EDINBURGH WORLDWIDE INVESTMENT TRUST

THE FIRST 125 YEARS

BAILLIE GIFFORD

IMPORTANT INFORMATION AND RISK FACTORS

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A Key Information Document for Edinburgh Worldwide Trust plc is available here.

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The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

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

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Annual Past Performance to 31 December Each Year (Net %)

	2017	2018	2019	2020	2021
Edinburgh Worldwide Investment Trust plc	53.7	-3.4	33.5	87.7	-20.9
NAV	35.9	2.5	24.7	85.5	-17.4
MSCI AC World Index	13.5	-9.0	20.4	12.6	16.4

Performance source: Morningstar, S&P, MSCI, total return in sterling.

Past performance is not a guide to future returns.

Front cover image: New York City in the 1890s.
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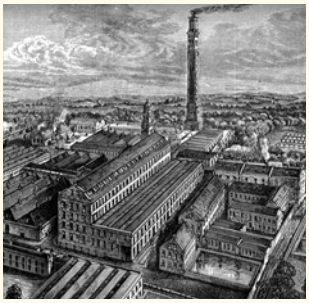
Contents

05
FOREWORD

06
INTRODUCTION

09
PART 1: THE FLEMING ERA



28
PART 2: FROM DUNDEE TO EDINBURGH

41
PART 3: THE BAILLIE GIFFORD YEARS

54
CONCLUSION

56
APPENDIX

Foreword

Investing in entrepreneurial companies means our board and our managers usually face resolutely forwards, asking: What's the next big disruptive technology? What's the next sector to be revolutionised? Which companies stand to benefit the most and create value for our shareholders?

Yet, every now and again, it's important to pause and remember our roots. Our focus on the future would certainly appeal to our founder, Robert Fleming. As investment trust historian John Newlands reminds us in this booklet, Fleming was at the forefront of technological change during the late 19th century. His early investments through The Northern American Trust Company, the trust we know today as Edinburgh Worldwide Investment Trust, focused on the revolutionary technology of his day – the railroads.

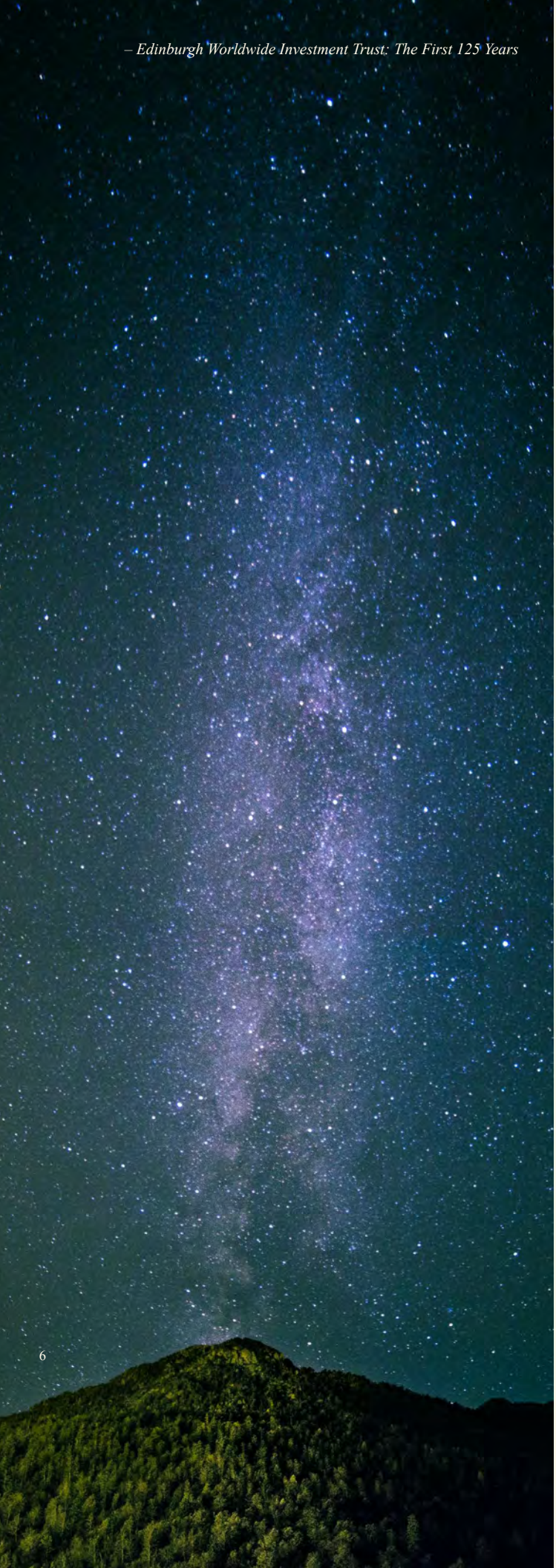
As well as being an early authority on the creation and management of investment trusts, Fleming founded the bank that bore his name. I spent much of my career at Robert Fleming & Co. I was intrigued to read more about his early adventures in his hometown of Dundee.

What links those earliest years to the trust we know today is the meticulous attention paid to primary research – Fleming wasn't afraid to get his boots dirty by visiting the railroads in which he was investing. Likewise our managers at Baillie Gifford are no strangers to visiting and analysing investments and potential investments around the world.

The history of our investment trust is a fascinating tale and one that I hope you will enjoy.

Henry Strutt
Chairman
January 2022

Return to Contents



Introduction

I have been keen to write the history of Edinburgh Worldwide Investment Trust for some time. It was a real thrill to explore its history, which stretched from investment recommendations being cabled directly from the railhead of a 19th-century US track through to the trust's links over decades to the Fleming family, one of whom is best known as the creator of James Bond.

Like many enterprises dating to the Victorian era, the trust has gone through several phases. In the early years, self-management – in which one or more board members would run the investment portfolio themselves – was almost universal. Gradually, the modern arrangement was adopted by virtually all trusts, with a well resourced investment management company selecting and running the portfolio, yet still with full oversight from an independent board of directors.

Return to Contents

Company names tend to change with the times too. What began as The Northern American Trust Company morphed into Dunedin Worldwide Investment Trust and then went on to become the Edinburgh Worldwide Investment Trust we know today. The trust's three main phases of management form the backbone of this booklet.

The Robert Fleming era

The towering influence of this remarkable individual was felt not just at every stage over the trust's first 37 years when Fleming was alive but, under the auspices of the merchant bank he founded, as a source of corporate advice for decades thereafter.

From Dundee to Edinburgh

In 1959, the trust began sharing offices and administrative functions with other trusts connected to Fleming, heralding the start of the management company era. What became known as the Belsize House Group of trusts would flourish under the guidance of its company secretary and later chairman, Donald Marr, a key figure in the history of this trust – and, incidentally, father of former BBC political inquisitor Andrew Marr. In 1985, Belsize House combined with The Edinburgh Investment Trust to create Dunedin Fund Managers, which – during the trust's centenary year in 1996 – was acquired by Edinburgh Fund Managers (EFM).

The Baillie Gifford years

By 2003, the trust had suffered a roller coaster ride. Its assets soared as the millennium approached but it was hindered by its borrowing in the sharp market retreat that followed. With EFM fighting fires of its own and the trust trading at a stubbornly wide discount, it was time to act. Following an external review, Baillie Gifford was appointed to manage the trust.

As an appendix, I have compiled a table listing every board member since 1896. The list is surprisingly short. Even including one or two brief stays in the boardroom, there are only around 40 names spanning the trust's 125-year life.

