# The Scottish American Investment Company P.L.C.

# RNS Announcement: Results

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The following is the results announcement for the year to 31 December 2020 which was approved by the Board on 11 February 2021.

**Results for the year to 31 December 2020**

- Dividend - the full year dividend, including a recommended final dividend of 3.00p, is 12.00p per share. This is 1.1% higher than the 2019 dividend, extending the Company's record of dividend increases to forty one consecutive years. The increase is above the rate of UK CPI inflation over the same period, which was 0.6%.
- Revenues - Income was £23.6m (2019 - £23.0m) and earnings per share were 11.41p (2019 - 11.87p).
- Total return* - Net Asset Value total return (capital and income) for the year was 14.5% (debenture at fair value), ahead of the total return from global equities of 13.0%. The share price total return was 12.0%. In a challenging year returns were assisted by the resilient operational performance of many of the companies in which SAINTS invests, and also by a positive return from the Company's property investments.
- Peer Group performance - SAINTS remains the best performing fund in its Global Equity Income peer group, in terms of NAV total return, over the past five years.
- Outlook – The Board remain of the view that a long-term approach based on investing globally for sustainable growth is the best route to achieving SAINTS' aim of growing the dividend ahead of inflation over time. It has great confidence in SAINTS' managers, and this confidence has been strengthened by the experiences of the past year.

* See Glossary of Terms and Alternative Performance Measures at the end of this announcement.

11 February 2020

**SAINTS' objective is to deliver real dividend growth by increasing capital and growing income. Its 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 Company is managed by Baillie Gifford, the Edinburgh based fund management group with around £353 billion under management and advice as at 11 February 2020.

# The Scottish American Investment Company P.L.C.

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# Chairman's Statement

The Company's objective is to deliver real dividend growth by increasing capital and growing income. Total dividends for the year of 12.00p (2019: 11.875p) will extend the Company's record of raising its dividend to forty one consecutive years.

## Overview

2020 was an extraordinary year for the world, and for investment markets. It seems strange that in a year of so much human tragedy, unprecedented economic and corporate disruption and immense fiscal strain the global equity market should have delivered a double digit return or, to put it another way, a better annual return than it manages on average over time. Behind that headline number though lies a marked divergence in corporate fortunes. On the one hand the market return has been bolstered by the surging share prices of technology and other companies which have benefitted from the Covid-19 crisis as secular shifts have been accelerated. On the other, many companies and sectors have struggled as lockdown has curtailed activity and exposed financial vulnerability. Traditional income paying sectors such as oil and banking have been particularly hard hit, and dividends have fallen by between 15% and 20% globally and by more than 40% in the UK.

Your Company has weathered the storm well. Because of Baillie Gifford's focus on dependable, growing streams of income the operational performance of SAINTS' holdings has been remarkably resilient. Consequently, the portfolio's dividend income has held up much better than that of the market as a whole in this real-world stress-test. In addition, the property portfolio has also delivered a positive return, and SAINTS' NAV total return has once again exceeded that of the market and the peer group. The Company has also delivered strong absolute and relative performance over longer periods – and NAV total returns have topped our Global Equity Income peer group over the past five years. These healthy returns, together with continued issuance, are reflected in the Company's growth and in its promotion into the FTSE 250 Index, which marked a significant milestone for SAINTS.

## Dividend and Inflation

A final dividend of 3.00p is recommended which will take the full year dividend to 12.00p per share, 1.1% higher than the 2019 dividend of 11.875p. This year's increase is above the annual rate of inflation of 0.6% for 2020 as measured by CPI. Over the last ten years the Company's dividends have increased above the rate of inflation.

## Revenues

Earnings per share have fallen only slightly over the year to 11.41p, a drop of less than 4%, and investment income has risen to £24m. Income from equities has been helped by operational progress at many of the Company's investments and by increases in their dividends, partially offset by some reductions largely due to the Covid-19 crisis. In addition, in the latter part of the year the strengthening of sterling had a negative impact on the income generated by the portfolio's overseas assets.

The rents from the Company's property investments have generally held up very well, helped by the portfolio's shift away from the retail and restaurant sectors in recent years. Rental receipts have also been helped by the high proportion of rents which are linked to RPI. We have though acted as a responsible landlord, forgoing some rent where tenants' revenues have been severely affected.

It is a great advantage of the investment trust structure and our accumulated revenue reserves that the Board can look through modest declines in revenue when setting the dividend, particularly in times of crisis. Indeed, this is exactly the purpose of such reserves. Nonetheless, the resilience of SAINTS' revenues has made the Board's task in setting the dividend considerably easier than it might have been. Both managers (Baillie Gifford and, for the Company's property investments, OLIM) continue to focus on supporting the dependability and the future growth of the Company's dividend in line with its objective.

## Total Return Performance

Over the year your investment in SAINTS delivered a share price total return of 12.0% and the net asset value total return (capital and income) was 14.5%. The Net Asset Value return also once again exceeded that from global equities which rose 13.0% over 2020.

As always, we would caution against reading too much into short-term relative performance. The managers and your Board have a long-term perspective and the Company's portfolio of investments differs markedly from the make-up of the global equity index against which performance is often compared. This differentiated portfolio is necessary and appropriate in order for SAINTS to deliver a high and growing income stream, as well as growth in the Company's assets. Nonetheless, in such a challenging year it is particularly pleasing that the Company's equity portfolio outperformed the global equity market – SAINTS' returns from equities were helped by the generally encouraging operational performance delivered by the individual companies in which the portfolio is invested.

In addition, the positive returns from the Company's property investments also compare favourably with the negative returns from the UK property sector as a whole. A further year of outperformance from property in a more challenging environment is a notable outcome of the property manager's emphasis on strength of covenant. Performance was also helped by the steady evolution of the property portfolio away from sectors such as restaurants and retail, which was highlighted last year.

The principal contributors to and detractors from performance and the changes to the equity, property and bond investments are explained in more detail in the Managers' Review.

## Borrowings and Debt Refinancing

SAINTS' borrowings take the form of a single £80m debenture. Our current borrowing arrangements date from a time when the prevailing interest rates were much higher than today, and the existing debenture bears a coupon of 8%. During 2020, the borrowings continued to be used to fund a range of higher yielding commercial property and, to a lesser extent, some fixed income investments.

The book value of the debenture is £81.1m which, at the year end, was equivalent to approximately 11.1% of shareholders' funds. The estimated market or fair value of the debenture was £86.9m, a decrease from the previous year's value of £91.0m.

The existing debenture matures in April 2022, and the market value of the Company's borrowings will fall further over the next year as the redemption date approaches. This will enhance returns. Thereafter, as previously announced the Company has agreed to issue £80m of long-term private placement debt to refinance our long-term borrowings at a fixed rate of just over 3% per annum.

## Environmental, Social and Governance (ESG)

The Board of SAINTS recognises the importance of considering Environmental, Social and Governance (ESG) factors when making investments, and in acting as a responsible steward of capital. We consider that Board oversight of such matters is an important part of our responsibility to shareholders.

The Board has been strongly supportive of the managers' constructive engagement with the companies you own over the course of the pandemic. I would encourage shareholders to read the Stewardship Report which can be accessed on our website for further detail (**www.saints-it.com**). There is also further detail in the Managers' Review.

## Issuance and Fees

Over the year the Company has raised just under £64m from new share issuance, at a premium to net asset value prevailing from time to time, in order to satisfy investor demand. This is considerably above the level of issuance last year and serves the interests of existing shareholders by enhancing net asset value, reducing costs per share and helping further to improve liquidity.

