RNS Announcement

The Scottish American Investment Company P.L.C.

Legal Entity Identifier: 549300NF03XVC5IFB447

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

The following is the results announcement for the year to 31 December 2022 which was approved by the Board on 9 February 2023.

- Dividend – The full year dividend, including a recommended final dividend of 3.67p, is 13.82p per share. This is 9% higher than the 2021 dividend and is fully covered by earnings. The recommended dividend will extend the Company's record of dividend increases to forty nine consecutive years.
- SAINTS aims to grow its dividend ahead of inflation over the long term. Over the past ten years SAINTS has increased its dividend at an annualised rate of 3.5%, which compares with UK CPI of 2.7%.
- Revenues – Income was £30.0m (2021 - £28.0m) and earnings per share were 13.82p (2021 – 12.79p).
- Total return* – Net Asset Value total return (capital and income with borrowings at fair value) for the year was negative 3.7%, ahead of the total return from global equities of negative 7.3%. The share price total return was negative 3.5%. Returns were assisted by the resilient operational performance of many of the companies in which SAINTS invests, and also by positive returns from the Company's infrastructure equity and bond investments.
- SAINTS also aims to deliver attractive returns over the long term – SAINTS' NAV total return (with borrowings at fair value) has exceeded that of equities generally over the past three, five and ten years. SAINTS is also the best performing fund in its Global Equity Income peer group, in terms of share price 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' aims. In addition, we are encouraged that the Managers have continued to find new and attractive opportunities amidst the recent turmoil. We retain great confidence in the Managers' approach, and this confidence has been further strengthened by the experiences of the past year.

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

Source: Refinitiv/Baillie Gifford and relevant underlying index providers.

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 £246 billion under management and advice as at 9 February 2023.

Past performance is not a guide to future performance. SAINTS is a listed UK company. As a result, the value of its shares and any income from those shares is not guaranteed and could go down as well as up. You may not get back the amount you invested. As 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. You can find up to date performance information about SAINTS on the SAINTS' page of the Managers' website saints-it.com. Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

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Chairman's Statement

SAINTS' objective is to deliver real dividend growth by increasing capital and growing income. The Board is recommending a final dividend which will bring the total dividends for the year to 13.82p per share, an increase of 9% over the previous year. The Company continues to meet its objective of growing dividends ahead of inflation over the long term, and the recommended dividend will also extend the Company's record of raising its dividend to forty nine consecutive years.

Overview

2022 has been another difficult year for the world, a period in which equity, bond and property markets have all been weak. As the challenges from Covid-19 receded those arising from the Russian invasion of Ukraine increased. The economic recovery from the worst of the pandemic has been more tentative than expected, in large part due to resurgent inflation. With hindsight, central banks were too sanguine about inflationary pressures in 2021, and the energy price shock arising from the Russian invasion pushed inflation to levels not seen in 40 years. As a result, central banks have had to raise interest rates much higher than expected a year ago. The retreat from globalisation has continued, with trade barriers increasing as countries seek to protect their supply chains in the face of greater geopolitical risks. Closer to home, political missteps eroded confidence though as the year drew to a close there were signs of greater calm and stability.

On the positive side, industrialised economies have shown extraordinary adaptability in the face of the energy shock. Oil and gas prices have fallen recently, creating a more benign outlook for inflation. And the world economy is set to grow in 2023.

Against this background, I am pleased to report that SAINTS has continued to perform well. The refinancing of the Company's long term debt at a rate pre-arranged two years earlier has significantly reduced borrowing costs, and the Company's earnings per share have risen at a rate which has enabled the Board to recommend a very significant increase in the dividend. Furthermore, SAINTS' NAV total return (with borrowings at fair) has exceeded that of the global equity market, despite the managers deliberately eschewing many companies such as those in the energy sector which have been short term beneficiaries of the war in Ukraine, but which they do not believe will support the achievement of SAINTS' objective over time.

More importantly however, given the long-term nature of the Company's objectives, it is worth emphasising both SAINTS' successful record of raising its dividend ahead of inflation over the long term, and the strong total returns it has delivered.

SAINTS 150th Anniversary

This year, SAINTS reaches the one hundred and fiftieth anniversary of its formation in 1873. And, consistent with the Company's focus on the long term, it is perhaps useful to provide some historical perspective. In that year, for example, the Emperors of Russia, Austro-Hungary and Germany formed an alliance to stand against radical thinking. It might be easier to list what remains constant rather than what has changed since then, but amongst other things those three Empires and those of Britain and Japan have passed into history, as have the Third Reich and the USSR. There have been two world wars, a cold war, hyperinflation, a depression and numerous financial crashes, and immeasurable human suffering, much of it arising from conflict, famine and disease.

Yet over these one hundred and fifty years the world has made immense progress, in everything from the advent and spread of modern democracy, to a dramatic increase in life expectancy and the many benefits of human and technological progress. The US has grown to be the world's most powerful country, and it and almost every other country have industrialised. Of course, progress brings its own challenges, some of which relate to global and other inequalities and some to our planet and its climate. But we should hang on to the fact that economies generally grow. And the key point for SAINTS is that throughout its history it has been able to take advantage of opportunities to invest globally in order to support and benefit from the tailwinds of economic, technological and even societal progress, and from geopolitical change, and to weather each storm and setback which has arisen.

It is also worth emphasising that SAINTS is particularly well equipped to navigate stormy seas, both because of its structure and also because of its managers' focus on selecting individual investments to provide dependability and growth. We very much hope that SAINTS' 150th anniversary year will also be its 50th successive year of dividend growth. Indeed, the dividend has not been reduced year-on-year since 1938. The prudent use of revenue reserves has been an important part of this success, but so too has investing in companies and other assets which provide an income which is resilient in tough times and grows above inflation over the long term.

To mark SAINTS' 150th anniversary, and to help provide the benefit of perspective which I mentioned above, the Board and Baillie Gifford have commissioned a short history of SAINTS. We expect this to be available, in both electronic and hard copy form, by late May/early June. If you would like to receive a copy, either by email or in physical form, please request a copy using the following link: **bailliegifford.com/SAINTS150**

Dividend and Inflation

The Board recommends a final dividend of 3.67p which will take the full year dividend to 13.82p per share, 9% higher than the 2021 dividend of 12.675p.

The strong growth in SAINTS' revenues over the past year has enabled this greatly increased dividend to be covered by earnings. Whilst significant, the rate of increase does not match the annual rate of inflation of 10.5% as measured by CPI. It remains the Company's objective to deliver real dividend growth over the long term, and over the last ten years the Company's dividends have in the round increased at a rate (3.5% per annum) which has been well above the rate of inflation (2.7% per annum).

We would mention also that the Board does not necessarily expect to exceed or match the level of the previous quarter's dividend in each successive quarter. It is quite possible, therefore, that not all dividends next year will match or exceed this year's final dividend.

Revenues

Earnings per share have risen to 13.82p over the year, an increase of 8.1%, and investment income has risen to £30m. Income from equities has been helped by operational progress at many of the Company's investments and by increases in their dividends, as well as by movements in exchange rates. The sale of four properties and the purchase of one led to a reduction in rental income.

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

In a challenging year your investment in SAINTS delivered a share price total return of negative 3.5% and the net asset value total return (capital and income with borrowing at fair) was negative 3.7%. Although a positive return would have been preferable, in the circumstances this is a creditable result. Although as always we would caution against reading too much into short term performance, it is worth noting a number of positive features over the year. Firstly, the share price and net asset value returns once again exceeded that from global equities which was negative 7.3% over 2022. And secondly, the performance of SAINTS' investments in equity, property, infrastructure, and fixed income investments all compared favourably with that of their respective asset classes.

