** |
| **Total income comprises** | | |
| Dividends from financial assets designated at fair value through profit or loss | 12,999 | 12,352 |
| Interest from financial assets designated at fair value through profit or loss | 2,172 | 2,991 |
| Interest from financial assets not at fair value through profit or loss | 12 | 9 |
| Other income not from financial assets | 3,238 | 3,204 |
| | **18,421** | **18,556** |

## 3 Management Fees

| | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 | 2012 Revenue £'000 | 2012 Capital £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|
| Investment management fee | 610 | 1,133 | **1,743** | 559 | 1,038 | **1,597** |
| Property management fee | 68 | 126 | **194** | 68 | 126 | **194** |
| | **678** | **1,259** | **1,937** | **627** | **1,164** | **1,791** |

Baillie Gifford & Co are employed by the Company as investment managers and secretaries under a management agreement which can be terminated on six months' notice. Baillie Gifford & Co's annual management fee is 0.45% of total assets less current liabilities, excluding the property portfolio, calculated on a quarterly basis. Although holdings in collective investment schemes (OEICs) managed by Baillie Gifford & Co are subject to this fee the OEIC share class held by the Company does not itself attract a fee, thereby avoiding any duplication of fees. No secretarial fee is payable.

The property portfolio is managed by OLIM Property Limited, which receives an annual fee of 0.5% of the value of the property portfolio, subject to a minimum quarterly fee of £6,250. The agreement can be terminated on three months' notice.

## 4 Other Administrative Expenses – all charged to revenue

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| General administrative expenses | 729 | 657 |
| Custodian fees | 72 | 79 |
| Auditor's remuneration for audit services | 18 | 18 |
| Auditor's remuneration for non-audit services – reporting on debenture covenants | 1 | 1 |
| Directors' fees (see Directors' Remuneration Report on page 27) | 138 | 126 |
| | **958** | **881** |

## 5 Finance Costs of Borrowings

| | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 | 2012 Revenue £'000 | 2012 Capital £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities not at fair value through profit or loss** | | | | | | |
| Debenture interest | **2,052** | **3,812** | **5,864** | **2,063** | **3,832** | **5,895** |

## 6 Tax on Ordinary Activities

| | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 | 2012 Revenue £'000 | 2012 Capital £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|
| UK corporation tax | 512 | (512) | **–** | 777 | (777) | **–** |
| Overseas taxation | 735 | – | **735** | 716 | – | **716** |
| Double taxation relief | (55) | 55 | **–** | (72) | 72 | **–** |
| | **1,192** | **(457)** | **735** | **1,421** | **(705)** | **716** |

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| The tax charge for the year is lower than the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%) | | |
| The differences are explained below: | | |
| Net return on ordinary activities before taxation | 40,254 | 35,455 |
| Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%) | 9,359 | 8,686 |
| Capital returns not taxable | (7,112) | (6,239) |
| Income not taxable | (2,912) | (2,895) |
| Taxable loss not utilised | 665 | 448 |
| Overseas tax | 735 | 716 |
| Current tax charge for the year | **735** | **716** |

At 31 December 2013 the Company had a potential deferred tax asset of £2,221,000 (2012 – £1,746,000) in respect of taxable losses which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make suitable taxable revenue profits in excess of deductible expenses in future periods. The potential deferred tax asset has been calculated using a corporation tax rate of 21% (2012 – 23%).

## 7 Returns per Ordinary Share

| | 2013 Revenue | 2013 Capital | 2013 Total | 2012 Revenue | 2012 Capital | 2012 Total |
|---|---|---|---|---|---|---|
| Net return per ordinary share (Income Statement) | **10.21p** | **19.58p** | **29.79p** | **10.22p** | **15.96p** | **26.18p** |
| Total recognised gains and losses per ordinary share | **10.21p** | **20.29p** | **30.50p** | **10.22p** | **15.39p** | **25.61p** |

Net return per ordinary share is based on the return on ordinary activities after taxation figures in the Income Statement and on 132,675,943 (2012 – 132,675,943) ordinary shares of 25p, being the number of ordinary shares in issue during each year. Total recognised gains and losses per ordinary share is based on the total recognised gains and losses for the year in the Statement of Total Recognised Gains and Losses and on 132,675,943 (2012 – 132,675,943) ordinary shares of 25p, being the number of ordinary shares in issue during each year. There are no dilutive or potentially dilutive shares in issue.