As previously announced, over the course of the year the Board and Baillie Gifford agreed a reduction in the fees the Company pays to Baillie Gifford on relevant assets above £500m. As the Company's assets grow it will benefit from this change to a greater extent, and the new tiered fee scale therefore generates a further benefit from issuance.

**The Board**

As planned, Karyn Lamont took over from Eric Hagman as chair of the Audit Committee with effect from the conclusion of last year's AGM. Eric kindly agreed to give us the benefit of his experience for one more year but, as previously indicated, he will be stepping down from the Board at the conclusion of this year's AGM. We thank him for his many years of invaluable service, both as a Director and as chair of the Audit Committee.

**Allocation of Management and Borrowing Costs**

The Board has decided to revise the allocation of the management and borrowing costs to reflect better the split of returns between income and capital. With effect from 1 January 2021, 25% of these costs are to be allocated to revenue and 75% to capital. This is a change from the current allocation of 35% to revenue and 65% to capital. The total costs will not be affected by this change in accounting treatment.

**Outlook**

It seems insensitive to look forward to a return to normality at a time when the world remains in the grip of the pandemic. Nonetheless, we can be optimistic that eventually advances in treatment and the rollout of effective vaccines will bring us through the crisis. As well as being immensely grateful to scientists, health workers and to all those who have kept the wheels of society turning, we can begin to consider what 'the new normal' will bring. At the same time, we also have to consider other developments such as trade deals and growing protectionism and the political aftermath of the crisis, both domestically and internationally.

In the world of investment, it is important as always to distinguish between the short-term prospects for economies and share prices, and the long-term prospects for companies. This is especially the case now, after a year of immense strain and challenge, but also a year in which the pace of change has quickened. Traits which we have long viewed as desirable, such as adaptability and a long-term mindset, have become essential for companies if they are to survive and thrive.

As a Board, we remain of the view that a long-term approach based on investing globally for sustainable growth is the best route to achieving SAINTS' aim of growing the dividend ahead of inflation over time. We have great confidence in the managers' approach, and this confidence has been strengthened by the experiences of the past year.

**AGM**

The AGM will be held at 11.00am on Thursday 1 April 2021 at Baillie Gifford's offices at Calton Square, 1 Greenside Row, Edinburgh. In view of the continuing Covid-19 related restrictions attendance will be kept to the minimum permitted by the Company's Articles of Association and shareholders will not be able to attend. I would, though, remind shareholders that they are able to submit proxy voting forms before the applicable deadline and also to direct any questions or comments for the Board in advance of the meeting through the Company's Managers, either by emailing **trustenquiries@bailliegifford.com** or calling 0800 917 2112 (Baillie Gifford may record your call). More generally, I would encourage shareholders to engage with the Company throughout the year, not solely in connection with, and at the time of, the AGM.

Whilst there will be no live presentation from the Managers on the day of the AGM , the Managers will record a presentation which will be available on the Company's website at **www.saints-it.com**. In addition, a recording of a webinar on 23 February 2021 to discuss the investment portfolio will also be available. We would encourage prospective and existing shareholders to join the webinar.

Finally, my fellow Directors and I send you all our very best wishes for your health and happiness in the year ahead.

Peter Moon
Chairman
11 February 2021

For a definition of terms see Glossary of Terms and Alternative Performance Measures at the end of this announcement.
Past performance is not a guide to future performance.

# Managers' Report

SAINTS aims to deliver real growth in both income and capital to its shareholders, in good times and in bad.

In this section we provide a brief overview of how SAINTS' investments performed during 2020. We then provide a more detailed report on the approach we take to managing the equity portfolio, how we have sought to support the companies in which we invest in a uniquely challenging year, and a more detailed review of performance. A review of the company's property and bond investments follows. Finally, we discuss the enduring importance of freedom for income investors: the freedom to invest wherever the genuine opportunities are, without a stretched yield objective that forces investment in dying businesses, and the freedom that comes from an investment trust structure that helps focus on the long-term.

**Progress during 2020**

This has been a year that many of us would rather forget – particularly those of us living in countries like the UK which have been especially hard hit by coronavirus.

But in investment terms, it has been a good year for SAINTS. The Company's NAV total return (debenture at fair) grew by 14.5%, driven primarily by strong returns from the equity portfolio. Income was also resilient. In a period when dividends from major equity indices have fallen dramatically – for instance dividends in the UK are expected to fall by around 40% this year – SAINTS' earnings per share fell by 3.9% to 11.41p.

Given that it represents around 93% of the company's net assets, it is the equity portfolio that has the biggest influence on SAINTS' returns in any one year. This year the equity portfolio delivered a healthy total return of 15.9%, outpacing global equity markets total return, which grew by 13.0%. Worldwide the progress in equity markets was unevenly distributed: markets in North America and Asia saw double digit positive returns, while the UK market fell by 11.9%. However, SAINTS' equity portfolio performed comparatively well not because of which geographic markets it was invested in, but because of the types of companies in which we invest. These are typically growth-focused, capital-light companies which we believe are on the right side of history. They also tend to have a high degree of control over their destiny, unlike some of the mega-caps that continue to dominate the UK market, which are often highly dependent on factors outwith their control such as oil prices and interest rates.

Our experience of managing the equity portfolio this year has only strengthened our belief in the importance of having a global mandate, with a realistic income target, to ensure that we are able to invest in these companies. This opportunity is particularly valuable for investors who seek both growth *and* income. It certainly helped our equity portfolio's income performance in a turbulent year for any investor who relies on dividends. In the face of a sharp deterioration in trading, many companies, especially in the UK, either chose to or were forced to suspend their dividends. While SAINTS' portfolio was not completely immune to these forces, our focus on finding resilient businesses, with a diverse range of end markets, proved its worth. Every one of our ten largest holdings *increased* their dividends in 2020. The Brazilian securities exchange B3 SA actually doubled its dividend this year.

Total dividend income from the portfolio was up slightly during the year. However, this is flattered by the impact of share issuance, some of which was invested into the equity portfolio. On a like-for-like basis the portfolio's dividend income fell by around 4%. This compares to an estimated underlying decline of around 15-20% for global equity markets, and around 40% for the UK market.

The property portfolio, managed by OLIM Ltd, also outperformed its asset class. It returned 6.8%, which represents a 6.7% return from rental income, and a fractional capital gain. For comparison, the MSCI Monthly Index for UK commercial property returned -1.9% with a 7.1% decline in capital values to November 2020 on an annualised basis. This represents a strong performance given that many parts of the commercial property market have been ravaged by Covid-19. As we have discussed in previous reports, over recent years the manager has repositioned the portfolio away from sectors such as retail and leisure, and towards more secure tenants, be they data centres or warehouses. Overall rental income grew by 2.7% to £5.5m, and no purchases or sales were made this year.

Over the course of the year we took advantage of attractive valuations to make some additions to the small bond portfolio, which increased from 2.3% to 5.6% of net assets. We have continued to benefit greatly from the analysis of our fixed income colleagues at Baillie Gifford, who identified opportunities in both High Yield corporate debt, and Emerging Market sovereigns. The return was -10.4%, with foreign exchange movements weighing on returns (and particularly the weakness of the Brazilian real compared to sterling). Bond income grew from £0.7m to £1.1m, and we expect a larger income contribution from these investments next year.