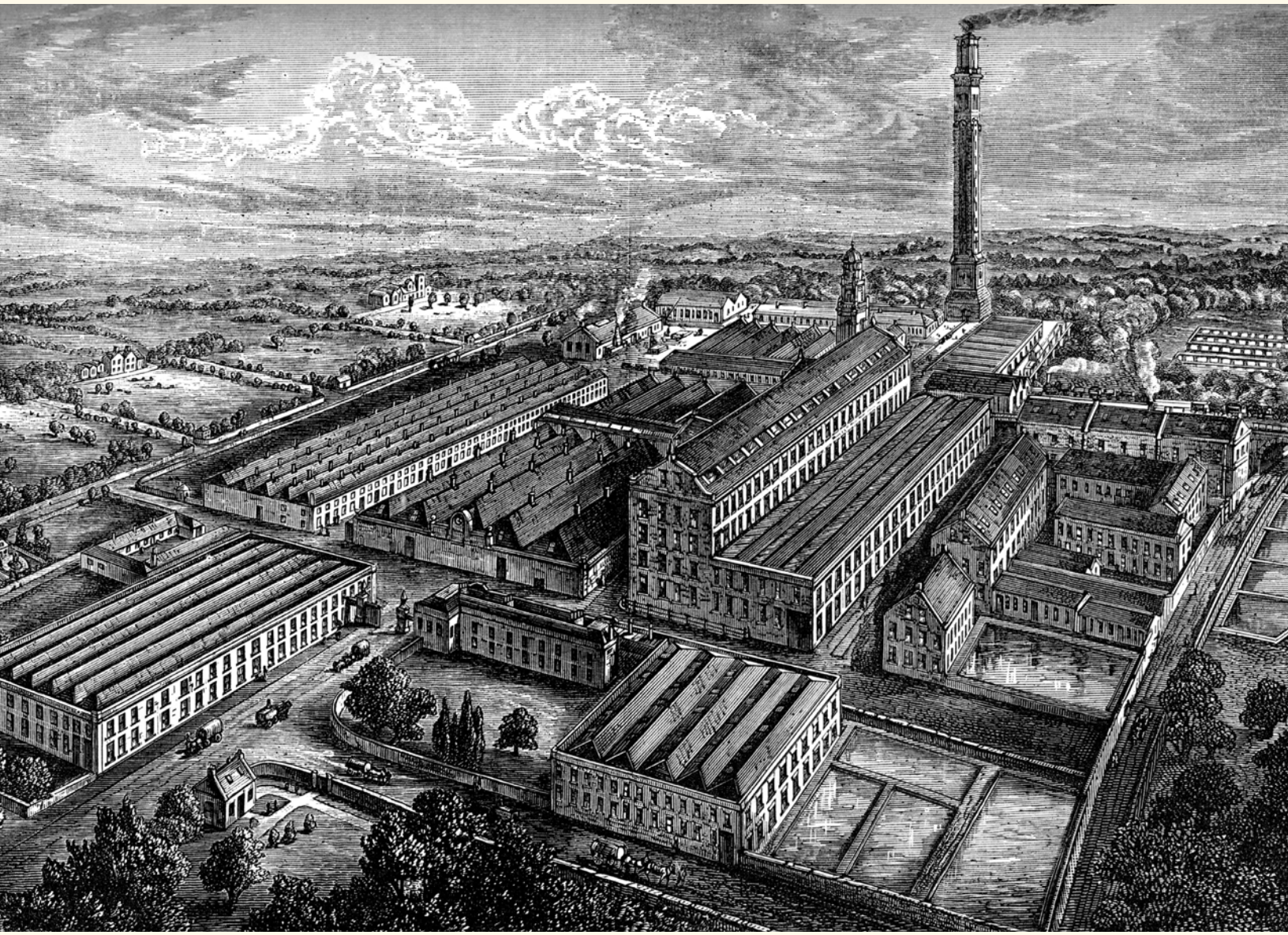
I hope you enjoy reading this brief history as much as I have enjoyed researching it. In that regard, I thank Martin Allen and Sarah Aitken of Dundee City Archives – where the company's early records are deposited – for their help in gaining access, despite the facility being closed owing to the coronavirus pandemic.

Further thanks are due to the production team at Baillie Gifford for turning my ponderous drafts into something more readable. Any errors, on the other hand, are very much my own.

Lastly, I am extremely grateful to the chairman and board of Edinburgh Worldwide and to Baillie Gifford for the opportunity to share the story of a remarkable venture.

John Newlands

Return to Contents



Camperdown Works, Dundee.
© The Print Collector/Alamy Stock Photo.

Part 1: The Fleming era

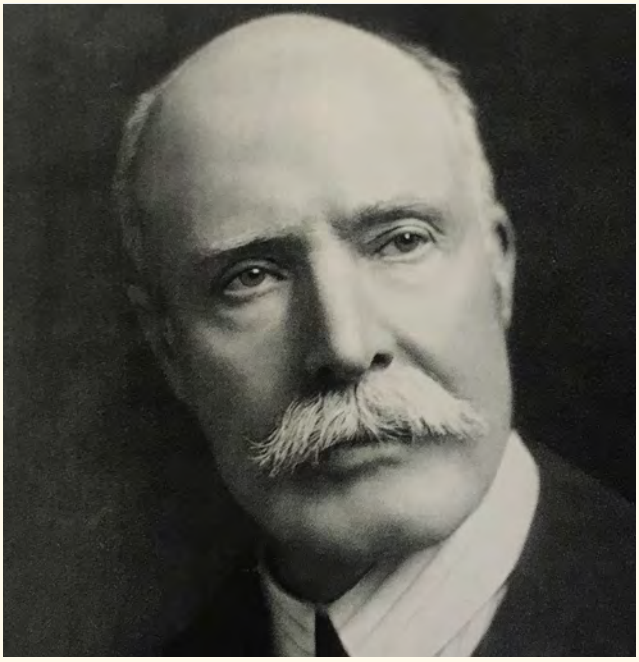
Built on solid foundations

He may have become known as 'Scotland's Dick Whittington', having gone to London and opened the bank that bore his name, but financier Robert Fleming's early successes came in his native Dundee. The city of 'jute, jam, and journalism' was the ideal proving ground for a budding investment manager, with Fleming demonstrating his trustworthiness and winning the approval of Dundee's textile magnates.

The city's 'jute barons' made their money through a truly global trade. Jute fibres arrived from India via Dundee's impressive shipping lines before being treated with oil from its Arctic whaling fleet and turned into heavy-duty textiles exported throughout the world. The jute industry – alongside whaling, shipping, and agriculture – transformed Dundee into one of the wealthiest cities in the British Empire.

Fleming himself came from a poor family, with five of his six siblings dying from diphtheria. Born in 1845, his talent for mathematics meant he left school at 13 to become a messenger boy and began working for the Cox brothers, owners of the city's Camperdown Works, which became the world's largest jute mill. After rising through the ranks, he left to join rival firm Edward Baxter & Son, where he learned about trade and investment in the US.

By the time he published the prospectus on 15 July 1896 for The Northern American Trust Company Limited – known today as Edinburgh Worldwide Investment Trust – Fleming was already a veteran of the investment trust scene. He unveiled his first, The Scottish American Investment Trust, in 1873 and a series of others followed. After weathering the storms caused by the 1893 silver-driven panic and the Barings crisis, Fleming's reputation was running high.



Robert Fleming (1845–1933).
© Fleming Family Archives.

His early trusts had attracted the attention of local jute barons but, as word spread about the success achieved by these meticulously constructed and managed funds, money flowed in from further afield, while Fleming's reputation grew and grew. By the 1890s, as Bill Smith noted in his biography: "Fleming occupied a position of considerable standing in the investment world, not only in Britain but in the US."