## 8 Ordinary Dividends

| | 2013 | 2012 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|
| **Amounts recognised as distributions in the year:** | | | | |
| Previous year's final (paid 12 April 2013) | 2.50p | 2.40p | 3,317 | 3,184 |
| First interim (paid 28 June 2013) | 2.50p | 2.40p | 3,317 | 3,184 |
| Second interim (paid 27 September 2013) | 2.55p | 2.45p | 3,383 | 3,251 |
| Third interim (paid 20 December 2013) | 2.55p | 2.45p | 3,383 | 3,251 |
| | **10.10p** | **9.70p** | **13,400** | **12,870** |

We also set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution out of current year profits by way of dividend for the year is £13,541,000 (2012 – £13,564,000).

| | 2013 | 2012 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|
| **Dividends paid and payable in respect of the year:** | | | | |
| First interim (paid 28 June 2013) | 2.50p | 2.40p | 3,317 | 3,184 |
| Second interim (paid 27 September 2013) | 2.55p | 2.45p | 3,383 | 3,251 |
| Third interim (paid 20 December 2013) | 2.55p | 2.45p | 3,383 | 3,251 |
| Current year's proposed final dividend (payable 11 April 2014) | 2.60p | 2.50p | 3,450 | 3,317 |
| | **10.20p** | **9.80p** | **13,533** | **13,003** |

## 9 Investments

| As at 31 December 2013 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Securities** | | | | |
| Listed equities/funds | 356,042 | 1,746 | – | **357,788** |
| Bonds | 2,065 | 9,696 | 16,856 | **28,617** |
| Unlisted equities | – | – | 43 | **43** |
| Total financial asset investments | **358,107** | **11,442** | **16,899** | **386,448** |
| **Property** | | | | |
| Freehold | | | | 39,600 |
| | | | | **39,600** |
| Total investments | | | | **426,048** |

| As at 31 December 2012 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Securities** | | | | |
| Listed equities/funds | 307,779 | 1,713 | – | **309,492** |
| Listed convertible securities | 1,138 | – | – | **1,138** |
| Bonds | 17,052 | 10,061 | 24,174 | **51,287** |
| Unlisted equities | – | – | 87 | **87** |
| Total financial asset investments | **325,969** | **11,774** | **24,261** | **362,004** |
| **Property** | | | | |
| Freehold | | | | 38,650 |
| | | | | **38,650** |
| Total investments | | | | **400,654** |

## 9 Investments (continued)

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 29 'Financial Instruments: Disclosures', 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.

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 29 'Financial Instruments: Disclosures', the tables on page 39 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. Property investments are not financial assets and therefore the fair value hierarchy does not apply to these assets.

**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** – investments with quoted prices in an active market;

**Level 2** – investments whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

**Level 3** – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data.

| | Equities* £'000 | Bonds £'000 | Property £'000 | Total £'000 |
|---|---|---|---|---|
| Cost of investments at 31 December 2012 | 279,094 | 35,909 | 30,251 | **345,254** |
| Investment holding gains at 31 December 2012 | 31,623 | 15,378 | 8,399 | **55,400** |
| Value of investments at 31 December 2012 | 310,717 | 51,287 | 38,650 | **400,654** |
| Movements in year: | | | | |
| Purchases | 68,732 | 7,480 | – | **76,212** |
| Sales – proceeds | (53,586) | (29,479) | – | **(83,065)** |
| – gains on sales | 11,313 | 6,956 | – | **18,269** |
| Amortisation of fixed income book cost | – | 439 | – | **439** |
| Changes in investment holding gains | 20,655 | (8,066) | 950 | **13,539** |
| Value of investments at 31 December 2013 | **357,831** | **28,617** | **39,600** | **426,048** |
| Cost of investments at 31 December 2013 | 305,553 | 21,305 | 30,251 | **357,109** |
| Investment holding gains at 31 December 2013 | 52,278 | 7,312 | 9,349 | **68,939** |
| Value of investments at 31 December 2013 | **357,831** | **28,617** | **39,600** | **426,048** |

*Includes funds.

The purchases and sales proceeds figures above include transaction costs of £131,000 (2012 – £67,000) and £33,000 (2012 – £38,000) respectively. Of the gains on sales during the year of £18,269,000 (2012 – gains of £18,109,000) a net gain of £12,707,000 (2012 – gain of £13,566,000) was included in investment holding gains at the previous year end.

The property was valued on an open market basis by Jones Lang LaSalle as at 31 December 2013.

The following tables show a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

| For the year to 31 December 2013 | Value at 31 December 2012 £'000 | Purchases/ amortisation* £'000 | Sales proceeds £'000 | Gains on sales £'000 | Holding gains/ (losses) £'000 | Value at 31 December 2013 £'000 |
|---|---|---|---|---|---|---|
| Bonds | 24,174 | 443 | (11,586) | 2,574 | 1,251 | **16,856** |
| Equities | 87 | – | (43) | 43 | (44) | **43** |
| | **24,261** | **443** | **(11,629)** | **2,617** | **1,207** | **16,899** |

*Purchases/amortisation includes amortisation of fixed income securities of £443,000.

## 9 Investments (continued)

| For the year to 31 December 2012 | Value at 31 December 2011 £'000 | Purchases/ amortisation * £'000 | Sales proceeds £'000 | Gains on sales £'000 | Holding gains/ (losses) £'000 | Value at 31 December 2012 £'000 |
|---|---|---|---|---|---|---|
| Bonds | 18,243 | 1,930 | (11) | – | 4,012 | **24,174** |
| Equities | 1,850 | – | (1,693) | 1,693 | (1,763) | **87** |
| | **20,093** | **1,930** | **(1,704)** | **1,693** | **2,249** | **24,261** |

* Purchases/amortisation includes amortisation of fixed income securities of £219,000.