## Equity Portfolio

*Adaptability*

We concluded last year's review by commenting on how much we prized adaptability in the companies that SAINTS invests in. The longer your time horizon, the less that success in a particular investment is defined by clearly identified 'catalysts' falling one way or the other. Instead, what matters more is a company's willingness and ability to respond rapidly as its opportunities and circumstances change. We argued last year that the next ten years was unlikely to offer simply 'more of the same' for investors – the world was changing rapidly, and this adaptability was likely to be an increasingly crucial attribute of a management team, and of a company.

This was a rare prediction that has stood the test of 2020. This has been the strangest year of our careers, but it's also been an encouraging lesson in how adaptable humans and human systems can be. Our investment team and our ways of working responded more quickly than we could have foreseen. We had adopted Microsoft's Teams product in 2019, as a tool for sharing information and ideas more fluidly, but in 2020 we relied on it heavily. Unexpectedly we found that we achieved even better access to some of the company management teams we invest alongside this year, often Zooming into the CEO's home office from our spare rooms.

More importantly, the companies that SAINTS invests in proved themselves to be as adaptable and responsive during this stress-test as we could have hoped. As we explain in the 'Investment Approach' section of the Annual Report and Financial Statements, we have a strong bias towards capital-light businesses, because we think these are the ones that will be best able to pay resilient dividends *and* grow substantially over time. That bias was a big help in 2020: by and large, the companies we invest in were not lumbered down with large fixed-asset bases that tied them to operating in rigid ways. This was not a good year to be an aircraft manufacturer, for instance. Or to have huge sunk capital investments in offshore oil infrastructure. Or to have lots of brick-and-mortar shops relying on high footfall. SAINTS has no exposure to any companies like this.

Instead, the companies we invest in typically have adaptive, capital-light business models. They are also run by responsive, dynamic people, and have shown an encouraging ability to pivot. For instance, from a standing start, pharmaceuticals company Roche had brought 13 different Covid-related diagnostic tests or testing systems to market by September, with another three under development. In addition, the company validated one of the most promising pharmaceutical treatments that is currently available. This achievement shows how fast the wheels of innovation can spin when management set clear new priorities. But it is something we should not take for granted – it is a product of culture, and a huge amount of effort. We've been thanking many of our holdings for their hard work on your behalf this year.

*Defence and attack*

Thanks to companies such as Roche, the equity portfolio turned out to be as adaptable as we had hoped in a period of stress. We have twin objectives in managing SAINTS' investments – to deliver a dependable income stream, and to achieve real growth in both income and capital over time. To borrow a bad sports analogy, meeting *both* of these objectives requires our holdings to be able to play both 'defence' and 'attack'.

The defence comes through in the resilience of business models during times of stress. When the world changes unexpectedly, we ask whether they are strong and flexible enough to continue meeting their dividend commitments. As we noted above, this year was an extraordinary test, and by and large the answer was an emphatic 'yes'.

But as any armchair manager will tell you, attack is the best form of defence. For us, the 'attack' is the growth that our holdings deliver over time. It is not enough for our companies simply to grind out a reliable dividend to shareholders. We want them to do better than this. We want them to grow their profits and dividends materially over time, to drive growth for our clients in the next five or ten years. One reason that our income stream has been comparatively resilient has been that several of the holdings delivered strong dividend growth in 2020, offsetting the few dividends that we cut. An example is Fastenal, the industrial distribution company, which declared a 12% dividend increase and announced a special dividend. This growth went a long way to offset the cuts enacted by a handful of other holdings, delivering a resilient income at the portfolio-level.

In the early stages of the pandemic, there was a temptation to emphasise 'defence' – stocks that offered very high near-term visibility of income, even if the long-term prospects of those companies were weak. However, we felt strongly that taking such a short-term focus was unlikely to be the right thing to do. The more important questions to ask were: 'which stocks are best placed to grow our clients' income over the next five or 10 years?' and 'which are the businesses that are going to be on the front foot, and aggressively finding new growth opportunities?'. That is why this year we bought holdings in investment platform Hargreaves Lansdown, and medical devices leader Medtronic. Later in this review we have described some of the companies we have added to the portfolio in the past 12 months.

*Engagement with our holdings*

The other question which we have focused on this year is: 'what can we do to help?'

We wrote last year about the importance we place on engagement with our holdings, which sits well with our long-term investment approach. Simply put, we want to remain invested in our companies for five or ten years, and it is over that kind of time horizon where pro-active management of environmental risks, or respectful treatment of stakeholders, is likely to make a significant difference to a company's success or failure. We know there is a very important role for shareholders to play here. The questions that investors ask boards and management teams, and the encouragement that we give to them, can make a real difference to the priorities that they set.

We felt that this year the most useful thing we could do was encourage the management teams we invest alongside to keep investing, and to do whatever they could to support their customers and employees. This might have a short-term cost to margins, and disappoint some analysts, but we felt it was not just the right thing to do, but that it would also help pay long-term dividends. Sometimes this meant giving direct encouragement to management teams who were already making difficult decisions to do just that – for instance, Australian car listings business Carsales, who gave their dealership customers two months of free services to help them cope with a collapse in demand. We backed Welsh car insurer Admiral when they said they were contemplating giving a cash refund to all their customers, and we suggested they defer a previously announced special dividend (which they did). In both cases, they have seen clear signs of increased customer loyalty as their markets started to recover.

With other holdings, we made the case to management for investing more aggressively today, in order to build a stronger business for when business rebounds. For instance, airline IT business Amadeus' customers are struggling for cash flow, but this could represent an ideal time to help them migrate onto Amadeus' lower-cost, more flexible IT platforms. We encouraged them to be bold with such investments. Finally, in some cases we challenged companies that we thought were getting the balance wrong. We were disappointed that Swedish engineer Sandvik's relatively new management team chose to lean heavily on government labour subsidies, and then boasted of meeting a short-term profitability target this year. We wrote to them to express our concern, but this prioritisation diminished our confidence in the growth case, and we subsequently sold the holding.

In April, when the first wave of the pandemic was reaching its crescendo, we had a conversation with the Chief Financial Officer of Roche to discuss the various ways in which they were seeking to respond to the huge need for testing around the world. At the end we asked him – 'is there anything we can do to help?' He paused for a moment, and then said: "You know, I've had 60 calls with investors since this pandemic started, and you're the first people to ask me that. We will not forget it." In this crisis, many market participants' time horizons seemed to contract. When companies discussed their earnings, it was depressing to hear how many questions focused on the near-term progression of their margins, or the timing of cost-cutting programmes – rather than, say, what companies were doing to earn the trust of their employees and customers by supporting them at an exceptionally challenging time. We think such short termism risks doing real harm, to companies and society – and that as long-term investors we have a responsibility to push firmly in the opposite direction.

*Review of performance*

In last year's report, we wrote about the importance of emphasising a company's growth potential. This focus is evident from an analysis of SAINTS' performance over the past five years. The table below shows the largest contributors to returns within the equity portfolio, and the profit growth that each has delivered over the past five years (based on consensus estimates for 2020):

| Stock | Description | Op profit $, p.a. (5yr) | Dividend $, p.a. (5yr) | Total return £, p.a. (5yr) |
|---|---|---|---|---|
| TSMC | Semiconductor manufacturer | 16% | 17% | 42% |
| Anta | Chinese sportswear | 25% | 2% | 49% |
| B3 SA | Brazilian financial exchange | 25% | 19% | 46% |
| Partners | Swiss alternative asset manager | 20% | 21% | 32% |
| Kering | Luxury goods | 15% | 15% | 39% |

Five years ago we did not know exactly how fast these companies would be able to grow, and which particular part of their business would drive their growth. Indeed, we had originally classified both Taiwan Semiconductor Manufacturing ('TSMC') and Partners Group as 'compounding machines', rather than 'exceptional revenue opportunities'. But we did have conviction that each company had a very good chance of seizing a potentially very large growth opportunity, and that their business model gave them some distinctive advantages in realising this. For instance, it has become increasingly clear that TSMC has developed an unassailable lead as a foundry for leading-edge semiconductors, with a process knowledge that none of its competitors can match – while the growth in demand for data means this competence is more valuable than ever. Another example is Partners Group, whose expertise in alternative asset classes has been hugely in demand over recent years, to the point where it is choosing the clients it wants to work with.