Return to Contents

His forte was personal research, focusing on the emerging economy of the US and on railroad bonds in particular. In so doing, he would visit America 64 times over his 50-year working life, cabling back with coded 'buy' and 'sell' recommendations, often sent from the railhead itself.

Despite following in Whittington's footsteps and moving to London in 1890 – two years after he had founded The Investment Trust Corporation in the city – Fleming chose his hometown for the launch of The Northern American Trust. His growing reputation in London and overseas meant his latest trust attracted attention from far and wide.

From his base at 2 Princes Street, opposite the Bank of England, he had rapidly established a position of influence involving underwriting, new issues, directorships, and the London representation of many Scottish trusts. Almost 20 years later, he would form the merchant bank that bore his name.

Back in Dundee, the records suggest colleagues at his earlier trusts were none too pleased by this apparent transfer of allegiance to the capital, it being noted that "owing to frequent absences from Dundee, Mr Fleming wished to be relieved of the routine work attaching to the office of secretary".

A compromise was reached in which the directors of The Scottish American trusts appointed Fleming's erstwhile deputy, Adam Hunter, to carry out day-to-day tasks, while Fleming remained on the books, albeit from a distance, as "advising secretary". Fleming was by now a director of several other investment trusts north of the border. Here too, the prestige surrounding his name was such that it was invariably retained via the use of vague titles such as "special adviser" or "London correspondent". The stage was set for the development of The Northern American Trust.

Reform Street, Dundee, 1896
© Hulton Archive/Getty Images.

Return to Contents

LIFE ASSOCIATION
OF SCOTLAND
TULLO
HAT WARE
COOPER & Co
5

Investors from all walks of life

The Northern American Trust stuck to the same principles as Fleming's earlier funds, although its prospectus did not restrict investment solely to the US. The trust was set up as a limited company, which – although standard practice today – came in contrast to some of the earlier funds formed between 1868 and 1879, which were constructed as legal trusts, hence the use of the term 'investment trusts', still common parlance in the 21st century. The issued capital of his latest venture was larger than previous investment trusts from Dundee and the initial offering of 30,000 shares of £10 was accompanied by a £300,000 issue of 3.5 per cent debenture stock.

The new trust was chaired by the most powerful jute baron of all, Edward Cox, while the other founding directors were Sir William Ogilvy Dalgleish, Alexander Gilroy and Robert Bogle Don. All four were wealthy textile men, albeit described simply in the prospectus as "merchants", while Fleming himself was named "London correspondent". The trust was to be managed from its first offices at 13 Albert Square in the centre of Dundee.

A selection of founding investors in the trust

David Adamson Ironmonger	1 High Street, Blairgowrie	**£250**
Elizabeth Brown Widow	35 Weymouth Street, Portland Place, London W	**£300**
Robert Bogle Don Merchant	Dundee (a founding director of the trust)	**£2000**
Joseph Fairweather Sculptor	37 Nethergate, Dundee	**£100**
David Low Spinner	Royal Exchange Place, Dundee	**£1000**
John Mitchell Editor, Dundee Courier	4 Prospect Place, Dundee	**£40**
Jemima McLean and Margaret McLean Spinsters	Duncarse, Dundee	**£1250**
Andrew Spreull Veterinary Surgeon	Yeaman Shore, Dundee	**£120**
William Spark Photographer	85 Castle Street, Forfar	**£70**
John Watson Distiller	Ballinard, Broughty Ferry	**£3800**
James Williamson Watchmaker	179 Bruntsfield Place, Edinburgh	**£12**
Jane Elizabeth Wright Spinster	Argyle House, Ryde, Isle of Wight	**£150**

Return to Contents

As today, people from many walks of life were attracted to the idea of a diversified, professionally managed investment fund they could trust

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The vast ledgers listing founding investors show that, as today, people from many walks of life were attracted to the idea of a diversified, professionally managed investment fund they could trust. While most subscribers were domiciled in and around Dundee, not all were from wealthy backgrounds. While two 'jute men' – David Low and founding director Robert Bogle Don – subscribed £1,000 and £2,000 respectively, others invested smaller sums. Jemima and Margaret McLean appear to have been well-off spinsters while a local vet, Andrew Spreull, had managed to set aside £120. If this list of examples is any guide then the Dundee traditions of journalism and watchmaking appear to have had little to offer in terms of financial reward. The production of Scotch whisky, on the other hand, seems to have been more lucrative.

The ledgers show that women were by no means a rarity among the investors, with numerous spinsters, widows, and wives listed, many of whom were likely to be seeking a safe and steady income with a better return than what was available elsewhere. But how much were the sums invested really worth?

For example, what was the spending power of veterinary surgeon Spreull's stake of £120? Advertisements in *The Scotsman* newspaper on 15 July 1896, the day the trust's prospectus was published, provide clues. Ten guineas (£10 10s or £10.50 in decimal terms) would pay for a "Swiss tour to Davos and the Oberland, Zermatt, Chamonix, etc, including return tickets via Dover, Calais, and Paris, with lectures by Dr Joseph Parker, Sir Walter Foster, and others".

Meanwhile, three dozen bottles of Sovereign Blend whisky could be purchased from Blanche & Co on Bruntsfield Place in Edinburgh for £5 5s (£5.25), carriage paid. If Spreull had decided not to invest for the long term but instead to stock his drinks cupboard then he would have had to find space for 822 bottles of Scotch, which might cost in the region of £13,000 today.

Return to Contents

Navigating the trust's earliest days

Even though it might mean waiting for the portfolio to take shape, Fleming was determined that only investments of the appropriate quality would be selected. This was one reason why the founding shares of £10 each were offered "part paid", with the initial or down payment being a mere 10 shillings (50p). A further £1 10s (£1.50) was required on allotment of the shares, followed by four payments of £2, the last by 12 March 1897. On the other hand, if investors preferred a simpler approach by paying the whole lot up front then they would receive 2.5 per cent interest on their uninvested cash.

The shares were split into preference shares and ordinary shares in the ratio 60:40 when fully paid. As the prospectus put it, "the preference stock will be entitled to a cumulative preference dividend at the rate of 4 per cent per annum and to a preferential charge as to capital. After making provision for a reserve fund, the ordinary stock will be entitled to the surplus profits."

This was an ingenious but not entirely straightforward arrangement. It had the benefit of offering investors a choice, depending on their appetite for risk, their income needs and their time horizon. The most cautious could buy the debenture stock paying a fixed 3 per cent yield with the least risk of capital loss. Alternatively, they could opt for the preference shares at a higher yield. Although junior to the debenture stock, the 'prefs' still ranked ahead of the ordinary shares in a break-up situation, while a 'cumulative' element meant that should dividends be foregone, for example in wartime, holders were entitled to have past underpayments made good when matters improved.

Finally, the ordinary shareholders bore the greatest risk to capital but would receive the greatest rewards in the event of success; moreover, their financial returns would be enhanced, or 'geared' in the jargon, by the presence of the other two securities.

The launch was well publicised, with the trust's first minute book noting that "the prospectus has been inserted in the *Dundee Advertiser*, *Dundee Courier*, *Glasgow Herald, Scotsman*, *Aberdeen Free Press*, *The Standard*, *The Daily News*, *The Times*, *The Financial News*, and *The Financial Times*". Whether as a result of that publicity campaign or not, the launch was soon fully subscribed and indeed a further £100,000 was raised from shareholders without difficulty two years later.

Immediately after the trust's launch, Fleming went to New York to coordinate the investment of its capital. A board minute notes that cables had been received from him advising the purchase of 19 securities, shortly followed by a further 13. These investments were heavily focused upon the expansion of the railroads and tramways, municipal development, and the surging demand for utilities, including gas, water and power.