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. We would therefore encourage shareholders to assess your Company's performance over the long term. SAINTS remains at the top of its sector in terms of share price total returns over the past five years and has also outperformed equities as measured by its global equity benchmark over the past three, five and ten years.

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

During the course of 2022, the larger part of the Company's borrowings were refinanced at a rate agreed some two years earlier and so, in an environment when interest rates have been rising, the cost of the Company's borrowings has fallen very significantly.

At the start of the year SAINTS' borrowings took the form of a single £80m debenture, and a further £15m of borrowing which had been added in 2021. The debenture dated from a time when the prevailing interest rates were much higher than today, and bore a coupon of 8%. The £80m debenture matured in April 2022 and, as previously announced, the Company issued £80m of long-term private placement debt to refinance its long-term borrowings. At this time, the overall cost of the Company's borrowings, including the additional £15m raised in 2021, fell to just below 3% per annum. The refinancing of the Company's long-term debt appears well timed and, in the Board's judgement, the Company is now well placed to use its borrowings to enhance returns and support its dividend.

The book value of the total borrowings is £94.7m which, at the year end, was equivalent to approximately 11.2% of shareholders' funds. The estimated market or fair value of the borrowings was £65.5m, a decrease from the previous year's value of £97.4m due to the general increase in interest rates and bond yields.

Environmental, Social and Governance (ESG)

I have already alluded to some of the challenges which the world is facing and, in this context, it is important to emphasise that 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, and the Board has recently reviewed and strengthened its ESG Policy which is available to view on the Company's website (saints-it.com).

The Board has been strongly supportive of the Managers' approach, and of their constructive engagement with the companies you own over the course of the pandemic, and in their engagement with holdings and potential holdings in relation to other areas including climate change. I would encourage shareholders to read SAINTS' annual Stewardship Report which can also be accessed on the Company's website (saints-it.com). There is also further detail in the Managers' Review, which includes a section on investing sustainably.

Issuance and buybacks

Over the year the Company has raised £5.9m from new share issuance, at a premium to net asset value prevailing from time to time in order to satisfy investor demand. This is the eighth year in a row when the Company has been able to issue shares. Such issuance serves the interests of existing shareholders by enhancing net asset value, reducing costs per share and helping further to improve liquidity. No shares were bought back during the year.

The Board

As planned, Peter Moon stepped down from the Board at the conclusion of last year's AGM. We once again thank him for his many years of invaluable service, both as a Director and as Chairman. As previously announced, Bronwyn Curtis took over as Senior Independent Director when I became Chairman, and Christine Montgomery joined the Board on 6 April 2022.

Outlook

Equity and bond markets were weak last year, and other markets including property have also experienced difficulties. As 2023 gets underway, there are tentative signs of hope triggered by lower energy prices and reduced interest rate expectations. It is too soon to know whether the worst is behind us: government finances remain under pressure and many companies will struggle to grow their earnings and protect their balance sheets in the face of slow economic growth. However, with asset prices adjusting, there will be buying opportunities, and maintaining a focus on the strength and resilience of individual investments remains as important as ever.

As a Board, we believe 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. In addition, we are encouraged that, as is outlined further in the Managers' Review, they have continued to find new and attractive opportunities amidst the recent turmoil. We retain great confidence in the Managers' approach, and this confidence has been further strengthened by the experiences of the past year.

Proposed Change to Articles of Association

Your Board is proposing certain changes to the Company's Articles of Association which, amongst other things, will permit SAINTS to hold virtual or electronic Annual and Extraordinary General Meetings, as well as physical and hybrid meetings, in the future. Thankfully the worst of the current pandemic seems to be behind us, but we believe it would be sensible to ensure that in similar circumstances the Company would be able to use modern technology to carry out meetings in a timely fashion, whilst also allowing shareholders and others who could not attend in person to take part. A summary of these proposed changes, together with other changes being proposed as part of an overall update to the company's constitutional documents, is set out in more detail in the AGM section of the Directors' Report. For the avoidance of doubt, the Board's preference will always be to hold physical general meetings where it is possible to do so.

AGM, Presentation and Drinks

The AGM will be held at 11.30am on Thursday 6 April 2023 at Baillie Gifford's offices at Calton Square, 1 Greenside Row, Edinburgh. The meeting will be followed by a presentation from the managers. Shareholders are cordially invited to attend the meeting and presentation, and also to join the Board and the Managers for drinks afterwards in celebration of the Company's first one hundred and fifty years.

I would 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).

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

Lord Macpherson of Earl's Court

Chairman

9 February 2023

For a definition of terms see Glossary of Terms and Alternative Performance Measures at the end of this announcement

Source: Refinitiv/Morningstar/Baillie Gifford and relevant underlying index providers. See disclaimer at the end of this announcement.

Past performance is not a guide to future performance.

Managers' Review

In 2022 the per share earnings of The Scottish American Investment Company increased by a little over 8%, while the per share net asset value (NAV total return with borrowings at fair value) decreased by 3.7%. Since the start of 2004, which is to say when the present managers were appointed by the Board, the NAV has compounded at 5.4% per annum, growing shareholders' capital from 181.9p to 495.5p.* Over the same period the NAV total return of the Company, meaning the capital gain with dividends reinvested, has been 8.4% per annum.* Dividend growth in 2022 was 9.0%, taking the compound increase since 2004 to 4.8% per annum, ahead of inflation† over the same period of 2.7%.

In what follows below, we reflect on how SAINTS' portfolio coped with a slew of shocks during 2022: war in Europe, soaring prices worldwide, and a sharp rotation in equity markets away from 'growth' towards 'value'. We shed light on some of the individual holdings that delivered notable positive and negative performance, and we elaborate on the new investments (and dis-investments) that we made during the year.

A brief update is also included on our progress in diversifying the Company's non-equity investments, which took place as SAINTS' borrowings were refinanced to a lower rate of interest. We then offer some comments under the broad heading of 'investing sustainably', something we believe is vital for the long-term compounding that we seek to deliver in shareholders' capital and dividends. We finish with our outlook for 2023 and beyond.

For those who would prefer to cut to the chase, the abbreviated version goes like this: although 2022 felt rather like sailing through a storm, with waves crashing left and right and visibility poor, SAINTS' portfolio proved pleasingly robust and charted a relatively steady course. The strong companies that constitute the backbone of the portfolio delivered, for the most part, admirably solid compounding in their revenues and profits. The portfolio also generated dividend growth that broadly kept pace with inflation, ensuring shareholders' real income was largely maintained.

The Company's property, infrastructure and fixed income investments also held up relatively well. SAINTS has been able to refinance its borrowings, and the Company's overall borrowing cost has now fallen to 3%, having previously been 8%, which will be a substantial saving going forward.

Credit for this steady performance should perhaps go more to the seaworthiness of the ship than the skill of its captains: the quality of the holdings shone through rather than any change of course by its managers, given that we made only three new equity investments during the year. But the bottom line is that SAINTS' shareholders own a portfolio that proved its mettle in 2022 and appears well set for the future. The outlook for the global economy is showing tentative signs of improvement, and as managers we remain optimistic about delivering steady growth in earnings and dividends in 2023 and beyond.