Over five years, the equity portfolio has returned 15.1% p.a. This has broadly kept pace with the exceptionally strong returns of the equity market as a whole in recent years, and has outpaced most global equity income approaches, whether in open or closed-ended form. When we review the detailed attribution data for the strategy's longer-term returns, the most striking feature is the large contribution from stock-picking – i.e. it is individual companies such as those mentioned above that have delivered the outcome, rather than clever geographic or sector bets.

Obviously, not everything has worked. When we look through the portfolio's mistakes over recent years, one theme is lower margin businesses where we were hoping for a big improvement in trading that just didn't come through – for instance Dia, or Li & Fung, both of which were sold some time ago. We try hard to learn from our mistakes, and we have found the best thing you can do when you make a mistake is to stop digging. One small change we have made to our process to prevent this has been to ask a simple question before we consider adding to a stock – 'is our investment case working, or not?'

The biggest positive contributors over 2020 happen to be located in Asia – Chinese furniture maker Man Wah (which trebled), TSMC (which returned 86%), and Anta Sports (which gained 73%). These are all businesses that benefited from a faster normalisation of some of their end markets, and which responded quickly and effectively to increased demand for their products. This year, they were playing attack, not standing on the goal line. We think this speaks to the value of a global opportunity set and making the broadest use of that. In last year's report we highlighted the input of Rio Tu, who contributes to our strategy from Baillie Gifford's Shanghai research office. Rio's insights have continued to be valuable this year. For instance, his knowledge of Chinese gaming company NetEase helped give us the confidence that there was a genuinely innovative culture at play here, instilled by founder William Ding – one reason we took a new holding this year.

It is striking that three of the five most negative contributors to relative performance this year were technology stocks which we either did not own (Amazon, Tesla), or owned in lower quantity than in the benchmark (Apple). We deliberately do not consider the benchmark when we are constructing the portfolio – we focus on what stocks are the best fit for the strategy's dual objectives, and it is clear to us that Amazon and Tesla are unlikely to be dividend payers within our time horizon, fantastic though their growth opportunities may be. While Apple is a better fit for the strategy, the fund's holding size is based on both our conviction and the overall balance between income and growth in the portfolio, rather than a desire to be 'underweight' or 'overweight' the index weighting. Closer to home, specialty insurer Hiscox has been an operational disappointment this year. The pandemic affected several of its business lines, and forced them to suspend the dividend, and their initial response to Business Interruption insurance claims in the UK was not as strong as it should have been (as we told them). Having reviewed the investment case, we are cautiously optimistic – conditions in many of their markets are improving, and we are hopeful of a return to dividends later in 2021, and strong profitability in the coming years.

*Changes to the portfolio*

We added seven new holdings to the portfolio this year. Most of these were ideas that have been researched by our team over recent years, but where we were able to gain additional conviction this year and then take advantage of depressed prices to purchase shares. For instance, we have long admired investment platform Hargreaves Lansdown, which we view as one of the long-term winners from the trend of UK savers taking more control over their investments. We think they are in a strong position to offer their customers a wider range of services over the coming years, such as managing their cash savings, or meeting their need for financial advice. Similarly, we believe that US asset manager T. Rowe Price is a business that thrives through putting the needs of its clients first, and has several avenues to growth, such as internationalising its business. Both Hargreaves and T. Rowe are naturally capital-light, so we think that growth should come with rising dividends. We took advantage of share price weakness in March to take holdings in both.

In the case of medical devices giant Medtronic, we believe there is a strong track record of research and development, and that new CEO Geoff Martha's agenda of decentralising control is likely to help the company accelerate growth. Cisco Systems should be poised to benefit from a surge in demand for the online networking tools they provide, especially as security becomes an ever-greater concern for its customers, and as it launches products that are well-suited to supporting the large cloud players. The trend towards the cloud should also be helpful for Silicon Motion, a founder-managed company that provides controllers for NAND (or Flash) memory. What most appeals here is CEO Wallace Kou's track-record of ensuring that Silicon Motion establish leadership positions in each new application for NAND – and the demand for this from cloud storage players such as AWS, Microsoft and Alibaba Cloud could be a very large new opportunity.

Finally, we took new holdings in two businesses that we think could still be at an early stage in their life-cycles but have the potential to deliver rapid growth and significant dividends over the coming years. Fevertree are known for fancy tonic water in the UK, but the real prize is the US market, where they are creating the 'premium mixer' category and are as well known for their ginger-based drinks as their tonics. We think the US market could be multiples of the size of the UK market, and have conviction in the organisation that the founder CEO is building to deliver this growth over the coming years. NetEase meanwhile is one of China's most successful video game companies, and again it has its founder, William Ding, at the helm as its CEO. We admire its record of creating games that engage users for many years, and its success in fostering a creative atmosphere. It has the potential for very strong continued profit growth as it launches new titles. It also has some exciting opportunities in music and online education in China.

We funded these new purchases through sales of holdings where we no longer had conviction in the long-term growth case, or the company's ability to pay resilient dividends over time. Our two European banks, Bankinter and Svenska Handelsbanken, fell into the latter category after regulators intervened to prevent them from paying dividends, but we also believe that their outlook for growth has also weakened substantially. Prudential was sold after its board made clear to us that the needs of dividend investors were no longer a priority for them, as they pursued faster growth in Asia. Reduced conviction in the long-term growth case prompted us to sell Brazilian brewer Ambev and Swedish engineer Sandvik, as well as hearing implants business Cochlear. We sold our small holding in energy company Total, because we felt that the transition to a lower carbon business, while welcome, would lead to a significant erosion in their profitability, which would likely pressure dividends in future.

Keen readers of SAINTS' Annual Reports will have noticed that over time the shape of the portfolio below has been evolving. There are fewer holdings in the portfolio with a yield of above 4% today than three years ago. The portfolio is increasingly dominated by 'Compounding Machines' and 'Exceptional Revenue Opportunities' and there are fewer capital-intensive businesses. This is the cumulative effect of lots of individual stock-picking decisions, rather than a top-down pivot, but we increasingly believe that these businesses are likely to be a better fit for our dual objectives. That has certainly been our experience over recent years, and this crisis.

## Property portfolio

The property portfolio's performance this year was robust, in an increasingly challenged market. As managers, OLIM's strategy has been to focus on long-term inflation-linked leases, to stronger tenants, often in alternative sectors – such as investing in nursing homes, data centres and caravan parks. They have avoided structurally challenged areas such as high street retail and (increasingly) offices and had also sold out of some areas that are vulnerable to consumer spending, such as restaurants.

This strategy left SAINTS well-positioned in 2020. The vast majority of our tenants were able to keep operating their businesses, and across the year 95% of the rent was collected, with no voids, and most rent increases proceeding as planned. Some of our tenants were badly affected by the pandemic and government restrictions, such as the five pubs and the bowling alley that SAINTS owns. In several cases the property manager agreed a 6 month rent-free period in exchange for a 5 year extension to the lease, and in other cases delayed payment plans have been agreed. We believe these strike a fair balance between the needs of tenants and investors. However, the comparative resilience of the portfolio's income stream in a period of stress has been welcome and shows the value of having contracted revenues.