Dundee, early 1900s.
© KGPA Ltd/Alamy Stock Photo.

Return to Contents

Notwithstanding the trust's name, while the great majority of investments were indeed made in North America, bonds of sufficient quality were also selected in Mexico and elsewhere in Latin America. Examples of the founding portfolio, which includes a number of evocative names and places, include:

The trust's first investments

£14,600	Pittsburgh & Connellsville 6% Sterling Bonds	@ 112½
$50,000	Mexican Central Bonds	@ 68%
2,000	Galveston Harrisburg & San Antonio 6% Bonds	@ 102½
£4,100	Buenos Ayres Grand National Tramway 5% Pref Debs	@82%
$75,000	Toledo Traction 5% Bonds	@ 92½
125,000	Metropolitan Street Railway of Kansas City 5% Bonds	@ 90
40,000	Duluth South Shore & Atlantic 5% First Mortgage Bonds "plus NY charges for Robert Fleming"	@ 96%
$5,000	Atlantic Avenue NY 5% Improvement Bonds	@ 80
50,000	Denver Union Water Company First Mortgage Gold Bonds	@ 61
23,000	Detroit Gas Company 5% Consolidated Mortgage Gold Bonds	@ 66

While the terminology seems to vary, Fleming would always try to buy bonds at below par: for instance, the Toledo Traction Bonds, which would almost certainly have been issued at a price of 100, but which he was picking up at 92.5. When the bond matured, the face value of 100 would be repaid. He must have had the highest regard for Pittsburgh & Connellsville 6 per cent Sterling Bonds, as he recommended that the board purchase these at a hefty 12.5 per cent premium to their issue price.

The trust prospered from the outset. On 2 December 1898, two and a half years after its launch, the *Dundee Courier* was breathlessly reporting the "phenomenal success" of the flotation of the trust, a result "so great that the directors are now warranted in issuing the final instalment of the capital". A dividend of 5 per cent was declared on the ordinary shares, while the reserve fund, Cox reported, "already stood at a good round sum". Encouraged by this start, the directors continued issuing further shares and debentures over the next 30 years.

The San Francisco earthquake

The first serious test for the trust came in the wake of the 1907 San Francisco earthquake, in which horrendous fires raged for five days, triggering a wave of insurance claims estimated at $255 million, equivalent to many billions of dollars in today's money. The unforeseen consequence of this faraway event was a surge of capital from the UK to the US to settle insurance claims, causing the Bank of England to take defensive measures. These led in turn into a currency crisis and the 'Panic of 1907'.

A year later, back in the more placid surroundings of Lamb's Temperance Hotel in Dundee, Cox was able to tell shareholders that the effects on the company of the "panic of 1907" had been transitory at worst. The previous year's "dark clouds in the sky had to a large extent rolled away", he told them, while the first ever depreciation in the value of their securities had been more than made up during the past year. The portfolio valuation, he added, was "a very safe one, being based on November prices, before the marked advance following on the election of Mr Taft to the presidency of the US".

He ended by suggesting that the directors' objective was to go on increasing the current 10 per cent dividend (relative to par value) on the ordinary shares by 1 percentage point every two years, to which he could foresee no current obstacle – and so it proved, until the assassination of Archduke Franz Ferdinand in Sarajevo set in train a domino effect that snowballed into the first world war.

By December 1913, the investment portfolio – now comprising 250 securities – had a book value of £2,662,779, although the real value was undoubtedly higher owing to the practice at the time of writing down book values at cost price or even to zero, the thinking being that the surplus, or "hidden reserve", could be set aside for a rainy day.

Some 74 per cent of the portfolio was invested in the US, mostly in bonds. The balance was placed rather vaguely in "bonds, debenture stocks, preference guaranteed shares, and ordinary shares of other countries, including Great Britain". A mere 4 per cent of the portfolio was held in ordinary shares.

The dividend, meanwhile, had advanced to a healthy 13 per cent (relative to par value). Revenues were also at record levels, allowing £14,000 to be transferred to the reserve fund.

This robust position was in no small way thanks to Edward Cox, who died that year having been chairman since the trust's formation and who, as his successor, Alexander Gilroy, "had discharged the duties of his office with great ability and unremitting care". Cox's son, James Ernest Cox, replaced his father as a member of the board and would succeed Gilroy as chairman four years later.

War was declared between the UK and Germany on 4 August 1914. The London Stock Exchange had closed on 31 July and did not reopen until 4 January 1915. "We are sorry we cannot give you a valuation of our investments," Gilroy told investors at the end of that year, "but stock exchanges were closed at date of balance … this country has been engaged in the most appalling war ever heard of."

© Popperfoto/Getty Images.

The 1907 San Francisco earthquake, which triggered a currency crisis that tested the trust.
© American Stock/Getty Images.

Return to Contents

The first world war and the roaring twenties

Dundee may have been hundreds of miles from the battlefields of Europe, but the idea that its population was isolated from the carnage was far from the truth. The city's archives show that 30,490 men, or 63 per cent of all eligible males, left to fight for their country and that 4,213 did not return. Practically every home suffered the loss or injury of at least one relative and sometimes more.

The trust's archives show that, of its small number of employees, 25-year-old Charles Couper died in action while serving as a captain in the Black Watch at the Battle of Loos on 25 September 1915, while Private John Hutton was killed in April 1917 while serving in The Argyll and Sutherland Highlanders.

During both world wars, His Majesty's Government called on British companies not just to subscribe to war loans but to deposit dollar securities with the Treasury to release currency to buy vital supplies and munitions. By the end of 1916, the trust had complied with these measures such that some 54 per cent of its portfolio was either on loan to the Treasury or invested in British government securities. "We will not hesitate," Gilroy said, "to increase these figures if necessary."

Captain Charles Couper.
© Imperial War Museum (HU 120431).

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By the end of 1918, Ernest Cox, having served his apprenticeship in the boardroom, was firmly in the chair. There were times, he told shareholders, when the directors had misgivings as to their ability to maintain the 13 per cent dividend, and twice they had paid a lower interim dividend but, on both occasions, they were able to make up the shortfall at the end of the financial year. Holders of the trust's preference shares and debenture stock had been unwaveringly paid in full throughout the war.

In 1914 and 1915 it had been impossible to value the trust's assets, Cox said, while depreciation of 5 per cent and 16 per cent had been recorded in 1916 and 1917. The pendulum did not always swing in the one direction though, "and today they had an appreciation of £102,000 over last year".

Finally, he said that the Trust had emerged from the war with 52 per cent of its assets in the US, while of the balance – he noted not entirely reassuringly – only 5.5 per cent was invested in countries "under the cloud of anarchy, Bolshevism or kindred retrograde agencies … even if we include Mexico".

The early inter-war years proved difficult, with the country's finances in disarray, high unemployment, and industrial unrest. As Ernest Cox starkly reminded investors in 1921: "The only sound doctrine, that of production, to the utmost extent, had been thrown aside. Fortunately, these troubles were not confined to the shores of these islands, or their plight would indeed be great. The nation that first realised that wealth could not be accumulated but by hard work would have a big pull over her competitors."

Gradually matters improved, and the economy grew away once more. By the middle of the 1920s, although the portfolio had substantially been rebuilt – including a capital expansion via the issue of 25,000 shares of £10 in 1924 – the percentage of the portfolio invested in the US had fallen to as little as 22 per cent. A strengthening dollar made fresh investment difficult while, Ernest Cox told shareholders, "American income tax is making itself felt". Despite this headwind, the portfolio included 450 separate investments, of which ordinary shares made up some 14 per cent.