Coping with the shocks of 2022

It seems fair to say that the 2020s, as decades go, have so far proved a little… challenging. It is chastening to recall that as this decade dawned, many hoped the world was on the cusp of another "Roaring 20s": repeating the same decade a century earlier when peace reigned, prosperity boomed, and investments soared in value. That scenario has not, to put it politely, quite transpired. Each of the past three years has brought huge challenges to citizens around the world, including investors seeking capital growth with dividends. The year 2022 was no exception, thanks to a senseless war in Europe, the return of double-digit inflation triggering rapid rises in interest rates, and a stock market that turned its nose up at growth-oriented companies.

As managers of SAINTS it is our job to build a portfolio that can thrive through thick and thin, whatever storms it may encounter. If economic activity is collapsing because of the first global pandemic in living memory, or if the Chinese economy is slumping while global energy prices are spiking to extraordinary levels, it is our job to ensure the Company's portfolio contains investments that can navigate those adversities successfully.

Happily, this is indeed how the portfolio and most of its underlying investments performed last year. At the time of writing we are still receiving the final results for 2022 from the circa 60 holdings in the equity portfolio that form the backbone of the Company's NAV, but broadly-speaking we can say that it was a year of solid earnings and dividend growth. The decline in the Company's NAV was attributable largely to a broad decline in listed equity valuations, as markets adjusted to higher-than-expected future interest rates. But fundamentally, the vast majority of SAINTS holdings continued to perform well operationally, and this is why they delivered steady earnings and dividend growth.

Growth-oriented companies in general bore the brunt of an adjustment in the stock market last year to higher interest rates, with a huge rotation taking place in favour of so-called 'value' companies. These are companies which typically trade on low multiples of price to earnings, reflecting their poor long-term growth prospects, but over short periods they can come into favour. A good example is the oil & gas business, where SAINTS has no capital invested. In 2022 many oil & gas companies saw their share prices marked up significantly, as the war in Ukraine prompted sanctions on Russian exports, in turn causing energy prices to spike and profits at oil & gas companies to balloon. In the long-term, we believe these companies are likely to prove poor sources of capital and dividend growth for shareholders, because they are likely to see demand for their products shrink quite considerably as energy users around the world make stringent efforts to de-carbonise their operations. Last year, however, many oil & gas companies saw their share prices increase.

Meanwhile, many companies with attractive long-term growth prospects fell out of favour. An example is the soft drinks company Fevertree Drinks, which is a holding in SAINTS' portfolio. As managers we believe that Fevertree's earnings outside the UK have a strong chance of growing enormously over the next 5 to 10 years. But in the past 12 months the price of gas has dramatically increased the costs of the company's glass bottles, and expenses have soared too for the containers it uses to ship its products around the globe while it is still building local facilities in countries like the US. Its profit margins have therefore fallen and the stock market has punished its share price.

This is the kind of headwind that a number of SAINTS holdings had to deal with in 2022. Our investments in Chinese companies are another example where we saw short-term pain: COVID lockdowns hurt the earnings of companies such as Anta Sports (the footwear maker) and Man Wah (the furniture maker) in 2022, and their share prices fell significantly as the market's risk-aversion increased and time horizon shrank.

When we look through the list of holdings whose prices have been marked down by the stock market, however, our belief is that the vast majority have been impacted by challenges that are likely to prove short-term. We have already seen energy prices fall in the past few months, to the point that, remarkably, the European gas price has now declined below its level before the invasion of Ukraine. China has started "unlocking" and its government has begun a stimulus programme.

We would much rather invest shareholders' capital in companies with good long-term growth prospects, and wait for these storms to pass, than invest in the likes of oil & gas companies where, to the best of our judgement, the long-term outlook for growth in their earnings and dividends is very poor. In the medium-term we expect interest rates and equity valuations to stabilise, while the portfolio's earnings should continue to compound higher. Ultimately this should drive growth in SAINTS NAV and dividends in the years to come.

While a small number of holdings had a difficult 2022, it is important to put these in context. As managers we have been struck more by how, faced with crashing waves and howling winds, the vast majority of the companies in SAINTS portfolio have continued to deliver solid earnings and dividend growth. Particular mention should be made of a few.

Notable positive performers

SAINTS' standout performer last year was Novo Nordisk, the Denmark-based manufacturer of insulin for diabetics which has also begun making, more recently, appetite suppressants for patients who are battling obesity. This has been a very successful investment for shareholders over the past several years. Revenues have compounded steadily upwards, driven in part by continued growth in the number of patients diagnosed with diabetes, a condition which remains under-treated but where happily detection is increasing over time.

We remain optimistic about seeing continued progress worldwide in the years ahead. Meanwhile, novel formulations of the company's insulin products have made life significantly easier for many of those living with diabetes: for example the company's oral formulations which spare patients from the burden of constant injections. This innovation has been rewarded by higher prices, which again has driven revenue growth.

More recently, the use of the company's *semaglutide* molecule as an appetite suppressant has been hailed as a breakthrough treatment for patients battling obesity. Future earnings growth from this innovation could be considerable, and shares in the company have risen accordingly. We are mindful of the higher valuation of the shares following this strong period of performance, but believe we are still early in the multi-year opportunity for Novo Nordisk to change people's lives for the better, while growing the company's earnings and dividends. In the meantime, we continue to liaise with the management team to ensure that, despite rocketing demand for the company's treatments, it is pricing its products honourably (not gouging) and that it is working as hard as possible to add safe new capacity to meet patient demand.

Our several investments in consumer staples companies, such as Pepsico and Coca-Cola, also by-and-large performed well during 2022. Over the past several years these companies have delivered solid growth but, candidly, the rate of growth has not always been particularly inspiring. However in 2022, with input costs rising sharply, for example due to transportation costs, and with considerable ongoing investments to reduce their packaging impact and improve their nutritional impact, these companies have been able to pass on cost inflation to consumers seeking improved products. Earnings and dividends have continued to compound higher and their share prices have risen, as the outlook for profit growth has brightened.

The performance of these holdings illustrates a wider point about SAINTS portfolio, that is perhaps under-appreciated. As managers, we make conscious efforts to ensure that we achieve true diversification when investing shareholders' capital. Not just by investing in different countries and industries, but also in terms of different types of growth case, and business model, and assorted exposures to different macro factors.

We do all this in pursuit of dividend resilience and steady compounding. We try hard to ensure that we are not "betting the portfolio" on a narrow range of businesses or styles. We are far from perfect in this respect – earnings correlations have a nasty habit of rising toward 100% whenever severe shocks occur – but it does mean that in highly volatile years such as 2022, SAINTS portfolio by design includes names which may perform unusually well while others are slowing. Our consumer staples holdings just-mentioned, and our two bank holdings United Overseas Bank and Cullen/Frost Bankers, together with esoteric names such as Edenred (the vouchers business), Arthur J Gallagher (the insurance broker), USS (the Japanese car auctions business), and Deutsche Boerse (the German derivatives exchange) are all testament to this approach. Many featured in our top 10 performers list for 2022.

<u>New equity investments and dis-investments</u>

During the course of 2022 we made three new equity investments: Intuit, L'Oréal and Cognex. On the other side of the ledger we made four dis-investments: Kimberly-Clark de México, Hiscox, Haleon and CH Robinson.