The portfolio was valued at £84.9m, a modest increase on the prior year. The valuation is supported by the portfolio's long duration leases, which are appealing at a time of record low gilt yields. Indeed, the portfolio's weighted-average unexpired lease length remains over 15 years, and over 80% of the rental streams have either fixed rent increases, or a CPI link.

## Bond portfolio

The bond portfolio consists of two types of investment:

- Lending to sub-investment grade (or 'high yield') corporates, where we believe the risk of default is in reality low. For instance, we lend to Netflix, the video-streaming service, and Catalent, who make delivery mechanisms for pharmaceuticals companies. Both bonds were purchased on a yield around 5%, which we thought was highly attractive given a low risk of default.
- Lending to sovereigns, typically in emerging markets, where we believe the returns on offer more than compensate us for the risks. For example, we own an inflation-linked Mexican government bond, where the link to inflation provides us with some protection from currency gyrations.

In both areas, we work closely with our colleagues at Baillie Gifford who specialise in these markets, and who bring us ideas that they believe fit with SAINTS' dual objectives. Unlike with equities, there is typically little prospect of real growth from bond income. However, the income on offer can be 2-3x higher than that on offer from global equity markets today (1.6% at the time of writing), and in some cases the risks to these can be relatively uncorrelated to SAINTS' other sources of income. This year, there have been more of those ideas, and so the portfolio increased modestly in size – though our approach has been to have a diversified portfolio of names in each of these sleeves at a smaller size, rather than having a big exposure to any one credit. A full list of holdings can be found below.

**Outlook**

Most readers of this report live in the UK, and the start of 2021 has featured no shortage of gloomy headlines for this country. The realities of what a 'hard' Brexit might mean for trade of different kinds are colliding with an economy that is struggling to get back on its feet, while the number of people who have lost their lives to the coronavirus has been truly appalling. The great progress on vaccines gave equity markets a shot in the arm in November, which particularly helped the share prices of some of the most distressed businesses, such as banks and airlines. But despite this, pessimism is in the air.

Our main reflection from 2020, though, has been the huge benefit of our investment approach taking a global perspective, and the freedom to invest wherever the genuine opportunities are. In SAINTS, this freedom has three distinct aspects. Firstly, the freedom to roam geographically. As we noted earlier, the pandemic has been particularly brutal in the UK and Western Europe – but many of our businesses in Asia are back on their feet and trading more strongly than before the pandemic. Indeed, TSMC has just announced a 50-60% increase in investment, because it sees such strong demand for its next generation of semiconductors. Not being restricted to the narrower opportunity set of the UK market has therefore been an enormous advantage – and we think it will continue to be one for the coming years, as it allows us to get exposure to businesses like TSMC, or NetEase, or Carsales: companies which we think do not just have business models which are well-suited to SAINTS' aims, but which are also seeing an expanding opportunity set.

Secondly, our equity portfolio at the time of writing has a yield of around 2.4%, which is around 25% higher than the global equity market. The balance we seek to strike between income and growth gives us much greater freedom in our stock picking than if we chased a higher near-term yield. It enables us to own Microsoft and Anta Sports as well as Roche. Indeed, one of the lessons from the huge collapse in UK dividends is that high near-term yields often come with a big cost – either in resilience, or in forcing you to invest in businesses with poor long-term growth prospects. We would argue that Shell and BP didn't cut their dividends by 50% and 66% respectively because of the pandemic, but because they were highly capital-intensive businesses, with structural challenges, that were over-distributing. Too many of the companies that income investors have traditionally invested in (especially in the UK) have fitted this mould. Seeking a better balance between near-term yield and long-term opportunity gives us a much better chance of delivering both resilience in times of stress, and strong real growth over time.

Finally, SAINTS' closed-ended structure helps. It gives us the freedom to invest across asset classes, wherever the opportunities are. For example, the property portfolio that OLIM manage for SAINTS has delivered a total return of 11% p.a. since 1996, an outstanding performance which could not have been replicated in an open-ended fund. In the future, we expect to find other opportunities to invest in income-generating assets that help to diversify SAINTS' income stream, and support our long-term objectives, and not being constrained will help us greatly.

But the other great benefit of the investment trust structure is the freedom it gives managers to focus on the long-term. This year SAINTS' strong revenue reserves have helped us to look through the squalls of markets and business cycles, and the gyrations of currency movements, knowing that shareholders can be confident in getting real growth from the dividend in any scenario. This, combined with the Board's strong support, has enabled us to invest in a way that we think is best for our investors over the long-term, even when the immediate outlook has seemed very challenging - to be adaptable. These freedoms are enduring strengths of SAINTS, and we believe they will be just as beneficial to shareholders in the years to come as they have been over recent years.

James Dow
Toby Ross
Baillie Gifford & Co
11 February 2021

# Income Statement

| | For the year ended 31 December 2020 | | | For the year ended 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Net gains on investments – securities | - | 73,114 | 73,114 | - | 95,135 | 95,135 |
| Net gains on investments - property | - | 42 | 42 | - | 619 | 619 |
| Currency losses | - | (291) | (291) | - | (56) | (56) |
| Income (note 2) | 23,568 | - | 23,568 | 22,950 | - | 22,950 |
| Management fees | (1,097) | (2,037) | (3,134) | (1,047) | (1,945) | (2,992) |
| Other administrative expenses | (1,221) | - | (1,221) | (1,247) | - | (1,247) |
| Net return before finance costs and taxation | 21,250 | 70,828 | 92,078 | 20,656 | 93,753 | 114,409 |
| Finance costs of borrowings | (1,952) | (3,626) | (5,578) | (1,970) | (3,659) | (5,629) |
| Net return on ordinary activities before taxation | 19,298 | 67,202 | 86,500 | 18,686 | 90,094 | 108,780 |
| Tax on ordinary activities | (1,779) | 424 | (1,355) | (1,590) | 363 | (1,227) |
| Net return on ordinary activities after taxation | 17,519 | 67,626 | 85,145 | 17,096 | 90,457 | 107,553 |
| Net return per ordinary share (note 4) | 11.41p | 44.04p | 55.45p | 11.87p | 62.81p | 74.68p |

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

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

A Statement of Comprehensive Income is not required as there is no other comprehensive income.

The accompanying notes at the end of this document are an integral part of the Financial Statements.

# Balance Sheet

| | At 31 December 2020 | | At 31 December 2019 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Non-current assets | | | | |
| Investments - securities | 718,644 | | 591,664 | |
| Investments - property | 84,900 | | 84,800 | |
| Deferred expenses | 207 | | 207 | |
| | | 803,751 | | 676,671 |
| Current assets | | | | |
| Debtors | 2,531 | | 1,501 | |
| Cash and cash equivalents | 9,701 | | 7,457 | |
| | 12,232 | | 8,958 | |
| Creditors | | | | |
| Amounts falling due within one year | (3,713) | | (3,211) | |
| Net current assets | | 8,519 | | 5,747 |
| Total assets less current liabilities | | 812,270 | | 682,418 |
| Creditors | | | | |
| Amounts falling due after more than one year | | (81,108) | | (81,930) |
| Net assets | | 731,162 | | 600,488 |
| Capital and reserves | | | | |
| Share capital | | 40,649 | | 36,880 |
| Share premium account | | 112,751 | | 52,535 |
| Capital redemption reserve | | 22,781 | | 22,781 |
| Capital reserve | | 538,575 | | 470,949 |
| Revenue reserve | | 16,406 | | 17,343 |
| Shareholders' funds | | 731,162 | | 600,488 |
| Net asset value per ordinary share | | 449.7p | | 407.1p |
| Ordinary shares in issue (note 7)* | | 162,595,943 | | 147,520,943 |

* See Glossary of Terms and Alternative Performance Measures at the end of this announcement.