Return to Contents

© Barbara Singer/Getty Images.

Belying its name, at this point the trust's holdings were spread globally, not to mention being diversified by industry and asset class. Still being significantly steered by Robert Fleming & Co, the portfolio ranged from The African Eastern Trade Company and Scottish Power Limited 6 per cent cumulative preference shares through to the ordinary shares of Lever Brothers (now Unilever), The Oriental Telephone & Electric Company, and Portland Cement.

The dividend on the trust's ordinary shares, which had been frozen since 1913, was increased in 1922 to a new high of 14 per cent. "From then on," Ernest Cox reported in 1928, "instead of 1 per cent additional every alternative year as we intended (before the first world war) we have, without forgetting liberal contributions to the reserve fund, made this an annual event … we have made up the leeway."

By early 1929, not only had the twenties begun to roar in terms of stock prices on both sides of the Atlantic, but a UK investment trust boom had developed, in which 78 trusts were launched between 1926 and 1929. Less reliable investment trusts also became popular in the US and contributed to the looming Wall Street Crash.

Return to Contents

"The whole world went wrong at the same time"

Tough times during the Great Depression.
© Hulton Archive/Getty Images.

The Wall Street Crash and the Great Depression

On 5 September 1929, Roger Babson – a speaker at the US National Business Conference – predicted that a terrific crash was coming. Though press and industry commentators rushed to dissociate themselves from such pessimism, a wave of selling was triggered so severe that the Dow Jones Industrial Average – which had touched 386 in the summer of 1929 – had plunged to a mere 41 by 1932. Ironically, the crash was caused at least in part by the soaring success of US investment trusts, albeit hugely leveraged ones that bore more resemblance to pyramid schemes than to the cautiously constructed UK vehicles that bore the same name.

In the months before the crash, The Northern American Trust continued to thrive, with both revenues and declared total assets reaching fresh peaks, the latter figure approaching but not quite breaking the £5m barrier before markets turned. The trust by now had 658 holdings, as ever diversified across bonds, UK government gilts, debentures, loans, and preference shares, while exposure to ordinary shares had reached 20 per cent, only a quarter of which were invested in the US. Although this defensive positioning provided a hefty measure of insulation from events on the other side of the Atlantic, a global recession was set in train that, as historian George Glasgow has pointed out, "temporarily defeated the distribution of risk principle… the whole world went wrong at the same time".

The concept of a transparent net asset value (NAV) per share being made available to shareholders had not yet gained traction across the sector and indeed was considered unwise on the basis that its fluctuations would unsettle investors. Such disclosure was eventually made compulsory by the 1948 Companies Act.

A look through the opaque reporting systems of the day is required to work out how badly the trust actually fared during the worst of the depression years. In 1929, the accounts report an appreciation of £584,000 over the assets' book cost, while no figure is given for the "inner reserve", or written-down capital values, which virtually all boards kept to themselves.

Portfolio transactions carried on in the meantime, complicating matters a little. However, by 1933 the accounts had swung the other way, showing a depreciation of £512,000 against an updated book cost of £4.1m. This suggests a true decline in NAV of around £1.1m, or perhaps 25 per cent, against a total value of somewhat more than £4m.

Finally, to confuse matters still further, the 1933 accounts lifted at least a partial veil over the true position, revealing the trust had an undeclared inner reserve of £930,000 all along. Small wonder, then, that cautiously managed investment trusts have succeeded, time and again, in surviving the worst that history can throw at them and grow again thereafter. This example also implies, incidentally, that many of the well established investment trusts had put away reserves so substantial that their ordinary shares were trading at very wide discounts to their underlying asset value, even though few if any realised it at the time.

The dividend, which had reached 21 per cent by 1929, was reduced further from 19 per cent to 15 per cent in 1934, with the board refusing to carry forward (or dip into future revenues) because "in the history of the company this had never been done, and it was certainly not a good practice". Overall, Ernest Cox reported "an improving tendency of capital values despite the continued decline of revenue". The investment portfolio, in short, was showing early signs of a gradual recovery, which continued until the outbreak of war in September 1939.

Return to Contents

The death of Robert Fleming

Fleming died at the age of 88 on 31 July 1933, shortly after reaching the family estate at Black Mount near Bridge of Orchy, Argyll. He was by now so well known in financial circles that *The New York Times* of 2 August 1933 carried the banner headline: "Robert Fleming, Financier, Dead".

He never forgot his roots. Among many bequests to the city of Dundee and its university college over the years, he financed the Fleming Trust Housing Scheme, which paid for the building of 500 homes to replace Dundee's slums.

The trust's founder had maintained a keen interest in financial matters to the end. As late as 1931, Ernest Cox was still telling investors in Dundee how reassuring it was to the board that "Mr Fleming, sitting in London, was advising them about new issues and about some of the holdings they had".

In the year after Fleming's death, the board nominated a fund manager for the first time. Given that the portfolio now contained no fewer than 826 investments, such a move was probably long overdue. "I have pleasure in introducing Mr R S L Macpherson," Ernest Cox told the 1934 annual general meeting, "a chartered accountant with wide experience of business and business problems, to carry out the duties of manager and chief executive officer." Robert Macpherson would go on to become a key figure in the company's history, joining the board in 1936 and serving as chairman from 1947 until 1969.

The age of the equity had now dawned, partly because of the onset of inflation and partly because of tax changes that increased the attractions of franked – or already taxed – income from company dividends, as opposed to the unfranked income from bonds and other fixed-income investments. The percentage of assets allocated to ordinary stocks, which had been less than 20 per cent at the start of the decade, grew to 29 per cent by 1936 and to 47 per cent by the summer of 1939, with 27 per cent of the overall portfolio invested in the US.

Capital values had improved marginally too, as the depression was left behind. By 1938, total assets were in the region of £4m, while annual dividends had steadied at 15 per cent. The company's fortunes were on the up, only to be stopped in their tracks by the next great challenge: the fight against fascism.

Return to Contents

The second world war

From the declaration of hostilities on 3 September 1939, Dundee was very much a city at war, with the civilian population required to carry gas masks, take air raid precautions and enforce a strict blackout at night. The combination of the city's docks, which became an active submarine base, and the many Royal Air Force stations dotted across nearby Fife and Perthshire made the area a prime target for enemy bombing. Before air defences were strengthened, some Luftwaffe raids did get through, the most serious on 5 November 1940, during which eight bombs landed on the city, one less than a mile from the trust's offices at Fairfield House, into which it had moved in the late 1930s.

While AGMs continued to be held in Dundee throughout the conflict, arrangements were put in place for office staff to operate principally from Baldovan House in Strathmartine, a village to the north of the city, with the necessary space being rented for £300 a year. Under some fairly strict terms, company use was limited to "the library, smoking room, beer cellar (under reservation of the latter by members of Sir Herbert's staff as an air raid shelter) and gentlemen's cloakroom on the ground floor; the drawing room and porch room on the first floor, and the use of a lavatory for ladies … all costs to be borne by the company including the provision of extra electrical cables if necessary for the addressograph machines".

© Barbara Singer/Getty Images.

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Before the start of the 18 May 1942 board meeting, Macpherson – in his role as what would now be called senior independent director – paid tribute to Ernest Cox, who that day would complete exactly 25 years as chairman, and who had "won the admiration and gratitude of his colleagues on the board … who asked him to accept a gold cigarette case as a token of the very high regard in which he is held by them".

Ernest Cox had become a director before the outbreak of the first world war and would remain in post as chairman at the end of the second. Although such a situation is less likely under today's corporate governance practices, this continuity and experience proved invaluable as various measures – such as the dollar requisition schemes and government war loan issues – that had applied during the first world war were dusted off and used again during the latter conflict.