Intuit makes software for small businesses and consumers. It is an investment idea that came to us through positive reports we heard from other companies, who rate the management team highly. On investigation we too became enthused. The company's core products are software for small business accounting and consumer tax filing in the US. Profit growth in the years ahead could be substantial as the company builds out its product range into areas such as marketing, payroll, HR, and other adjacencies, giving small business owners a one-stop shop for managing their affairs. It has a similar strategy to broaden its consumer offering. We are backing the management team's vision, their track record of execution, the attractive financial characteristics of the business, and the company's commitment to paying a progressive dividend. The share price fell precipitously in the first half of 2022 and we took this as a cue to make an initial investment.

L'Oréal makes beauty products. We have long admired the company's entrepreneurial culture and its commitment to seizing every new opportunity for innovation. Time and again the management team have made good strategic calls and executed on them, moving early into digital marketing and investing in local R&D in China many years ago. The stable hand of the Bettencourt family and a commitment to progressive dividend growth, together with an exemplary balance sheet, also attract us. Again this was a growth company that fell sharply in the first half of 2022, and we took this as an opportunity to make an investment.

Cognex makes machine vision products. We are enthused by the company's growth potential in the decade to come, as organisations around the world try to automate repetitive, costly tasks such as checking labels in logistics, and scanning for faults in manufacturing. Cognex is a pioneer in cameras and software which can do this work at a fraction of the cost of humans, often with higher accuracy. We see the potential for very strong demand in the years ahead as its software gets ever-smarter and becomes capable of checking an ever-wider assortment of items, in turn growing the company's customer base. Growth does not require much capital and the company is committed to growing its dividend alongside earnings. The management team and entrepreneurial culture again appear excellent.

All three of these companies fit strongly with SAINTS' objective of long-term compounding in earnings and dividends, combined with resilience along the way. The dis-investments we made fell short of these criteria.

CH Robinson is a long-standing holding where the passage of time has raised serious concerns about its future growth prospects. Its core business is broking truck transportation in the US: matching shippers with truckers. Our investment case had been predicated on strong customer and shipment growth as its software platform went from strength-to-strength, displacing a long tail of smaller competitors who would struggle to keep investing in the technology needed to provide real-time tracking information, pricing and other services to customers. What we did not foresee is that a wave of Silicon Valley start-ups would enter the industry with cheap financing, writing business at low prices to gain customers while worrying about profitability later. CH Robinson lost market share, and an activist investor then gained seats on its board, pushing a particular agenda. We visited the company in Minnesota last November but failed to gain conviction that the management's strategy to out-compete the disruptors would ultimately restore the company to good rates of growth.

Kimberly-Clark de México is the leading manufacturer of nappies, tissues and other sanitary products in Mexico. Our investment case was based on the assumption that rising household incomes in Mexico would drive growth in spending on the company's products, both in volume terms and through increased pricing power. In practice, however, the company has struggled to grow its earnings due to sustained pressure on its input costs, limited success in gaining market share and the depreciation of the Mexican currency. With little prospect that these headwinds will reverse and better opportunities elsewhere in the portfolio, we dis-invested.

Haleon is a maker of over-the-counter medicines, and came to us through a demerger from our holding in GSK. Our view is that the company, whilst not without merits, owns a series of brands whose market position is not particularly strong, and whose volume growth is unlikely to be particularly inspiring.

Hiscox is a provider of insurance for businesses and households. It has been a longstanding holding, but twice in the past 20 years it has stopped paying a dividend when there has been a global shock: in 2001 and again in 2020. After reviewing the company last year and considering our ongoing conversations with management, we came to the conclusion that it did not meet the criteria SAINTS sets in terms of dividend resilience, particularly in times of economic crises. Arguably it should have dawned on your managers earlier that a company which insures its customers against losses in extreme events is unlikely to be a resilient distributor of dividends whenever those events transpire! We will put that learning to work as we move forward.

It is, we have to say, a little surprising to us that during the course of 2022 we made only three new investments. We are not short of ideas. Growth stocks have fallen out of favour, and we might have expected to acquire, opportunistically, more stocks whose price/earnings multiples have been de-rated. But many of the biggest fallers would not suit SAINTS, either because they do not pay dividends or because their prospects are too uncertain. In some other cases, where the fit for SAINTS is better, valuations still don't look attractive enough for us to bite. We have tried to remain disciplined in the face of market turmoil, and only bought new holdings where we see an excellent fit, and long-term returns that we believe are firmly skewed in shareholders' favour. Intuit, L'Oréal and Cognex all fall into that category.

Refinancing of borrowings and non-equity investments

Most long-standing shareholders will be aware that SAINTS has for many years endeavoured to enhance its income and returns through the use of prudent long-dated borrowings. By taking advantage of the Company's permanent capital base, structured as an investment trust, the Board is able to take on modest levels of debt. The proceeds are then invested in a mixture of non-equity assets, such as directly-held property and bonds, with yields above the cost of borrowing. In many cases there is also the potential for real capital growth, funded by these nominal borrowings. Typically these investments constitute 10-15% of total assets, broadly matching the level of gearing.

Until 2022, SAINTS borrowings chiefly took the form of a single debenture which was arranged in the 1990s. Its coupon was fixed at 8%. This debenture matured in April 2022, but before this transpired, and before interest rates began their recent climb, the Board had propitiously arranged replacement debt with a blended average coupon of around 3%.

Conscious of the value of diversification, the Board also took a decision at its annual Strategy Day in 2020 which has since proven well-founded. The Directors instructed the managers to review and recommend asset classes that could diversify the Company's non-equity portfolio. Out of that discussion came the agreement that, alongside the directly-held property and corporate credit investments, which remain fundamental to the Company's approach, the managers would also seek diversification by investing prudently in Emerging Market sovereign bonds and Infrastructure-related equities. In both asset classes, assuming careful stock selection, the risk of default should be low and the prospective returns higher than the cost of borrowing. Additionally the income from these two asset classes, perhaps even more so than property and corporate bonds, are likely to prove uncorrelated with the Company's income from equities, thereby improving the portfolio's resilience.

In 2022 this strategy proved its worth, as equity and property valuations came under pressure from rising interest rates, as did the prices of corporate bonds. Over the course of the year the Emerging Market sovereign bond and infrastructure investments turned out to deliver the best-performance of any asset class in SAINTS portfolio. Both delivered positive total returns.

The sovereign bonds followed a very different path from most of SAINTS' holdings. Essentially this transpired because emerging market central banks began hiking interest rates well before Europe and the US. This underpinned strong emerging market currency appreciation during 2022, in countries such as Brazil and Mexico, particularly against Sterling. SAINTS' income from these investments grew healthily in Sterling terms, and capital values in Sterling also increased.

The infrastructure investments also had a good year. These are typically held in the form of equities, but their underlying cashflows are fundamentally linked to infrastructure revenues. As managers we take care to ensure these revenues are not economically sensitive, or at least are likely to remain uncorrelated with the wider SAINTS portfolio. Examples include the wind farm owner Greencoat UK Wind, the Italian national grid owner Terna, and the Chinese tollroad owner Jiangsu Expressway. Across this portfolio of infrastructure names, cashflows were generally very robust in 2022, share prices were relatively stable, and dividends were either flat or growing. Several of these investments, like the emerging market bonds, showed the benefit of investing outside the UK as there was a further benefit boost to income from Sterling depreciation.