The accompanying notes at the end of this document are an integral part of the Financial Statements.

# Statement of Changes in Equity

## For the year ended 31 December 2020

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve* £'000 | Revenue reserve £'000 | Shareholders' funds £'000 |
|---|---|---|---|---|---|---|
| Shareholders' funds at 1 January 2020 | 36,880 | 52,535 | 22,781 | 470,949 | 17,343 | **600,488** |
| Shares issued | 3,769 | 60,216 | - | - | - | **63,985** |
| Net return on ordinary activities after taxation | - | - | - | 67,626 | 17,519 | **85,145** |
| Dividends paid in the year (note 5) | - | - | - | - | (18,456) | **(18,456)** |
| Shareholders' funds at 31 December 2020 | **40,649** | **112,751** | **22,781** | **538,575** | **16,406** | **731,162** |

## For the year ended 31 December 2019

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve* £'000 | Revenue reserve £'000 | Shareholders' funds £'000 |
|---|---|---|---|---|---|---|
| Shareholders' funds at 1 January 2019 | 35,233 | 27,694 | 22,781 | 380,492 | 17,253 | **483,453** |
| Shares issued | 1,647 | 24,841 | - | - | - | **26,488** |
| Net return on ordinary activities after taxation | - | - | - | 90,457 | 17,096 | **107,553** |
| Dividends paid in the year (note 5) | - | - | - | - | (17,006) | **(17,006)** |
| Shareholders' funds at 31 December 2019 | **36,880** | **52,535** | **22,781** | **470,949** | **17,343** | **600,488** |

* The capital reserve balance as at 31 December 2020 includes investment holding gains of £276,433,000 (31 December 2019 - £193,826,000).

The accompanying notes at the end of this document are an integral part of the Financial Statements.

# Cash Flow Statement

| | Year Ended 31 December 2020 | | Year Ended 31 December 2019 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cash flows from operating activities | | | | |
| Net return on ordinary activities before taxation | 86,500 | | 108,780 | |
| Net gains on investments – securities | (73,114) | | (95,135) | |
| Net gains on investments – property | (42) | | (619) | |
| Currency losses | 291 | | 56 | |
| Finance costs of borrowings | 5,578 | | 5,629 | |
| Overseas withholding tax | (1,357) | | (1,214) | |
| Changes in debtors and creditors | (526) | | 183 | |
| Other non-cash changes | 69 | | 3 | |
| Cash from operations | | 17,399 | | 17,683 |
| Interest paid | | (6,400) | | (6,400) |
| Net cash inflow from operating activities | | 10,999 | | 11,283 |
| Cash flows from investing activities | | | | |
| Acquisitions of investments | (121,913) | | (125,115) | |
| Disposals of investments | 67,920 | | 104,399 | |
| Net cash outflow from investing activities | | (53,993) | | (20,716) |
| Cash flows from financing activities | | | | |
| Equity dividends paid | (18,456) | | (17,006) | |
| Shares issued | 63,985 | | 26,488 | |
| Net cash inflow from financing activities | | 45,529 | | 9,482 |
| Increase in cash and cash equivalents | | 2,535 | | 49 |
| Exchange movements | | (291) | | (56) |
| Cash and cash equivalents at 1 January | | 7,457 | | 7,464 |
| Cash and cash equivalents at 31 December | | 9,701 | | 7,457 |

The accompanying notes at the end of this document are an integral part of the Financial Statements.

# Asset Allocation

| | At 31 December 2020 % | At 31 December 2019 % |
|---|---|---|
| Quoted equities | **83.4** | 84.7 |
| Bonds | **5.0** | 2.0 |
| Direct property | **10.5** | 12.4 |
| Net liquid assets | **1.1** | 0.9 |
| Total assets | **100.0** | 100.0 |

# List of Investments at 31 December 2020

| Name | Business | Value £'000 | % of total assets |
|---|---|---|---|
| Taiwan Semiconductor Manufacturing | Semiconductor manufacturer | 29,099 | 3.6 |
| United Parcel Service | Courier services | 22,978 | 2.8 |
| Procter & Gamble | Household product manufacturer | 20,375 | 2.5 |
| Roche | Pharmaceuticals and diagnostics | 19,982 | 2.5 |
| Fastenal | Distribution and sales of industrial supplies | 19,851 | 2.4 |
| Sonic Healthcare | Laboratory testing | 18,998 | 2.3 |
| Anta Sports | Sportswear manufacturer and retailer | 18,964 | 2.3 |
| Man Wah | Sofa designer and manufacturer | 18,924 | 2.3 |
| Microsoft | Computer software | 18,883 | 2.3 |
| Deutsche Boerse | Securities exchange owner/operator | 17,953 | 2.2 |
| Nestlé | Food producer | 17,744 | 2.2 |
| Admiral | Car insurance | 17,503 | 2.2 |
| Pepsico | Snack and beverage company | 16,394 | 2.0 |
| Partners Group | Asset management | 16,276 | 2.0 |
| Edenred | Voucher programme outsourcer | 16,222 | 2.0 |
| B3 S.A. | Securities exchange owner/operator | 16,113 | 2.0 |
| Apple | Consumer technology | 14,602 | 1.8 |
| CH Robinson | Delivery and logistics | 14,237 | 1.8 |
| Schneider Electric | Electrical power products | 13,854 | 1.7 |
| Atlas Copco | Engineering | 13,612 | 1.7 |
| Coca Cola | Beverage company | 13,409 | 1.7 |
| Novo Nordisk | Pharmaceutical company | 13,349 | 1.6 |
| Analog Devices | Integrated circuits | 13,209 | 1.6 |
| Watsco | Distributes air conditioning, heating and refrigeration equipment | 12,250 | 1.5 |
| Albemarle | Producer of speciality and fine chemicals | 11,526 | 1.4 |
| National Instruments | Electronic test and measurement systems | 11,123 | 1.4 |
| Hong Kong Exchanges and Clearing | Securities exchange owner/operator | 10,630 | 1.3 |
| Wolters Kluwer | Information services and solutions provider | 10,577 | 1.3 |
| Experian | Credit scoring and marketing services | 10,437 | 1.3 |
| Carsales.com | Online marketplace for classified car advertisements | 10,209 | 1.3 |
| McDonald's | Fast food restaurants | 10,149 | 1.3 |
| Kering | Luxury brand conglomerate | 10,057 | 1.2 |
| Rio Tinto | Mining | 9,081 | 1.1 |
| GlaxoSmithKline | Pharmaceuticals, vaccines and consumer healthcare | 9,080 | 1.1 |
| Hargreaves Lansdown | UK retail savings and investment platform | 8,317 | 1.0 |
| Kuhne + Nagel | Worldwide freight forwarder | 8,272 | 1.0 |
| Greencoat UK Wind | UK wind farms | 7,982 | 1.0 |
| United Overseas Bank | Commercial banking | 7,700 | 1.0 |
| Dolby Laboratories | Multimedia software | 7,622 | 0.9 |
| Silicon Motion Technology | Semiconductor company | 7,536 | 0.9 |