The gains and losses included in the above tables have all been recognised in the Income Statement on page 32. The Company believes that other reasonably possible alternative valuations for its Level 3 holdings would not be significantly different from those included in the financial statements.

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Net gains/(losses) on investments** | | |
| **Securities:** | | |
| Gains on sales | 18,269 | 18,109 |
| Changes in investment holding gains | 12,589 | 7,069 |
| | **30,858** | **25,178** |
| **Property:** | | |
| Changes in investment holding gains | 950 | (750) |
| | **950** | **(750)** |
| | **31,808** | **24,428** |

## 10 Debtors

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Accrued income and prepaid expenses | 903 | 1,257 |
| Sales for subsequent settlement | – | 175 |
| Taxation recoverable | 118 | 101 |
| Gains on forward currency contracts | 137 | 202 |
| | **1,158** | **1,735** |

With the exception of the gain on the forward currency contracts, none of the above debtors are financial assets designated at fair value through profit or loss. The carrying amount of debtors is a reasonable approximation of fair value. The gain on forward currency contracts is classified as Level 2 in the fair value hierarchy described on page 40.

## 11 Creditors – amounts falling due within one year

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Interest payable | 1,438 | 1,438 |
| Rental income prepaid | 518 | 396 |
| Other creditors and accruals | 893 | 795 |
| | **2,849** | **2,629** |

With the exception of the loss on the forward currency contracts, none of the above creditors are financial liabilities designated at fair value through profit or loss. Included in other creditors is £487,000 (2012 – £457,000) in respect of the management fees.

## 12 Creditors – amounts falling due after more than one year

The 8% Debenture Stock 2022 is redeemable at par value on 10 April 2022. It is secured by a floating charge over the property of the Company. Under the terms of the Debenture Agreement, total borrowings should not exceed net assets and the Company cannot undertake share buy-backs if this would result in total borrowings exceeding 66.67%.

The carrying value of the 8% Debenture Stock, which is measured at amortised cost (see note 1(f) on page 36), has been calculated as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Nominal value of 8% Debenture Stock** | 80,000 | 80,000 |
| Premium less issue expenses | 11,009 | 11,009 |
| | **91,009** | **91,009** |
| Net amortisation in prior years | (4,542) | (4,037) |
| Net amortisation during the year | (536) | (505) |
| Carrying value of 8% Debenture Stock at end of year | **85,931** | **86,467** |

## 13 Called Up Share Capital

| | 2013 Number | 2013 £'000 | 2012 Number | 2012 £'000 |
|---|---|---|---|---|
| Allotted, called up and fully paid ordinary shares of 25p each | **132,675,943** | **33,169** | **132,675,943** | **33,169** |

The Company allotted no ordinary shares in the year to 31 December 2013 (2012 – allotted no ordinary shares). At 31 December 2013 the Company had authority to buy back 19,888,123 ordinary shares and to allot 13,267,592 ordinary shares without application of pre-emption rights in accordance with the authorities granted at the AGM in April 2013. No shares were bought back during the year.

## 14 Capital and Reserves

| | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Shareholders' funds £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 33,169 | 357 | 22,781 | 242,174 | 16,832 | **315,313** |
| Gains on investments – securities | – | – | – | 30,858 | – | **30,858** |
| Gains on investments – property | – | – | – | 950 | – | **950** |
| Management fees charged to capital | – | – | – | (1,259) | – | **(1,259)** |
| Finance costs charged to capital | – | – | – | (3,812) | – | **(3,812)** |
| Taxation credit to capital | – | – | – | 457 | – | **457** |
| Currency losses on forward currency contracts | – | – | – | (100) | – | **(100)** |
| Other currency losses | – | – | – | (166) | – | **(166)** |
| Revenue return on ordinary activities after taxation | – | – | – | – | 13,541 | **13,541** |
| Dividends paid in the year | – | – | – | – | (13,400) | **(13,400)** |
| At 31 December 2013 | **33,169** | **357** | **22,781** | **269,102** | **16,973** | **342,382** |

The Capital Reserve includes investment holding gains of £68,939,000 (2012 – gains of £55,400,000) as detailed in note 9. The revenue reserve is distributable by way of dividend.

## 15 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net asset value attributable to the ordinary shareholders at the year end were as follows:

| | 2013 | 2012 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|
| Ordinary shares of 25p | **258.1p** | **237.7p** | **342,382** | **315,313** |

Net asset value per ordinary share is based on the net assets as shown above and on 132,675,943 (2012 – 132,675,943) ordinary shares, being the number of ordinary shares in issue at the year end.

Deducting borrowings at fair value would have the effect of reducing net asset value per ordinary share from 258.1p to 247.0p. Taking the market price of the ordinary shares at 31 December 2013 of 256.3p, this would have given a premium to net asset value of 3.8% as against a discount of 0.7% on a traditional basis. At 31 December 2012 the effect would have been to reduce net asset value per ordinary share from 237.7p to 220.5p. Taking the market price of the ordinary shares at 31 December 2012 of 225.5p, this would have given a premium to net asset value of 2.3% as against a discount of 5.1% on a traditional basis.