The Company's long-standing directly held property portfolio faced a more challenging environment. Underlying performance remained good, with the portfolio fully-let, but rising interest rates adversely affected valuations. The portfolio retains a strong focus on inflation-linked and increasing rents, and this has rarely seemed more valuable: as a reminder, 57% of SAINTS' rental income is linked to RPI or CPI, with a further 25% on fixed increases and 18% on upward-only rent reviews. The portfolio also benefited from some well-judged decisions by the manager, OLIM, to dis-invest from a number of properties at valuations above book value. The portfolio's total return over the course of 2022 was -1.7%, ahead of comparable property indices.

In the long-term, we expect the rate of compounding in earnings, dividends and capital to be significantly stronger in the Company's equity portfolio than in its non-equity portfolio. But there are solid returns available from our non-equity holdings, alongside the benefits to income and capital from diversification. With these investments now financed from borrowings at an average cost of just below 3%, and bearing in mind that SAINTS debt is nominal and will therefore be heavily eroded by inflation by the time the borrowings are due to mature in the 2040s, we share the Board's view that this is an attractive way for SAINTS to make use of the investment trust structure and enhance returns for shareholders. The results in 2022 demonstrated these benefits.

<u>Investing sustainably</u>

There is a debate raging at the moment. On one side are those who argue that fund managers should stop messing about by pontificating on environmental, societal and governance issues that may or may not surround their investments, and instead focus on the core task they have been given by their shareholders: to deliver investment returns. On the other side are those who argue that fund managers have a duty as asset owners to ensure their investments are not harming the environment or society, or failing to adhere to good standards of governance, and indeed must be prepared to divest when those standards are not met. The acronym 'ESG' is being tossed left and right, torn between those who would promote it and those who would bin it.

As managers of SAINTS, we are very much of the same opinion as the Board on this matter. Our duty is to pursue the long-term goals set out and agreed with shareholders in the Company's investment policy. We are long-term investors, seeking to deliver income and capital growth ahead of inflation over multi-year periods. That long-term focus has been foundational to SAINTS' success since it was established in 1873, and instrumental to the Company's track record of keeping its dividend at least flat and most often growing in every year since 1938.

If we were short-term managers, trading in and out of shares every few months, perhaps we would hold our noses and invest in companies that are deeply harmful to the environment, or society, or which exhibit gross failings of governance. We could play the roulette wheel and gamble that, over such a short holding period, the chances of getting caught out were low.

But we are not short-term speculators, we are long-term investors. And over the investment period we pursue, with an average holding period of 8 years and many of our investments held for over a decade, it is our responsibility to give careful scrutiny to our holdings' environmental, societal and governance opportunities and risks.

Some examples might be helpful to illustrate the point: investments whose ESG failures would have damaged SAINTS' long-term NAV and dividend growth but which, thankfully, we steered well clear of.

In the US, in the early 2000s, it was popular to proclaim a renaissance in coal mining and to invest in companies such as Peabody and Arch Coal. But America turned its back on sulphur and the numerous other air pollutants in coal, pivoting to natural gas as soon as the opportunity presented itself with the shale boom of the late 2000s. By 2011, numerous US coal companies had gone bankrupt, with their shareholders suffering a permanent loss of capital.

Just as environmental harms skew the odds against sustainable long-term profits and dividends, so the odds have often been stacked against companies with deep social harms: such as tobacco companies, many of which have struggled for years to deliver attractive growth in earnings and dividends. As for governance, examples abound of companies that have transgressed and subsequently failed. In just the past few months we have seen the implosion of the cryptocurrency exchange FTX, where investigators have already alleged gross failings of governance inside the company, precipitating bankruptcy and the permanent impairment of shareholder value.

All of this informs our strong belief (in which we are very much aligned with SAINTS' Board) that sustainability analysis is absolutely vital to meeting the Company's investment objectives over the long-term. This is why, for every SAINTS holding, your managers complete a thorough analysis of ESG opportunities and risks. We monitor all of our holdings carefully, and engage proactively on numerous topics to ensure the long-term compounding that we seek on behalf of shareholders has every chance of being delivered. The Board has also adopted and published a clear ESG policy for us to follow.

We have yet to find any company that is perfect. But we will not invest in any company where we see significant harms that are not being addressed ambitiously by the management, or where we do not trust them to deliver. And we *far* prefer to invest in companies where there is strong alignment between the company's products and operations and its wider stakeholders: such as employees, society and the planet. For example, we have invested SAINTS' capital in Albemarle, the leading lithium producer, for several years now. We believe the market for green metals will continue to expand dramatically over the decade ahead. We expect the environmental benefits that lithium enables will lead to strong growth in capital and dividends.

We try hard to make sure that all of our holdings are perpetually improving. SAINTS latest Annual Stewardship Report contains many examples of our engagements with holdings over the course of the past year. To highlight a couple briefly: we have encouraged Apple, Microsoft and other software holdings to continue pushing towards best practice in cybersecurity, privacy, and supply chain management. And we have voiced our desire for UPS to lean into electrification and emissions reduction from its transport fleet.

This is all part-and-parcel of our responsibility as managers to ensure, wherever possible, the likelihood of continued compounding in capital value and dividends on behalf of SAINTS shareholders. As long-term investors, there is no other sustainable path.

Outlook for 2023 and beyond

Few predictions cast at the end of 2019 foresaw the advent of COVID in early 2020. Few of those who forecast continued economic despair during the ongoing lockdowns at the end of 2020 foresaw the enormous rally in equity markets in 2021. And few who prognosticated at the end of 2021 predicted the war in Ukraine at the start of 2022, with inflation reaching double-digits and interest rates spiking higher. As we begin 2023, we remain humble about our (or indeed anyone's) ability to foresee what is just around the corner.

What we can say with confidence is that SAINTS owns a portfolio of assets which has proved itself resilient to some extreme tests over the past few years. Earnings have grown steadily, as has the Company's NAV and, despite the shock of a global pandemic which caused many income-generating investments to stop or slash their distributions, the recommended final dividend will extend SAINTS' track record of increases to 49 consecutive years. In 2022, the Company's earnings and dividend broadly kept pace with inflation, despite price indices surging higher.

Similarly, as we look to the future, we believe that your portfolio is well placed to cope with whatever the coming year holds, be it inflation, recession or recovery. This is because it is populated by a broadly diversified mix of growth companies: including companies with strong brands that should enjoy pricing power in an inflationary environment, such as Apple, and others that are well placed to benefit from innovation and a growing competitive advantage, such as Atlas Copco, and still others that are relatively recession proof, such as Sonic Healthcare.

We made a number of new investments in 2022 which we believe upgraded the resilience and growth potential of the Company. Whatever happens in the world at large, we as managers will continue our search for steady long-term compounding in earnings and dividends. We believe the portfolio is in good shape, with strong underlying holdings. The cost of borrowing has fallen, and the Company's non-equity investments have been diversified further for enhanced returns and future resilience.

There are no certainties in investing. There can be no guarantee that SAINTS' capital value and dividends will continue to compound higher in the decade to come as they have in the decade past. But we do believe that, whatever winds may blow, and as far as we are able to ensure as managers, the odds remain skewed strongly in favour of long-term capital appreciation and dividend growth in the years ahead for SAINTS shareholders.