# The Scottish American Investment Company P.L.C.

| | | | |
|---|---|---|---|
| T. Rowe Price | Fund manager | 7,325 | 0.9 |
| Cisco Systems | Data networking equipment | 7,208 | 0.9 |
| British American Tobacco | Cigarette manufacturer | 7,086 | 0.9 |
| Kimberly-Clarke De México | Paper-based household products | 6,999 | 0.9 |
| NetEase | Online gaming company | 6,893 | 0.9 |
| Hiscox | Property and casualty insurance | 6,866 | 0.8 |
| Arthur J Gallagher | Insurance broker | 6,838 | 0.8 |
| AVI | Staple foods manufacturer | 6,736 | 0.8 |
| USS | Second-hand car auctioneer | 6,663 | 0.8 |
| Medtronic | Medical devices company | 6,640 | 0.8 |
| Pernod Ricard | Global spirits manufacturer | 6,452 | 0.8 |
| Sumitomo Mitsui Trust Holdings | Trust bank and investment manager | 6,310 | 0.8 |
| Cullen/Frost Bankers | Provides banking services throughout the state of Texas | 5,715 | 0.7 |
| Want Want | Snacks and milk-based products | 5,302 | 0.7 |
| Amadeus IT Group | Technology provider for the travel industry | 5,078 | 0.6 |
| China Mobile | Mobile telecommunication services | 4,819 | 0.6 |
| SAP | Business software developer | 4,622 | 0.6 |
| Aberforth Split Level Income Trust | UK small-cap equities fund | 3,049 | 0.4 |
| Fevertree Drinks | Producer of premium mixer drinks | 1,924 | 0.2 |
| Terra Catalyst Fund* | Fund of European property funds | 265 | - |
| **Total Equities** | | **677,869** | **83.4** |
| **Direct Property** | | | |
| **Direct Property** | **See table below** | **84,900** | **10.5** |
| **Bonds** | | | |
| Sterling denominated | Paymentsense 8% 2025 | 3,142 | 0.4 |
| Euro denominated | Cogent Communications 4.375% 2024 | 4,282 | 0.5 |
| US dollar denominated | Netflix 5.375% 2029 | 6,135 | 0.8 |
| | First Quantum Minerals 7.25% 2023 | 4,120 | 0.5 |
| | Tesco 6.15% 2037 | 4,957 | 0.6 |
| | Catalent 5% 2027 | 3,167 | 0.4 |
| | | 18,379 | 2.3 |
| Brazilian real denominated | Brazil CPI Linked 15/05/2045 | 5,107 | 0.6 |
| Dominican peso denominated | Dominican Republic 8.9% 15/02/2023 | 1,649 | 0.2 |
| | Dominican Republic 9.75% 05/06/2026 | 735 | 0.1 |
| | | 2,384 | 0.3 |
| Indonesian rupiah denominated | Indonesia 9% 15/03/2029 | 2,500 | 0.3 |
| Mexican peso denominated | Mexico IL 4% 15/11/2040 | 2,523 | 0.3 |
| Peruvian sol denominated | Peru 6.15% 12/08/2032 | 2,458 | 0.3 |
| **Total Bonds** | | **40,775** | **5.0** |
| **Total Investments** | | **803,544** | **98.9** |
| Net Liquid Assets (including deferred expenses) | | 8,726 | 1.1 |
| **Total Assets (before deduction of debenture)** | | **812,270** | **100.0** |

* Delisted.

# Property Portfolio

| Location | Type | Tenant | 2020 Value £'000 | 2020 % of total assets | 2019 Value £'000 |
|---|---|---|---|---|---|
| Basingstoke | Warehouse | G4S Cash Solutions (UK) Limited | 3,000 | 0.4 | 3,300 |
| Biggleswade | Warehouse | Sherwin-Williams Diversified Brands Limited | 5,800 | 0.7 | 5,700 |
| Cleethorpes | Public House | Stonegate Pub Company Limited | 700 | 0.1 | 850 |
| Crawley | Petrol Station and Convenience Store | Co-operative Group Food Limited | 3,750 | 0.5 | 3,750 |
| Denbigh | Supermarket | Aldi Stores Limited | 5,350 | 0.7 | 5,150 |
| Earley | Public House | Spirit Pub Company (Managed) Limited | 2,700 | 0.3 | 2,900 |
| Kenilworth | Nursing Home | Care UK Community Partnerships Limited | 6,750 | 0.8 | 7,200 |
| Luton | Public House | Stonegate Pub Company Limited | 2,700 | 0.3 | 3,400 |
| Milton Keynes | Data Centre | TalkTalk Communications Limited | 16,400 | 2.0 | 15,500 |
| New Romney | Holiday Village | Park Resorts Limited | 17,150 | 2.1 | 16,300 |
| Newport Pagnell | Car Showroom | Pendragon Plc | 3,000 | 0.4 | 3,200 |
| Otford | Public House | Spirit Pub Company (Managed) Limited | 1,800 | 0.2 | 1,950 |
| Pagham | Convenience Store | Co-operative Group Food Limited | 1,250 | 0.2 | 1,200 |
| Prestatyn | Public House | Stonegate Pub Company Limited | 1,100 | 0.1 | 1,400 |
| Southend-on-Sea | Warehouse | Giant Booker Limited | 9,000 | 1.1 | 8,000 |
| Taunton | Bowling Alley | Mitchells & Butlers Retail (No.2) Limited | 4,450 | 0.6 | 5,000 |
| | | | **84,900** | **10.5** | **84,800** |

# Notes

1. The Financial Statements for the year to 31 December 2020 have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and on the basis of the accounting policies set out in the Annual Report and Financial Statements for the year ended 31 December 2020.

2.

| Income | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Income from investments | | |
| UK dividends | 3,616 | 3,760 |
| UK interest | 121 | - |
| Overseas dividends | 13,355 | 13,080 |
| Overseas interest | 985 | 736 |
| | 18,077 | 17,576 |
| Other income | | |
| Deposit interest | 5 | 33 |
| Rental income | 5,456 | 5,310 |
| Other income | 30 | 31 |
| | 5,491 | 5,374 |
| Total income | 23,568 | 22,950 |
| Total income comprises | | |
| Dividends from financial assets designated at fair value through profit or loss | 16,971 | 16,840 |
| Interest from financial assets designated at fair value through profit or loss | 1,106 | 736 |
| Interest from financial assets not at fair value through profit or loss | 5 | 33 |
| Other income not from financial assets | 5,486 | 5,341 |
| | 23,568 | 22,950 |

3. Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretary. Baillie Gifford & Co Limited has delegated investment management services to Baillie Gifford & Co. Dealing activity and transaction reporting have been further sub-delegated to Baillie Gifford Overseas Limited and Baillie Gifford Asia (Hong Kong) Limited. The management of the property portfolio has been delegated to OLIM Property Limited.

The Investment Management Agreement between the AIFM and the Company sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Investment Management Agreement is terminable on not less than six months' notice. Compensation fees would only be payable in respect of the notice period if termination were to occur within a shorter notice period. With effect from 1 April 2020, the annual management fee was changed to 0.45% of the first £500 million of total assets and 0.35% of the remaining total assets, total assets being the value of all assets held (excluding the property portfolio) less all liabilities, other than any liability in the form of debt intended for investment purposes, calculated on a quarterly basis. Prior to 1 April 2020, the annual management fee was 0.45% of total assets less current liabilities, excluding the property portfolio, calculated on a quarterly basis. The Board is of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence on performance.

The Property Management Agreement sets out the matters over which OLIM Property Limited has discretion and those matters which require Board approval. The Property Management Agreement is terminable on three months' notice. The annual fee is 0.5% of the value of the property portfolio, subject to a minimum quarterly fee of £6,250.