## 16 Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Net return before finance costs and taxation | 46,118 | 41,350 |
| Gains on investments – securities | (30,858) | (25,178) |
| Currency losses/(gains) | 266 | (288) |
| Decrease in accrued income and prepaid expenses | 354 | 193 |
| (Increase)/decrease in other debtors | (17) | 4 |
| Increase/(decrease) in creditors and prepaid income | 220 | (30) |
| Other non-cash changes | (439) | (219) |
| Net cash inflow from operating activities | **15,644** | **15,832** |

## 17 Analysis of Change in Net Debt

| | At 1 January 2013 £'000 | Cash flows £'000 | Translation difference £'000 | Other non-cash changes £'000 | At 31 December 2013 £'000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 2,020 | 2,102 | (166) | – | **3,956** |
| Debenture stock | (86,467) | – | – | 536 | **(85,931)** |
| | **(84,447)** | **2,102** | **(166)** | **536** | **(81,975)** |

## 18 Financial Instruments

As an investment trust, the Company invests in equities and makes other investments so as to secure its investment objective of increasing capital and growing income in order to deliver real dividend growth. The Company borrows money when the Board and Managers have sufficient conviction that the assets funded by borrowed monies will generate a return in excess of the cost of borrowing. In pursuing its investment objective, the Company is exposed to a variety of risks that cause short term variation in the Company's net assets and could result in either a reduction in the Company's net assets or a reduction in the profits available for dividend.

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 reduction in the Company's net assets or its profits available for dividend rather than to minimise the short term volatility.

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

### Market Risk

The fair value or 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 Manager both assesses the exposure to market risk when making individual investment decisions and monitors 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. Details of derivative financial instruments outstanding at the balance sheet date are shown on page 48.

### 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 Manager monitors the Company's exposure to foreign currencies and reports to the Board on a regular basis. The Investment Manager assesses 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 overseas 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.

Forward currency contracts are used periodically to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are used also to achieve the portfolio characteristics that assist the Company in meeting its investment objectives. Cash amounts received in foreign currencies are converted to sterling on a regular basis.

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.

| At 31 December 2013 | Investments £'000 | Cash and deposits £'000 | Forward currency contracts £'000 | Debentures £'000 | Other debtors and creditors * £'000 | Net exposure £'000 |
|---|---|---|---|---|---|---|
| US dollar | 131,762 | – | (9,661) | – | 197 | **122,298** |
| Euro | 34,497 | 71 | (5,824) | – | 121 | **28,865** |
| Brazilian real | 18,692 | 725 | – | – | 89 | **19,506** |
| Japanese yen | 17,541 | – | – | – | 116 | **17,657** |
| Other overseas currencies | 72,706 | – | – | – | 61 | **72,767** |
| Total exposure to currency risk | **275,198** | **796** | **(15,485)** | **–** | **584** | **261,093** |
| Sterling | 150,850 | 3,160 | 15,622 | (85,931) | (2,412) | **81,289** |
| | **426,048** | **3,956** | **137** | **(85,931)** | **(1,828)** | **342,382** |

* Includes net non-monetary assets of £33,000.

## 18 Financial Instruments (continued)

### Currency Risk (continued)

| At 31 December 2012 | Investments £'000 | Cash and deposits £'000 | Forward currency contracts £'000 | Debentures £'000 | Other debtors and creditors * £'000 | Net exposure £'000 |
|---|---|---|---|---|---|---|
| US dollar | 119,790 | 31 | (11,074) | – | 124 | **108,871** |
| Euro | 27,649 | 139 | (9,734) | – | 112 | **18,166** |
| Brazilian real | 19,378 | 22 | – | – | 66 | **19,466** |
| Japanese yen | 9,222 | – | – | – | 89 | **9,311** |
| Other overseas currencies | 60,445 | (63) | – | – | 190 | **60,572** |
| Total exposure to currency risk | **236,484** | **129** | **(20,808)** | **–** | **581** | **216,386** |
| Sterling | 164,170 | 1,891 | 21,010 | (86,467) | (1,677) | **98,927** |
| | **400,654** | **2,020** | **202** | **(86,467)** | **(1,096)** | **315,313** |

* Includes net non-monetary assets of £36,000.

### Currency Risk Sensitivity

At 31 December 2013, 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 2012.

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| US dollar | 6,115 | 5,443 |
| Euro | 1,443 | 908 |
| Brazilian real | 975 | 973 |
| Japanese yen | 883 | 466 |
| Other overseas currencies | 3,638 | 3,029 |
| | **13,054** | **10,819** |

### 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 any variable rate borrowings which the Company may take out.

Interest rate movements may also impact upon the market value of the Company's investments other than its 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 fair 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.