James Dow

Toby Ross

Baillie Gifford & Co

9 February 2023

* NAV per share with borrowings at fair value

† CPI

Source: Baillie Gifford and Refinitiv

Income Statement

	For the year ended 31 December 2022			For the year ended 31 December 2021		
	Revenue £'000	Capital £'000	**Total £'000**	Revenue £'000	Capital £'000	**Total £'000**
(Losses)/gains on investments – securities	–	(80,091)	**(80,091)**	–	127,973	**127,973**
(Losses)/gains on investments – property	–	(5,114)	**(5,114)**	–	13,679	**13,679**
Currency gains/(losses)	–	192	**192**	–	(21)	**(21)**
Income (note 2)	30,043	–	**30,043**	27,980	–	**27,980**
Management fees	(980)	(2,940)	**(3,920)**	(973)	(2,920)	**(3,893)**
Other administrative expenses	(1,257)	–	**(1,257)**	(1,252)	–	**(1,252)**
Net return before finance costs and taxation	27,806	(87,953)	**(60,147)**	25,755	138,711	**164,466**
Finance costs of borrowings	(921)	(2,763)	**(3,684)**	(1,426)	(4,278)	**(5,704)**
Net return on ordinary activities before taxation	26,885	(90,716)	**(63,831)**	24,329	134,433	**158,762**
Tax on ordinary activities	(2,540)	790	**(1,750)**	(2,509)	732	**(1,777)**
Net return on ordinary activities after taxation	24,345	(89,926)	**(65,581)**	21,820	135,165	**156,985**
Net return per ordinary share (note 4)	13.82p	(51.04p)	**(37.22p)**	12.79p	79.20p	**91.99p**

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 these statements derive from continuing operations.

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

The accompanying notes below are an integral part of the Financial Statements.

Balance Sheet

	As at 31 December 2022		As at 31 December 2021	
	£'000	**£'000**	£'000	£'000
Non-current assets				
Investments – securities	**869,837**		938,357	
Investments – property	**66,750**		74,900	
Deferred expenses	**–**		207	
		936,587		1,013,464
Current assets				
Debtors	**3,213**		3,710	
Cash and cash equivalents	**4,184**		11,263	
	7,397		14,973	
Creditors				
Amounts falling due within one year	**(2,596)**		(83,327)	
Net current assets/(liabilities)		**4,801**		(68,354)
Total assets less current liabilities		**941,388**		945,110
Creditors				
Amounts falling due after more than one year		**(94,714)**		(14,925)
Net assets		**846,674**		930,185
Capital and reserves				
Share capital		**44,188**		43,900
Share premium account		**178,189**		172,576
Capital redemption reserve		**22,781**		22,781
Capital reserve		**583,814**		673,740
Revenue reserve		**17,702**		17,188
Shareholders' funds		**846,674**		930,185
Net asset value per ordinary share*		**479.0p**		529.7p
Ordinary shares in issue (note 7)		176,750,943		175,600,943

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

The accompanying notes below are an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 December 2022

	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 2022	43,900	172,576	22,781	673,740	17,188	**930,185**
Shares issued	288	5,613	–	–	–	**5,901**
Net return on ordinary activities after taxation	–	–	–	(89,926)	24,345	**(65,581)**
Dividends paid in the year (note 5)	–	–	–	–	(23,831)	**(23,831)**
Shareholders' funds at 31 December 2022	**44,188**	**178,189**	**22,781**	**583,814**	**17,702**	**846,674**

For the year ended 31 December 2021

	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 2021	40,649	112,751	22,781	538,575	16,406	**731,162**
Shares issued	3,251	59,825	–	–	–	**63,076**
Net return on ordinary activities after taxation	–	–	–	135,165	21,820	**156,985**
Dividends paid in the year (note 5)	–	–	–	–	(21,038)	**(21,038)**
Shareholders' funds at 31 December 2021	**43,900**	**172,576**	**22,781**	**673,740**	**17,188**	**930,185**

* The capital reserve as at 31 December 2022 includes unrealised investment holding gains of £280,732,000 (31 December 2021 – gains of £380,179,000)

The accompanying notes below are an integral part of the Financial Statements.

Cash Flow Statement

	For the year ended 31 December 2022		For the year ended 31 December 2021	
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Net return on ordinary activities before taxation	(63,831)		158,762	
Losses/(gains) on investments – securities	80,091		(127,973)	
Losses/(gains) on investments – property	5,114		(13,679)	
Currency gains/(losses)	(192)		21	
Finance costs of borrowings	3,684		5,704	
Overseas withholding tax	(1,761)		(1,764)	
Changes in debtors	507		(1,192)	
Changes in creditors	382		(698)	
Other non-cash changes	239		227	
Cash from operations		24,233		19,408
Interest paid		(4,784)		(6,498)
Net cash inflow from operating activities		19,449		12,910
Cash flows from investing activities				
Acquisitions of investments – securities	(74,593)		(167,997)	
Acquisitions of investments – property	(8,239)		(241)	
Disposals of investments – securities	62,783		76,030	
Disposals of investments – property	11,275		23,920	
Net cash outflow from investing activities		(8,774)		(68,288)
Cash flows from financing activities				
Equity dividends	(23,831)		(21,038)	
Shares issued	5,901		63,076	
Loans notes drawn down	80,000		15,000	
Debenture stock repaid	(80,000)		–	
Costs of issuance of loan notes	(16)		(77)	
Net cash (outflow)/inflow from financing activities		(17,946)		56,961
(Decrease)/increase in cash and cash equivalents		(7,271)		1,583

Exchange movements	**192**	(21)
Cash and cash equivalents at 1 January	**11,263**	9,701
Cash and cash equivalents at 31 December	**4,184**	11,263

The accompanying notes below are an integral part of the Financial Statements.

List of Investments as at 31 December 2022

Name	Business	Value £'000	% of total assets
Global Equities			
Novo Nordisk	Pharmaceutical company	40,137	4.3
United Parcel Service	Courier services	28,734	3.1
Procter & Gamble	Household product manufacturer	28,431	3.0
Pepsico	Snack and beverage company	25,908	2.8
Microsoft	Computer software	25,182	2.7
Fastenal	Distribution and sales of industrial supplies	24,739	2.6
Watsco	Distributes air conditioning, heating and refrigeration equipment	22,763	2.4
Roche	Pharmaceuticals and diagnostics	22,619	2.4
Taiwan Semiconductor Manufacturing	Semiconductor manufacturer	21,884	2.3
Nestlé	Food producer	20,423	2.2
Deutsche Boerse	Securities exchange owner/operator	20,191	2.1
Coca Cola	Beverage company	19,924	2.1
Sonic Healthcare	Laboratory testing	19,409	2.1
Analog Devices	Integrated circuits	19,216	2.0
Anta Sports	Sportswear manufacturer and retailer	18,409	2.0
Apple	Consumer technology	17,819	1.9
Schneider Electric	Electrical power products	16,657	1.8
Experian	Credit scoring and marketing services	16,287	1.7
McDonald's	Fast food restaurants	15,574	1.7
Partners Group	Asset management	15,373	1.6