# Notes (Ctd)

4. Net return per ordinary share

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Revenue | Capital | Total | Revenue | Capital | Total |
| Net return per ordinary share | **11.41p** | **44.04p** | **55.45p** | 11.87p | 62.81p | 74.68p |

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £17,519,000 (2019 - £17,096,000) and on 153,553,731 (2019 – 144,027,109) ordinary shares of 25p, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital gain for the financial year of £67,626,000 (2019 – net capital gain of £90,457,000), and on 153,553,731 (2019 – 144,027,109) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There are no dilutive or potentially dilutive shares in issue.

5. Ordinary Dividends

| | 2020 | 2019 | 2020 £'000 | 2019 £'000 |
|---|---|---|---|---|
| **Amounts recognised as distributions in the year:** | | | | |
| Previous year's fourth interim (paid 9 April 2020) | 3.00p | 2.925p | 4,447 | 4,132 |
| First interim (paid 23 June 2020) | 3.00p | 2.925p | 4,538 | 4,185 |
| Second interim (paid 18 September 2020) | 3.00p | 2.95p | 4,666 | 4,279 |
| Third interim (paid 18 December 2020) | 3.00p | 3.00p | 4,805 | 4,410 |
| | 12.00p | 11.80p | 18,456 | 17,006 |

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 £17,591,000 (2019 - £17,096,000).

| | 2020 | 2019 | 2020 £'000 | 2019 £'000 |
|---|---|---|---|---|
| **Dividends paid and payable in respect of the year:** | | | | |
| First interim (paid 23 June 2020) | 3.00p | 2.925p | 4,538 | 4,185 |
| Second interim (paid 18 September 2020) | 3.00p | 2.95p | 4,666 | 4,279 |
| Third interim (paid 18 December 2020) | 3.00p | 3.00p | 4,805 | 4,410 |
| Current year's proposed final dividend (payable 9 April 2021) | 3.00p | 3.00p | 4,878 | 4,426 |
| | 12.00p | 11.875p | 18,887 | 17,300 |

If approved the recommended final dividend of 3.00p will be paid on 9 April 2021 to all shareholders on the register at the close of business on 5 March 2021. The ex-dividend date is 4 March 2021. The Company's Registrar offers a Dividend Reinvestment Plan and the final date for the receipt of elections for reinvestment of this dividend is 17 March 2021.

6. The fair value of the 8% Debenture Stock 2022 at 31 December 2020 was £86.93m (2019 - £91.02m).

7. During the year, 15,075,000 (2019 – 6,590,000) shares were issued at a premium to net asset value raising proceeds of £63,985,000 (2019 – £26,488,000). At 31 December 2020 the Company had authority to buy back 22,219,808 ordinary shares and to allot 4,858,092 ordinary shares without application of pre-emption rights in accordance with the authorities granted at the AGM in June 2020. No shares were bought back during the year.

# Notes (Ctd)

8. Transaction costs incurred on the purchase and sale of investments are added to the purchase cost or deducted from the sale proceeds, as appropriate. During the year, transaction costs on purchases amounted to £105,000 (2019 - £392,000) and £40,000 (2019 - £82,000) respectively. Of the losses on sales during the year of £9,451,000 (2019 – gains of £13,630,000) a net gain of £3,456,000 (2019 – gain of £13,943,000) was included in investment holding gains at the previous year end.

9. Analysis of Change in Net Debt

| | 1 January 2020 £'000 | Cash Flows £'000 | Exchange Movement £'000 | Other non-cash changes £'000 | 31 December 2020 £'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 7,457 | 2,535 | (291) | - | 9,701 |
| Debenture Stock due in more than one year | (81,930) | - | - | 822 | (81,108) |
| Total | (74,473) | 2,535 | (291) | 822 | (71,407) |

10. The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

11. The Report and Accounts will be available on the SAINTS page of the Managers' website www.saints-it.com‡ on or around 1 March 2021.

## Glossary of Terms and Alternative Performance Measures (APM)

**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 (Debentures at Book Value)**

Borrowings are valued at adjusted net issue proceeds. Book value approximates amortised cost.

**Net Asset Value (Debentures at Fair Value) (APM)**

Borrowings are valued at an estimate of their market worth. This indicates the costs to the Company of repaying its borrowings under current market conditions. It is a widely reported measure across the investment trust industry.

## Glossary of Terms and Alternative Performance Measures (APM) (ctd)

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Shareholders' funds (debenture at book value) | £731,162,000 | £600,488,000 |
| Add: book value of debenture | £81,108,000 | £81,930,000 |
| Less: fair value of debenture | (£86,928,000) | (£91,024,000) |
| Shareholders' funds (debenture at fair value) | £725,342,000 | £591,394,000 |
| Shares in issue at year end | 162,595,943 | 147,520,943 |
| Net Asset Value per ordinary share (debenture at fair value) | 446.1p | 400.9p |

### Discount/Premium (APM)

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.

| | 2020 NAV (book) | 2020 NAV (fair) | 2019 NAV (book) | 2019 NAV (fair) |
|---|---|---|---|---|
| Closing NAV per share | 449.7p | 446.1p | 407.1p | 400.9p |
| Closing share price | 464.0p | 464.0p | 426.0p | 426.0p |
| **Premium** | **3.2%** | **4.0%** | **4.6%** | **6.3%** |

### Ongoing Charges (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value). The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

A reconciliation from the expenses detailed in the Income Statement above is provided below.

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Investment management fee | £3,134,000 | £2,992,000 |
| Other administrative expenses | £1,221,000 | £1,247,000 |
| **Total expenses (a)** | **£4,355,000** | **£4,239,000** |
| Average daily cum-income net asset value (with debt at fair value) (b) | £621,179,000 | £549,105,000 |
| **Ongoing charges (a) ÷ (b) (expressed as a percentage)** | **0.70%** | **0.77%** |

### Total Return (APM)

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

## Glossary of Terms and Alternative Performance Measures (APM) (ctd)

| | | 2020 NAV (book) | 2020 NAV (fair) | 2020 Share price | 2019 NAV (book) | 2019 NAV (fair) | 2019 Share price |
|---|---|---|---|---|---|---|---|
| Opening NAV per share/share price | (a) | 407.1p | 400.9p | 426.0p | 343.0p | 336.4p | 351.0p |
| Closing NAV per share/share price | (b) | 449.7p | 446.1p | 464.0p | 407.1p | 400.9p | 426.0p |
| Dividend adjustment factor* | (c) | 1.029353 | 1.028917 | 1.028233 | 1.030459 | 1.031180 | 1.030751 |
| Adjusted closing NAV per share/share price | (d=b x c) | 462.9p | 459.0p | 477.1p | 419.5p | 413.4p | 439.1p |
| Total Return | (d ÷ a)-1 | **13.7%** | **14.5%** | **12.0%** | **22.3%** | **22.9%** | **25.1%** |

* The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum income NAV at the ex-dividend date.

### Gearing (APM)

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 book 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.

### Leverage (APM)

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

### Active Share (APM)

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

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## FTSE Index Data



## Automatic Exchange of Information

In order to fulfil its legal obligations under UK tax legislation relating to the automatic exchange of information, The Scottish American Investment Company P.L.C. is required to collect and report certain information about certain shareholders.

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

Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

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

Regulated Information Classification: Additional regulated information required to be disclosed under applicable laws.

‡ Neither the contents of the Managers' website nor the contents of any website accessible from hyperlinks on the Managers' website (or any other website) is incorporated into, or forms part of, this announcement.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

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