Return to Contents

The trust had survived another major test and stood ready to thrive again

By 1943, it was being reported that "the revenue figures show wonderful stability… £5,000 has again been transferred to the contingency fund. The past year has not been without its difficulties, chiefly on account of the cheapness of money… but I see nothing which calls for comment". The dividend was being held at 15 per cent, for the eighth year in a row, "until this orgy of destruction of life and property is ended".

A year later, with the end of the war in sight, a sharp appreciation in the value of the trust's portfolio was reported, although, as always, few specifics were given. By the end of 1945, with peace restored at last, "further considerable appreciation" had undoubtedly lifted the true portfolio value to safely in excess of its book figure of some £3.7m. The trust had survived another major test and stood ready to thrive again as and when the recovery took place. Before then – with the country in a parlous financial state, the looming threat of widespread nationalisation, and a 'dollar gap' requiring strict exchange controls – there were some difficult years ahead.

Return to Contents

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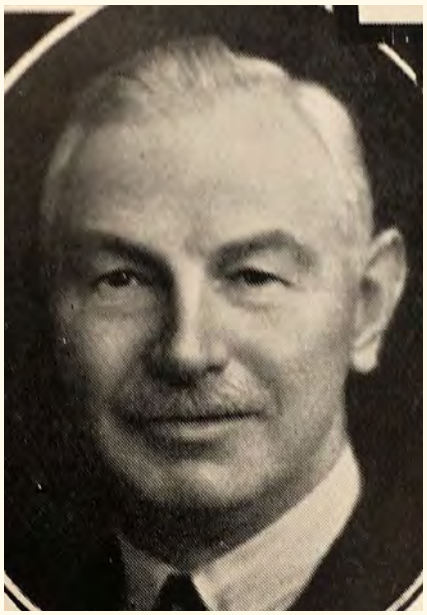
The Cox era closes and Suez looms

On 14 June 1947, *The Scotsman* announced that Ernest Cox was to retire at last, having been simultaneously chairman of not just Northern American but all three Scottish American trusts and of his family's investment vehicle, The Camperdown Trust. Macpherson took over as chairman, in addition to retaining his role of investment manager. The incoming chairman said his predecessor "had ensured they had bought nothing but first-grade stocks, and the fixed-interest portfolio was in first class condition … we shall miss his wise counsel and kindly personality".

The vacancy on the board was filled by the Earl of Airlie who, among other achievements, had been a trainbearer to Queen Mary at the 1911 coronation and was awarded the Military Cross in the first world war.

While the investment portfolio may indeed have been replete with first-class stocks, it is still barely conceivable that, in the early 1950s, the total number of securities had gone through the 1,000 barrier, every single one of them held in certificated (hard copy) form. Investments were still heavily weighted towards the UK (66 per cent), with 24 per cent in the US, 8 per cent in "the remainder of the British Commonwealth", and the small balance elsewhere.

The task of carefully recording the trust's administrative affairs, including the physical records of the vast investment portfolio, lay in the hands of the company secretary, Lewis Christie, who retired – presumably for a good rest – in October 1953, having joined the company in 1902. "His unsparing efforts," Macpherson said, "deserve special mention."



Dr James Ernest Cox. He served as chairman from 1918 until 1947.

© Dundee City Archives.

The annual report of that year shows that, in some respects, the pre-1948 Companies Act terminology was still being used, for instance, in quoting that year's dividend as equivalent to 21 per cent of par value. At the same time, modern phraseology had crept in, to the extent that Macpherson indicated in his remarks that "the yield on the book cost of our investments is 6.9 per cent, and on the market value the yield is 5.4 per cent". A further taboo would be swept way when the 1955 annual report carried a list of the investment portfolio for the first time, placed in an accompanying leaflet running to 38 pages of closely spaced text.

The age of the equity had well and truly dawned, with ordinary shares now making up more than 62 per cent of total assets, up some 2 percentage points from the previous year, and clearly rising as the austerity years were left behind. By 1963, equities exposure had risen to more than 91 per cent, of which 57 per cent was now invested in the UK, 41 per cent in North America and a tiny percentage elsewhere.

Examples of equity investments dating to this period included the Anglo-Persian Oil Company (later British Petroleum), Caterpillar Tractor Company, Marks & Spencer and even what appears to be a bonus share issue form of "an allotment of £1,000, credited as fully paid, of Scottish Mortgage and Trust ordinary stock".

The decade that followed was an immensely profitable time for many investment trusts, during which quality equities sometimes yielded more than the interest rates at which the money to buy them could be borrowed. As chairman Donald Marr fondly recalled many years later: "The equities yielded more than the interest cost, which was fixed, and you actually gained a growth in income from investing in equities." The result, when trusts were often still carrying eye-watering levels of gearing originally put in place for the less volatile fixed-income era, could lead to a multiplication of asset values as economies and industries returned to growth.

In the case of the Northern American, which continued to employ hefty gearing throughout the 1950s and 1960s, the expansion of its asset base was rapid, with the only significant interruption occurring in the form of the 1956–57 Suez Crisis, which took the UK to the brink of war with Egypt and caused turmoil for the wider financial markets.

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The crisis was among the most serious flashpoints of the Cold War. At one point, Soviet leader Nikita Khrushchev threatened to rain down nuclear missiles on Western Europe if the Israeli-French-British force did not withdraw from the Suez Canal Zone. Yet the immensity of the situation was not conveyed in the trust's 1956 annual report, which merely mentioned that "valuations reached their lowest level for some time owing to the critical position in the Middle East".

Total assets exceeded £10m for the first time in 1959, a particularly strong year in which, as expressed in the arcane terminology of the time, "the valuation of investments shows an appreciation of 105 per cent over the book cost, compared to the previous year's adjusted percentage of 60 per cent".