Albemarle	Producer of speciality and fine chemicals	15,110	1.6
Atlas Copco	Engineering	15,062	1.6
Carsales.com	Online marketplace for classified car advertisements	14,974	1.6
Edenred	Voucher programme outsourcer	14,905	1.6
Wolters Kluwer	Information services and solutions provider	14,742	1.6
Arthur J Gallagher	Insurance broker	13,264	1.4
United Overseas Bank	Commercial banking	13,168	1.4
Admiral	Car insurance	12,642	1.3
B3 S.A.	Securities exchange owner/operator	12,358	1.3
National Instruments	Electronic test and measurement systems	12,263	1.3
Intuit	Software	11,555	1.2
Cisco Systems	Data networking equipment	10,795	1.2
Cullen/Frost Bankers	Provides banking services throughout the state of Texas	10,444	1.1
Starbucks	Coffee retailer	10,126	1.1
Hong Kong Exchanges and Clearing	Securities exchange owner/operator	10,004	1.1
Man Wah	Sofa designer and manufacturer	9,877	1.1
Rio Tinto	Mining	9,626	1.0
Kering	Luxury brand conglomerate	8,825	0.9
NetEase	Online gaming company	8,787	0.9
L'Oréal	Cosmetics	8,752	0.9
Kuehne + Nagel	Worldwide freight forwarder	8,582	0.9
Midea Group	Appliance manufacturer	8,388	0.9
Cognex	Industrial automation	8,303	0.9
Medtronic	Medical devices company	7,879	0.8
SAP	Business software developer	7,438	0.8
Dolby Laboratories	Multimedia software	7,063	0.8
T. Rowe Price	Fund manager	7,029	0.7
USS	Second-hand car auctioneer	7,014	0.7
Valmet	Manufacturer of pulp and paper machinery	6,837	0.7
AVI	Staple foods manufacturer	6,777	0.7
Silicon Motion Technology	Semiconductor company	6,614	0.7
Want Want	Snacks and milk-based products	6,454	0.7

TCI	Producer of health-food products	5,917	0.6
Fevertree Drinks	Producer of premium mixer drinks	5,666	0.6
Pernod Ricard	Global spirits manufacturer	5,635	0.6
Línea Directa Aseguradora	Car and home insurance provider	5,537	0.6
GlaxoSmithKline	Pharmaceuticals, vaccines and consumer healthcare	5,210	0.6
Hargreaves Lansdown	UK retail savings and investment platform	4,814	0.5
Amadeus IT Group	Technology provider for the travel industry	4,103	0.4
Total Global Equities		**802,218**	**85.2**
Infrastructure Equities			
Greencoat UK Wind	UK wind farms	9,937	1.1
Terna	Electricity grid operator	5,622	0.6
Jiangsu Expressway	Tollroad operator	3,159	0.3
Assura	Primary healthcare property group	2,783	0.3
BBGI Global Infrastructure	PFI/PPP fund	2,678	0.3
Total Infrastructure Equities		**24,179**	**2.6**
Direct Property			
Direct Property	See table below.	**66,750**	**7.1**
Bonds			
Sterling denominated	Paymentsense 8% 2025	2,537	0.3
Euro denominated	Ivory Coast 6.625% 2048	1,285	0.1
US dollar denominated	Netflix 5.375% 2029	5,787	0.6
	Catalent 5% 2027	3,180	0.3
	Tesco 6.15% 2037	2,997	0.3
	First Quantum Minerals 6.875% 2026	1,939	0.2
	First Quantum Minerals 7.5% 2025	1,933	0.2
	Brazil 7.125% 20/01/2037	1,892	0.2
	Dominican Republic 5.875% 30/01/2060	1,653	0.2

	Mexico 5.75% 12/10/2110	1,588	0.2
	Mercadolibre 3.125% 2031	940	0.1
		21,909	2.3
Brazilian real denominated	Brazil CPI Linked 15/05/2045	4,896	0.5
Dominican peso denominated	Dominican Republic 8.9% 15/02/23	1,877	0.2
	Dominican Republic 9.75% 05/06/26	772	0.1
		2,649	0.3
Indonesian rupiah denominated	Indonesia 9% 15/03/2029	3,338	0.4
	Indonesia 7.375% 15/05/2048	2,066	0.2
		5,404	0.6
Mexican peso denominated	Mexico IL 4% 15/11/2040	2,849	0.3
Peruvian sol denominated	Peru 6.15% 12/08/2032	1,911	0.2
Total Bonds		**43,440**	**4.6**
Total Investments		**936,587**	**99.5**
Net Liquid Assets		4,801	0.5
Total Assets (before deduction of borrowings)		**941,388**	**100.0**

Property Portfolio

Location	Type	Tenant	2022 Value £'000	2022 % of total assets	2021 Value £'000
Basingstoke*	Warehouse	G4S Cash Solutions (UK) Limited	–	–	3,000
Biggleswade	Warehouse	Sherwin-Williams UK Limited	6,500	0.7	7,650
Cleethorpes*	Public House	Stonegate Pub Company Limited	–	–	750
Crawley	Petrol Station and Convenience Store	Co-operative Group Holdings (2011) Ltd	3,300	0.4	3,800
Denbigh	Supermarket	Aldi Stores Limited	5,300	0.6	5,750

Earley	Public House	Spirit Pub Company (Managed) Limited	2,700	0.3	2,800
Holyhead†	Hotel	Premier Inn Hotels Limited	6,900	0.7	–
Kenilworth	Nursing Home	Care UK Community Partnerships Limited	5,000	0.5	6,200
Luton*	Public House	Stonegate Pub Company Limited	–	–	2,700
New Romney	Holiday Village	Park Resorts Limited	19,250	2.0	19,000
Newport Pagnell*	Car Showroom	Pendragon Plc	–	–	3,300
Otford	Public House	Spirit Pub Company (Managed) Limited	1,750	0.2	1,850
Pagham	Convenience Store	Co-operative Group Food Limited	1,150	0.1	1,350
Prestatyn	Public House	Stonegate Pub Company Limited	1,100	0.1	1,100
Southend-on-Sea	Warehouse	Booker Limited	9,400	1.0	11,200
Taunton	Bowling Alley	Mitchells & Butlers Retail (No.2) Limited	4,400	0.5	4,450
			66,750	**7.1**	**74,900**

† Purchased during the year.
* Sold during the year.

Notes to the Financial Statements

1. Basis of Accounting

The Financial Statements for the year to 31 December 2022 have been prepared in accordance with FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and on the basis of the accounting policies set out in the Annual Report and Financial Statements for the year ended 31 December 2022.

2.

Income	2022 £’000	2021 £’000
Income from investments		
UK dividends	3,285	4,499
UK interest	360	381
Overseas dividends	19,487	16,004
Overseas interest	2,356	2,175
	25,488	**23,059**
Other income		

Deposit interest	49	2
Rental income	4,475	4,905
Other income	31	14
	4,555	**4,921**
Total income	**30,043**	**27,980**
Total income comprises		
Dividends from financial assets classified at fair value through profit or loss	22,772	20,503
Interest from financial assets designated at fair value through profit or loss	2,716	2,556
Interest from financial assets not at fair value through profit or loss	49	2
Other income not from financial assets	4,506	4,919
	30,043	**27,980**

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. The annual management fee is 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. 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.

4.

Net return per ordinary share	2022 Revenue	2022 Capital	**2022 Total**	2021 Revenue	2021 Capital	**2021 Total**
Net return per ordinary share	**13.82p**	**(51.04p)**	**(37.22p)**	**12.79p**	**79.20p**	**91.99p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £24,345,000 (2021 – £21,820,000) and on 176,207,530 (2021 – 170,652,354) 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 loss for the financial year of £89,926,000 (2021 – net capital gain of £135,165,000), and on 176,207,530 (2021 – 170,652,354) 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	2022	2021	2022 £'000	2021 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 8 April 2022)	3.375p	3.00p	5,937	4,965
First interim (paid 22 June 2022)	3.25p	3.05p	5,730	5,204
Second interim (paid 20 September 2022)	3.40p	3.075p	5,994	5,308
Third interim (paid 16 December 2022)	3.50p	3.175p	6,170	5,561
	13.525p	**12.30p**	**23,831**	**21,038**

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 £24,345,000 (2021 – £21,820,000).