## 18 Financial Instruments (continued)

### Interest Rate Risk (continued)

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

**Financial Assets**

| | 2013 Fair value £'000 | 2013 Weighted average interest rate | 2013 Weighted average fixed rate period | 2012 Fair value £'000 | 2012 Weighted average interest rate | 2012 Weighted average fixed rate period |
|---|---|---|---|---|---|---|
| **Fixed rate:** | | | | | | |
| UK bonds | – | – | – | 3,998 | 7.2% | 6 years |
| US bonds | 2,065 | 14.1% | 15 years | 3,023 | 6.6% | 2 years |
| **Floating rate:** | | | | | | |
| Brazilian bonds (interest rate linked to Brazilian CPI) | 9,696 | 11.0% | n/a | 10,061 | 8.4% | n/a |
| Euro bonds (interest rate linked to Euribor) | 3,070 | 17.4% | n/a | 6,425 | 12.9% | n/a |
| **Fixed Interest Collective Investment Funds:** | | | | | | |
| UK funds | – | – | – | 13,196 | 6.3% | n/a |
| US dollar denominated fund | 13,786 | 0.4% | n/a | 15,470 | 1.7% | n/a |

**Financial Liabilities**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| The interest rate risk profile of the Company's financial liabilities at 31 December was: | | |
| Fixed rate – sterling | **85,931** | **86,467** |
| The maturity profile of the Company's financial liabilities at 31 December was: | | |
| In more than five years – 9 years (2012 – 10 years) | **85,931** | **86,467** |

### Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 December 2013 would have decreased total net assets and total return on ordinary activities by £1,397,000 (2012 – £1,865,000) and would have increased the net asset value per share (with debenture at fair value) by 3.7p (2012 – 4.5p). A decrease of 100 basis points would have had an equal but opposite effect.

### 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 Manager. 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.

### Other Price Risk Sensitivity

A full list of the Company's investments is shown on pages 15 to 18. In addition, a list of the 30 largest equity holdings together with various analyses of the portfolio by asset class and industrial sector are contained in the Strategic Report.

104.0% of the Company's net assets are invested in quoted equities. A 5% increase in quoted equity valuations at 31 December 2013 would have increased total assets and total return on ordinary activities by £17,797,000 (2012 – £14,553,000). A decrease of 5% would have had an equal but opposite effect.

## 18 Financial Instruments (continued)

### Liquidity Risk

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

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company's holdings in direct property and unlisted investments, which are not considered to be readily realisable, amount to 10.4% of total assets at 31 December 2013 (2012 – 9.5%). The Company has the power to take out borrowings, which give it access to additional funding when required.

The Board gives guidance to the Investment Managers as to the maximum amount of the Company's resources that should be invested in any one holding and to the maximum aggregate exposure to any one entity (see investment policy on page 6). The Board also sets parameters for the degree to which the Company's net assets are invested in quoted equities.

### 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 Manager makes 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 Manager on the credit ratings of those bonds and other securities in which the Company has invested;
- the Company's listed investments are held on its behalf by Bank of New York Mellon SA/NV, the Company's custodian. 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 Manager. Transactions are ordinarily done 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 before any transfer of cash or securities away from the Company is completed;
- transactions involving derivatives, structured notes 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 Manager of the creditworthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board; and
- cash is only held at banks that have been identified by the Managers as reputable and of high credit quality.

### Credit Risk Exposure

The exposure to credit risk at 31 December was:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Bonds | 28,617 | 51,287 |
| Cash and short term deposits | 3,956 | 2,020 |
| Debtors and prepayments | 1,158 | 1,735 |
| | **33,731** | **55,042** |

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

## 18 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 the long term borrowings which are stated at amortised cost in accordance with FRS 26. The fair value (determined as the asking price as traded on an active market) of the debenture stock is shown below.

| | 2013 Nominal £'000 | 2013 Book £'000 | 2013 Fair £'000 | 2012 Nominal £'000 | 2012 Book £'000 | 2012 Fair £'000 |
|---|---|---|---|---|---|---|
| 8% debenture stock 2022 | **80,000** | **85,931** | **100,632** | **80,000** | **86,467** | **109,248** |

### Gains and Losses on Hedges

The following forward currency contracts were open at 31 December:

| At 31 December 2013 Currency sold | Currency amount sold | Currency bought | Currency amount bought | Settlement date | Fair value £'000 |
|---|---|---|---|---|---|
| US dollar | $16,000,000 | Sterling | £9,765,000 | 15/01/14 | 104 |
| Euro | €7,000,000 | Sterling | £5,857,000 | 15/01/14 | 33 |
| | | | | | **137** |

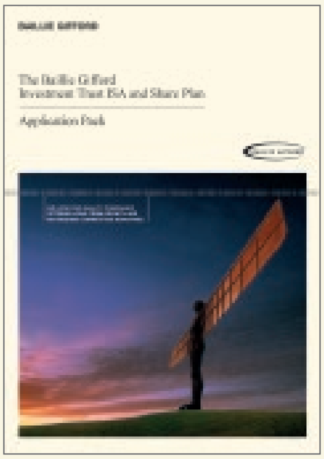
| At 31 December 2012 Currency sold | Currency amount sold | Currency bought | Currency amount bought | Settlement date | Fair value £'000 |
|---|---|---|---|---|---|
| US dollar | $18,000,000 | Sterling | £11,291,000 | 09/01/13 | 217 |
| Euro | €12,000,000 | Sterling | £9,719,000 | 09/01/13 | (15) |
| | | | | | **202** |

Realised currency gains/(losses) are taken to the capital reserve and are not reflected in the revenue account unless they are of a revenue nature.