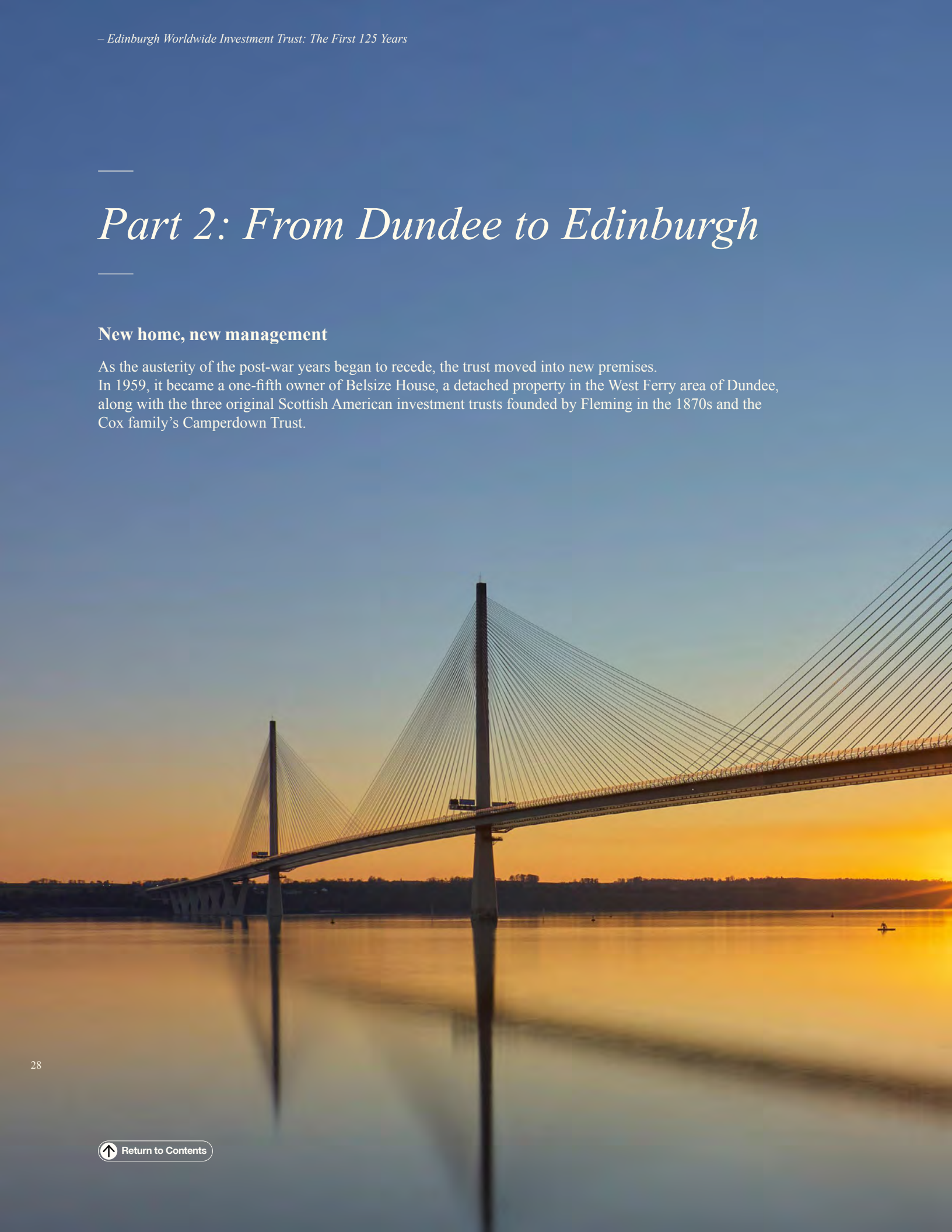
Referring to the complex and strict exchange controls that hampered overseas investments for decades after the second world war, the same report continued: "The London premium on US and Canadian dollar investments has been ignored as before." Freedom of overseas investment would not be fully restored until the election of the Conservative government under Margaret Thatcher in 1979.

Return to Contents

Part 2: From Dundee to Edinburgh

New home, new management

As the austerity of the post-war years began to recede, the trust moved into new premises. In 1959, it became a one-fifth owner of Belsize House, a detached property in the West Ferry area of Dundee, along with the three original Scottish American investment trusts founded by Fleming in the 1870s and the Cox family's Camperdown Trust.



Return to Contents

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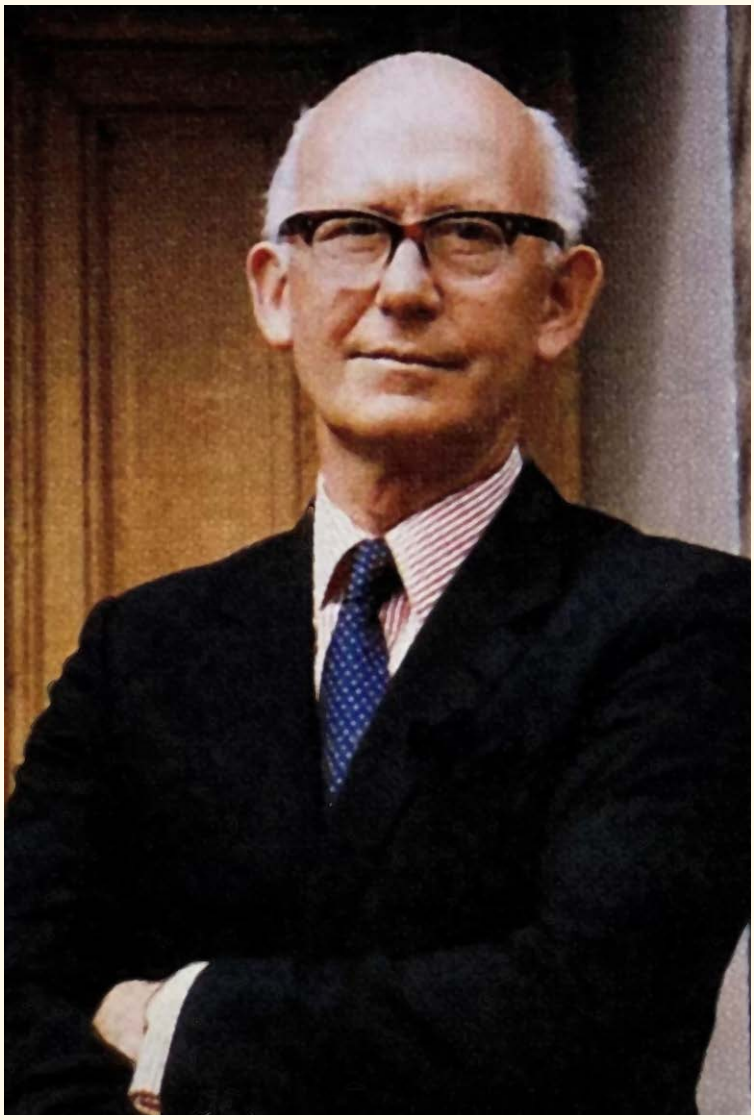
Return to Contents

The purchase of Belsize House was almost certainly initiated by Marr, who had taken over as company secretary in 1958 and who would become the figurehead of what was soon known as the Belsize House Group. The building itself, including all necessary alterations, cost each trust £3,060, plus £1,114 for furnishings and office equipment.

By 1964, the trust's gross assets had grown to £15.8m, while the dividends paid to ordinary shareholders, adjusted for capital changes and bonus issues, had been increased every year since the end of the Suez crisis. The following year, the underlying NAV per share was quoted in the accounts for the first time, allowing long-term asset performance to be more readily assessed. On 1 November 1965, the break-up value per £1 ordinary stock unit was listed as 62 shillings and eightpence, having been 23 shillings 10 years earlier.

These figures were no small tribute to Macpherson, who stepped down from the position of investment manager in 1965 after 31 years, "before which", he said, "the company was managed by a small merchant bank". Whether the corporate dynasty that Robert Fleming & Co had become, with peak assets under management of £89bn, ever learned of this downbeat description of itself is not recorded, though it seems likely, given two members of the said family would join the Northern American board within the next 15 years.



Donald Marr.
© Company Archives, The Northern American Trust PLC.

The management of the portfolio now became the joint responsibility of Marr and his colleague Alex Aitkenhead. Macpherson was not off the hook though, staying on as chairman until 1969, at which point he was succeeded by Sir John Ure Primrose, a businessman and former Lord Provost of Perth, who had joined the board in 1961. The other members of the four-strong board at this stage were Lord Inchyra, former permanent secretary at the Foreign Office, and another future chairman, Ivor Guild, a partner at law firm Shepherd & Wedderburn.

As the new managerial arrangements settled down, the two managers, the board, and indeed the shareholders would have much to concern them lying ahead, with – among other worries – the devastating effects of the 1965 Finance Act, the 1970s oil wars, and the bear markets of 1969–70 and 1973–74.

Return to Contents

The 1965 Finance Act

Introduced by Harold Wilson's incoming Labour administration, the 1965 Finance Act contained measures that hit the investment trust sector hard, whether or not it had been the target of the legislation. "As to the recent budget," Macpherson said, "companies such as ours have been harshly dealt with, in regard to double tax relief, the taxation of capital gains, and the tax of 25 per cent on the premium on switching or sale of dollar securities – the budget is really an attack on all investors."