	2022	2021	2022 £'000	2021 £'000
Dividends paid and payable in respect of the year:				
First interim (paid 22 June 2022)	3.25p	3.05p	5,730	5,204
Second interim (paid 20 September 2022)	3.40p	3.075p	5,994	5,308
Third interim (paid 16 December 2022)	3.50p	3.175p	6,170	5,561
Current year's proposed final dividend (payable 13 April 2023)	3.67p	3.375p	6,487	5,937
	13.82p	**12.675p**	**24,381**	**22,010**

6. During the year, the 8% Debenture Stock 2022 ('Debenture Stock') was redeemed at par value on 10 April 2022 and the Company refinanced by issuing £80 million of long-term secured privately placed notes ('loan notes') in two tranches of £40 million both with a fixed coupon of 3.12% and repayment dates of 11 April 2045 and 11 April 2049. In 2021 the Company issued £15 million of loan notes with a fixed coupon of 2.23% and a repayment date of 25 June 2036. At 31 December 2022 the total book value of the loan

notes was £94,714,000 (31 December 2021 – £14,925,000) and the total market value was £65,549,000 (31 December 2021 – £14,922,000). At 31 December 2021 the book value of the Debenture stock was £80,236,000 and the market value was £82,500,000.

7. During the year, 1,150,000 (2021 – 13,005,000) shares were issued at a premium to net asset value raising proceeds of £5,901,000 (2021 – £63,076,000). At 31 December 2022 the Company had authority to buy back 26,367,551 ordinary shares and to allot 16,740,094 ordinary shares without application of pre-emption rights in accordance with the authorities granted at the AGM in April 2022. No shares were bought back during the year.
8. During the year, transaction costs on purchases amounted to £551,000 (2021– £113,000) and £174,000 (2021 – £290,000) respectively. Of the gains on sales during the year of £14,242,000 (2021 – gains of £37,906,000) a net gain of £12,258,000 (2021 – net gain of £14,491,000) was included in investment holding gains at the previous year end.
9.

Analysis of change in net debt	1 January 2022 £'000	Cash flows £'000	Exchange movement £'000	Cost of issuance* £'000	Other non-cash changes £'000	31 December 2022 £'000
Cash and cash equivalents	11,263	(7,271)	192	–	–	4,184
Debenture Stock due in less than one year	(80,236)	80,000	–	–	236	–
Loan notes due in more than one year	(14,925)	(80,000)	–	223	(12)	(94,714)
Total	**(83,898)**	**(7,271)**	**192**	**223**	**224**	**(90,530)**

*Cost of issuance includes carried forward deferred expenses of £207,000.

10. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2021 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the registrar of companies, and those for 2022 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 saints-it.com‡ on or around 3 March 2023.

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 (Borrowings at Book Value)

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

Net Asset Value (Borrowings at Fair Value) (APM)

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

	31 December 2022	31 December 2021
Shareholders' funds (borrowings at book value)	£846,674,000	£930,185,000
Add: book value of borrowings	£94,714,000	£95,161,000
Less: fair value of borrowings	(£65,549,000)	(£97,422,000)
Shareholders' funds (borrowings at fair value)	**£875,839,000**	**£927,924,000**
Shares in issue at year end	176,750,943	175,600,943
Net Asset Value per ordinary share (borrowings at fair value)	**495.5p**	**528.4p**

Premium/(Discount) (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.

	2022 NAV (book)	2022 NAV (fair)	2021 NAV (book)	2021 NAV (fair)
Closing NAV per share	479.0p	495.5p	529.7p	528.4p
Closing share price	508.0p	508.0p	541.0p	541.0p
Premium	**6.1%**	**2.5%**	**2.1%**	**2.4%**

Ongoing Charges (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with borrowings 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 2022	31 December 2021
Investment management fee	£3,920,000	£3,893,000
Other administrative expenses	£1,257,000	£1,252,000
Total expenses (a)	**£5,177,000**	**£5,145,000**

Average daily cum-income net asset value (with borrowings at fair value) (b)	£877,093,000	£826,357,000
Ongoing charges (a) ÷ (b) (expressed as a percentage)	**0.59%**	**0.62%**

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.

		2022 NAV (book)	2022 NAV (fair)	2022 Share price	2021 NAV (book)	2021 NAV (fair)	2021 Share price
Opening NAV per share/share price	(a)	529.7p	528.4p	541.0p	449.7p	446.1p	464.0p
Closing NAV per share/share price	(b)	479.0p	495.5p	508.0p	529.7p	528.4p	541.0p
Dividend adjustment factor*	(c)	1.027330	1.026941	1.027687	1.025486	1.025738	1.024954
Adjusted closing NAV per share/share price	(d = b x c)	492.1p	508.8p	522.1p	543.2p	542.0p	554.5p
Total return	(d ÷ a)-1	**(7.1%)**	**(3.7%)**	**(3.5%)**	**20.8%**	**21.5%**	**19.5%**

* 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/share price 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.

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

	31 December 2022	31 December 2021
Borrowings at book value	£94,714,000	£95,161,000
Shareholders' funds	£846,674,000	£930,185,000
Potential gearing	**11%**	**10%**

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

	31 December 2022	31 December 2021

Borrowings at book value	£94,714,000	£95,161,000
Less: cash and cash equivalents	(£4,184,000)	(£11,263,000)
Less: bond investments	(£43,440,000)	(£48,950,000)
Less: direct property investments	(£66,750,000)	(£74,900,000)
Adjusted borrowings	(£19,660,000)	(£39,952,000)
Shareholders' funds	£846,674,000	£930,185,000
Equity gearing	**(2%)**	**(4%)**

Leverage (APM)

For the purposes of the Alternative Investment Fund Managers (AIFM) Regulations, 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.

Sustainable Finance Disclosure Regulation ('SFDR')

The EU Sustainable Finance Disclosure Regulation ('SFDR') does not have a direct impact in the UK due to Brexit, however, it applies to third-country products marketed in the EU. As The Scottish American Investment Company P.L.C. is marketed in the EU by the AIFM, BG & Co, via the National Private Placement Regime 'NPPR' the following disclosures have been provided to comply with the high-level requirements of SFDR.

The AIFM has adopted Baillie Gifford & Co's Governance and Sustainable Principles and Guidelines as its policy on integration of sustainability risks in investment decisions.

Baillie Gifford & Co's approach to investment is based on identifying and holding high quality growth businesses that enjoy sustainable competitive advantages in their marketplace. To do this it looks beyond current financial performance, undertaking proprietary research to build an in-depth knowledge of an individual company and a view on its long-term prospects.

This includes the consideration of sustainability factors (environmental, social and/or governance matters) which it believes will positively or negatively influence the financial returns of an investment.

More detail on the Managers' approach to sustainability can be found in the Governance and Sustainability Principles and Guidelines document, available publicly on the Baillie Gifford website **(bailliegifford.com).**

Taxonomy Regulation

The Taxonomy Regulation establishes an EU-wide framework of criteria for environmentally sustainable economic activities in respect of six environmental objectives. It builds on the disclosure requirements under SFDR by introducing additional disclosure obligations in respect of alternative investment funds that invest in an economic activity that contributes to an environmental objective.

The Company does not commit to make sustainable investments as defined under SFDR. As such, the underlying investments do not take into account the EU criteria for environmentally sustainable economic activities

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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 **gov.uk/government/publications/exchange-of-information-account-holders**.

‡ 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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