### Capital Management

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital (see note 13) which is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 6. Shares may be issued and/or repurchased as explained on pages 25 and 26.

# Cost-effective Ways to Buy and Hold Shares in SAINTS



The Share Plan and ISA brochure available at **www.saints-it.com**


Press advertisement for the Baillie Gifford Children's Savings Plan

Baillie Gifford Savings Management Ltd offers a number of plans that enable you to buy and hold shares of SAINTS 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 of £32.50 + VAT

— Lump sum investment from £2,000 up to a maximum of £11,520 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;

— switch between investment trusts, except where there is more than one holder;

— sell part or all of your holdings, except where there is more than one holder; and

— update certain personal details e.g. address and telephone number.

*Please note that 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 51).

## Risks

- Past performance is not a guide to future performance.
- SAINTS is a listed UK Company. 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.
- SAINTS has borrowed money to make further investments (sometimes known as gearing). The risk is that when this money is repaid by the Company, the value of these 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.
- SAINTS can buy back its own shares. The risks from borrowing, referred to above, are increased when a company buys back its own shares.
- SAINTS 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.
- SAINTS invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- SAINTS invests in corporate bonds which are generally perceived to carry a greater possibility of capital loss than investment in, for example, higher rated UK government bonds. Bonds issued by companies and governments may be adversely affected by changes in interest rates and expectations of inflation.
- 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 that SAINTS might receive upon their sale.
- SAINTS can make use of derivatives The use of derivatives may impact upon performance.
- SAINTS has some direct property investments which may be difficult to sell. Valuations of property are only estimates based on the valuer's opinion rather than fact. These estimates may not be achieved when the property is sold.

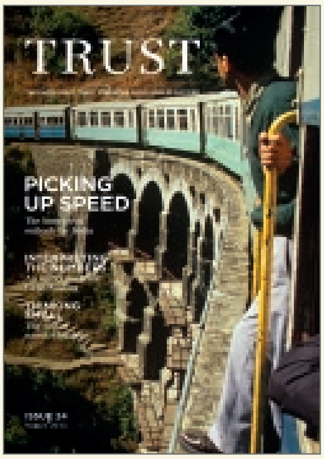
You should note that tax rates and reliefs may change at any time and their value depends on your circumstances.

The favourable tax treatment of ISAs may change.

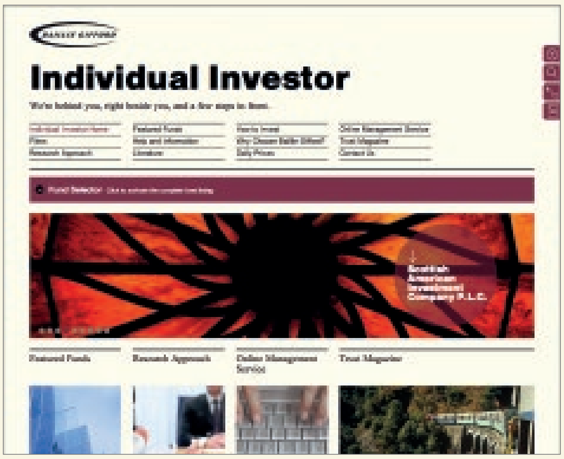
Investment Trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

Details of other risks that apply to investment in these savings vehicles are contained in the product brochures.

# Communicating with Shareholders




*Trust* Magazine




A SAINTS web page at **www.saints-it.com**

## Promoting SAINTS

Baillie Gifford carries out extensive marketing activity to promote SAINTS to institutional, intermediary and direct investors. The Board warmly supports the promotion of the plans described on page 49 in order to bring the merits of SAINTS 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 SAINTS. *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**.

## SAINTS on the Web

Up-to-date information about SAINTS, including a monthly commentary, recent portfolio information and performance figures can be found on SAINTS' page of the Managers' website at **www.saints-it.com**.

You can also find a brief history of SAINTS, an explanation of the effects of gearing and a flexible performance reporting tool.

If you are interested in investing directly in SAINTS, you can do so online. There are a number of companies offering real time online dealing services – find out more on the Platforms section of the Managers' website (**www.bailliegifford.com**).

## Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so 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 questions that you may have, either about SAINTS or the plans described on page 49.

## Literature in Alternative Formats

It is possible to provide copies of the literature in alternative formats, such as large print or on audio tape. 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.

**Email:** 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

## SAINTS specific queries

Please use the following contact details:
**Email:** saints@bailliegifford.com
**Website:** www.saints-it.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.**

# 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 49). If you are interested in investing directly in SAINTS you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting the investment trust pages at **www.bailliegifford.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 SAINTS' page of the Baillie Gifford website at **www.saints-it.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.

## SAINTS Share Identifiers

ISIN GB0007873697

Sedol 0787369

Ticker SCAM

## AIC

The Company is a member of the Association of Investment Companies.

## Dividend Dates

The table below gives the actual and anticipated quarterly dividend dates.

The ex-dividend date is the date on which entitlement to receive the net dividend is established. The record date is the date on which shares must be registered following purchase to receive the dividend direct. Otherwise you will have to claim it from the agent through whom you purchased your shares. The DRIP election date is the final date for electing to participate in the Dividend Reinvestment Plan (see page 53 for more details) for that dividend.

## Dividend Dates for 2014

| | Final 2013 | First interim * | Second interim * | Third interim * |
|---|---|---|---|---|
| Dividend announced | 14/2/14 | 15/5/14 | 25/7/14 | 13/11/14 |
| Ex-dividend date | 5/3/14 | 28/5/14 | 20/8/14 | 19/11/14 |
| Record date | 7/3/14 | 30/5/14 | 22/8/14 | 21/11/14 |
| DRIP election date | 21/3/14 | 6/6/14 | 5/9/14 | 28/11/14 |
| Dividend paid | 11/4/14 | 27/6/14 | 26/9/14 | 19/12/14 |

* Anticipated dates.

## Interest

Interest is paid on the 8% Debenture Stock in April and October.

## Announcement of Results and Reports

SAINTS' results for the half year to 30 June will be announced in July and the results for the year to 31 December will be announced in mid February. The Half-yearly Report will be posted to shareholders in August and the Annual Report in early March. The 2014 AGM is being held on 3 April 2014.

## How You are Taxed

— **Capital** As an investment trust, SAINTS pays no capital gains tax. This means that, while assets remain invested in SAINTS, they are managed free of such tax. However, should you decide to sell your SAINTS shares, you may be subject to capital gains tax.

  If you held SAINTS shares on or before 31 March 1982 the market value of the ordinary shares (adjusted for present capital) on that date of 33.125p will be required for your capital gains tax computation.

— **Income** The dividends you receive from your SAINTS shares are taxed as income. If you pay tax at the basic (20%) rate you will have no further liability to tax. If you pay tax at a higher rate, you will be liable to a further amount of tax. Dividends received, including the relevant tax credits, should be declared on your Tax Return.

  Shareholders are recommended to consult their professional adviser as to their tax position.

## 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 0870 707 1282. 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 price of each shareholding;

— view price histories and trading graphs;

— register to receive communications from the Company, including the Annual Report, 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 operate 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 0870 707 1694.

### Electronic Proxy Voting

If you hold stock in your own name you can choose to vote by returning proxies electronically at **www.eproxyappointment.com**.

If you have any questions about this service please contact Computershare on 0870 707 1282.

### CREST Proxy Voting

If you are a user of the CREST system (including a CREST Personal Member), you may appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. For further information please refer to the CREST Manual.

### SAINTS 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.

### Analysis of Shareholders at 31 December

| | 2013 Number of shares held | 2013 % | 2012 Number of shares held | 2012 % |
|---|---|---|---|---|
| Institutions | 20,437,990 | 15.4 | 21,145,499 | 15.9 |
| Intermediaries | 67,445,839 | 50.8 | 65,692,044 | 49.5 |
| Individuals | 20,699,864 | 15.6 | 22,315,551 | 16.8 |
| Baillie Gifford Share Plan/ISA | 23,720,258 | 17.9 | 22,768,499 | 17.2 |
| Marketmakers | 371,992 | 0.3 | 754,350 | 0.6 |
| | **132,675,943** | **100.0** | **132,675,943** | **100.0** |

The financial statements have been approved by the Directors of the Scottish American Investment Company P.L.C.

Baillie Gifford Savings Management Limited (BGSM) is the ISA Manager of the Baillie Gifford Investment Trust ISA and the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings Plan. BGSM is wholly owned by Baillie Gifford & Co. Both are 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 SAINTS' Directors may hold shares in SAINTS and may buy or sell such shares from time to time.

## Glossary of Terms

### Total Assets

Total 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.

### Net Asset Value at Fair

Borrowings are valued at an estimate of their market worth.

### Net Asset Value at Book

Borrowings are valued at adjusted net issue proceeds.

### 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 xd.

### Ongoing Charges

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

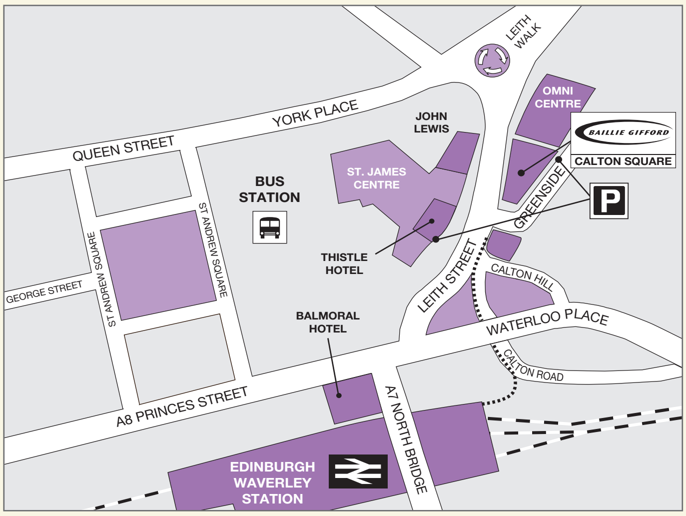
At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow 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 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, bonds and property expressed as a percentage of shareholders' funds.

# Notice of Annual General Meeting




The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Thursday, 3 April 2014 at 11.00am.

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.

**By Rail:**
Edinburgh Waverley – approximately a 5 minute walk away

**By Bus:**
Lothian Buses local services include:
1, 5, 7, 8, 10, 12, 14, 15, 15A, 16, 22, 25, 34

........ Access to Waverley Train Station on foot

Notice is hereby given that the one hundred and forty first Annual General Meeting of The Scottish American Investment Company P.L.C. will be held within the Registered Office of the Company, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN on Thursday, 3 April 2014 at 11.00am. Coffee will be available after the meeting and the Portfolio Manager responsible for SAINTS will give a short presentation on the investment outlook. The following resolutions will be proposed at the AGM:

## Ordinary Business

To consider, and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Financial Statements of the Company for the year to 31 December 2013 with the Reports of the Directors and of the Independent Auditors thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Report on Remuneration for the year to 31 December 2013.
4. To declare a final dividend.
5. To re-elect Sir Brian Ivory as a Director.
6. To re-elect Eric Hagman as a Director.
7. To re-elect Lord Kerr of Kinlochard as a Director.
8. To re-elect Rachel Lomax as a Director.
9. To re-elect Peter Moon as a Director.
10. To appoint KPMG LLP as Independent Auditors 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 Auditors of the Company.
12. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ('Securities') provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £11,055,222, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, to pass resolutions 13 and 14 as special resolutions:

13. That, subject to the passing of resolution 12 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by resolution 12 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:
    (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
    (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £3,316,898 being approximately 10% of the nominal value of the issued share capital of the Company, as at 18 February 2014.

14. 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 and is hereby generally and unconditionally authorised, pursuant to and 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 fully paid ordinary shares of 25 pence each in the capital of the Company ('ordinary shares') (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:
    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 19,888,123 being approximately 14.99% of the issued ordinary share capital of the Company as at the date of the passing of this Resolution;
    (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 25 pence;
    (c) the maximum price (excluding expenses) which may be paid for each ordinary share 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 of the last independent trade and the highest current independent bid on the London Stock Exchange; and
    (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting to be held in respect of the financial year ending 31 December 2014, save that the Company may, prior to such expiry, enter into a contract 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.

## Special Business

To consider, and, if thought fit, to pass the following resolution as a special resolution:

15. That the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting, be adopted as the Articles of Association of the Company in substitution for, and to the entire exclusion of, the existing Articles of Association of the Company.

By order of the Board
Baillie Gifford & Co
Managers and Secretaries
3 March 2014

**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, PO Box 82, 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.

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, 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 auditors) 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% 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.saints-it.com**.
14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.
15. As at 18 February 2014 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 132,675,943 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 18 February 2014 were 132,675,943 votes.
16. Any person holding 3% 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 and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
17. No Director has a contract of service with the Company.
18. A copy of the amended Articles of Association will be available for inspection at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London, EC2A 2EW during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of the notice of the AGM until the conclusion of the AGM. A copy will also be available at the place of the AGM for 15 minutes before and during the AGM.

## APPENDIX

**Statement to The Scottish American Investment Company P.L.C. from KPMG Audit Plc pursuant to section 519 of the Companies Act 2006**


KPMG Audit Plc
Financial Services
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Tel +44 (0) 131 222 2000
Fax +44 (0) 131 527 6666
DX 553002 Edinburgh 50


**Private & confidential**
The Directors
The Scottish American Investment Company P.L.C.
Calton Square
1 Greenside Row
Edinburgh
EH1 3AN

Our ref cb/201

19 February 2014

Dear Sirs

**Statement to The Scottish American Investment Company P.L.C. (no. SC000489) on ceasing to hold office as auditors pursuant to section 519 of the Companies Act 2006**

The circumstances connected with our ceasing to hold office are that our company, KPMG Audit Plc, has instigated an orderly wind down of business. KPMG LLP, an intermediate parent, will immediately be accepting appointment as statutory auditor.

We request that any correspondence in relation to this statement be sent to our registered office 15 Canada Square, London, E14 5GL marked for the attention of the Audit Regulation Department.

Yours sincerely

CBurnet

Catherine Burnet
Audit Director
KPMG Audit Plc

## Directors

Chairman:
Sir Brian Ivory, CBE, CA

The Rt Hon Sir Menzies Campbell, CH, CBE, QC, MP
Eric Hagman, CBE, CA
Lord Kerr of Kinlochard, GCMG
Rachel Lomax
Peter Moon

## Managers, Secretaries and Registered Office

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

## Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Tel: 0870 707 1282

## Company Broker

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London
EC4R 2GA

## Independent Auditor

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

www.saints-it.com
Company Registration No. SC000489