The new rules for calculating capital gains tax (CGT), required for every single portfolio transaction, proved a nightmare, for instance involving multiplication and division of sums such as £31 13s 10½d, in the pre-electronic calculator era. Apart from being unfair to investors, who were also liable to tax on their overall portfolios, the system had the effect of hampering the efficient day-to-day management of investment trusts. A concession was eventually granted in which vouchers showing CGT already paid, or 'soup tickets', could be used to avoid double taxation. What nobody factored in at the time was that, when shareholders wanted cash, it created the incentive to sell their investment trust shares first, with the effect of widening discounts.

In an oblique reference to Ray Bradbury's dystopian novel *Fahrenheit 451*, the stock exchange historian George Blakey has described the problems confronting the new Labour government in 1966 as "the disparity between wage rises running at 9 per cent, price increases at 5 per cent, and productivity gains at 1 per cent", a situation he dubbed "Fahrenheit 951 – the temperature at which economies burst into flames". The 1966 budget sought to address these problems by imposing restrictions on wages, prices and dividends, while the pound was devalued the following year from $2.80 to $2.40 as a counter to the trade deficit and a weak domestic economy.

Perversely, the immediate impact on the trust was positive. To begin with, revenues went up in 1966 because many portfolio companies paid their dividends early, before the new act took effect. Secondly, now that dollar premium transactions were to be taxed, the board reversed its previous policy of ignoring the value of the said premium and instead wrote back 75 per cent, or the after-tax value, creating a modest uplift to the balance sheet.

By late 1968, with total assets now at a new peak of £24.5m, Macpherson – in what would turn out to be his final address to shareholders – told them in less than optimistic terms: "The year since devaluation has been a difficult one … [while] the continuing inability of the government to control inflation, and the threat to production posed by unofficial strike action, are still major problems."

Prime Minister Harold Wilson and Chancellor James Callaghan © Popperfoto/Getty Images.

Return to Contents

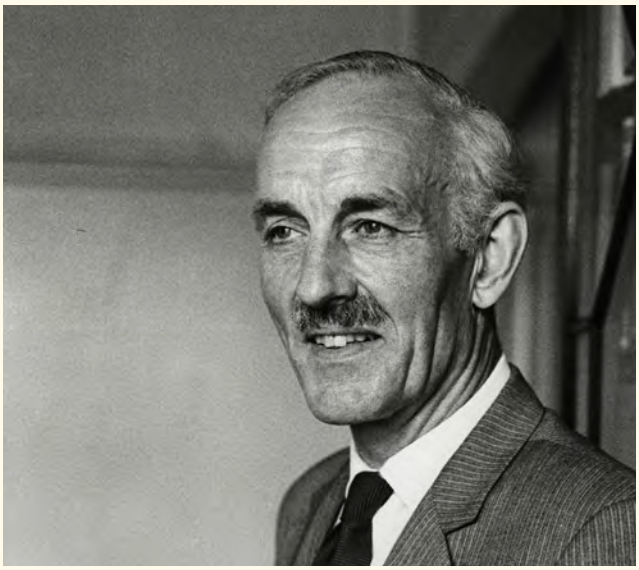
The return of the Flemings and merger with Camperdown

Also in 1968, the Fleming family became represented on the board once more with the appointment of Richard Evelyn Fleming, the chairman of Robert Fleming & Co, succeeding Lord Inchyra, who retired that year. Richard was the grandson of Robert and a brother of James Bond creator Ian Fleming. During his war service, Richard was described by his men as a fitness fanatic, taking them on long route marches. He won an MC in 1944 while attached to the Seaforth Highlanders.

The following year, Macpherson stood down from the board on medical advice. The new chairman, Sir John Ure Primrose, saluted his predecessor, "whose association with the company extended to over 35 years … we pay tribute to his outstanding record".

In 1969, the decision was made to merge the now 73-year-old Northern American Trust with the Camperdown Trust to achieve economies of scale and to share the increased administrative burden that investment trusts were facing, not to mention the ever more complex tax environment. The opportunity was taken at the same time to adjust the investment objective so as "to concentrate our investments in areas which seem to us to have the best prospects for above average growth of earnings … this involves accepting a lower rate of income immediately receivable from those investments, although this should be offset by a faster rate of capital growth and in due course of revenue growth".

The scheme of arrangement and amalgamation became operative on 13 January 1970. At this point, despite a fall of some 27 per cent in the UK's then benchmark FT-30 index during 1969, the merged trust – still known as The Northern American Trust Company Limited – began the next phase of its life with total assets of £29m, or £23.9m in net asset terms.



Richard Evelyn Fleming MC.
© National Portrait Gallery, London.

The biggest portfolio holdings, notably replete with blue chip companies on both sides of the Atlantic following the merger, were:

Ten largest portfolio holdings as at 1 November 1970

		% of total investments
1	Marks & Spencer	3.0
2	Shell Transport & Trading	2.0
3	Royal Bank of Canada	1.3
4	American Home Products	1.3
5	Toronto Dominion Bank	1.2
6	Bank of Nova Scotia	1.2
7	Boots Pure Drug	1.1
8	Bristol-Myers	1.1
9	Imperial Chemical Industries	1.0
10	General Electric	1.0
Total percentage invested in top 10:		14.2

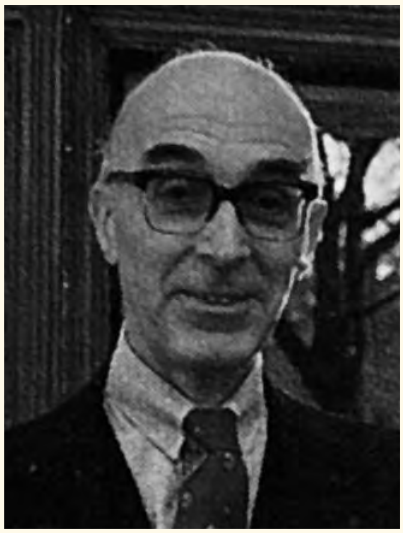
There were now 313 portfolio holdings, three times fewer than 15 years previously. Equities now represented 92.3 per cent of total assets, divided mainly between the UK (50 per cent), the US (33 per cent), and Canada (8 per cent).

Return to Contents

Portrait of Lord Provost Sir John Ure Primrose of Perth 1945–54. Chairman of the trust between 1969 and 1973.
© Perth & Kinross Museum & Art Gallery.

Guild's baptism of fire

Volatile markets lay ahead, involving further falls in 1970 and early 1971, before UK tax cuts and an improving Wall Street stimulated a recovery that took the FT-30 to a new high. This proved to be the calm before the real storm, however. A combination of industrial unrest, rising interest rates, the 1973 oil crisis, and the Arab-Israeli war generated what the veteran Scottish investment trust analyst Hamish Buchan, who began his financial career amid the turmoil, described as "one of the severest and longest bear markets in living memory".



Ivor Guild.
© Company Archives, The Northern American Trust PLC.

Primrose retired in 1973, saying at the AGM that he was "glad to think that the company has prospered during my time as chairman. My colleagues have unanimously elected Mr Ivor R. Guild, to succeed me."

Given the timing, Guild faced a baptism of fire. Never a man of flamboyant habit or of excessive loquacity, as share prices temporarily but sharply dived south he calmly summarised the situation thus: "Inflation has continued at an ever-increasing rate… and there has been a dramatic fall in share prices … however, when better conditions prevail, shares in investment trusts should react to an extent proportionate to the fall."

City legend tells that the financial markets rebounded after Prudential, one of the UK's largest investing institutions, held a lunch at its Holborn headquarters in early 1975. "These falls," the insurer's spokesman said, "have gone too far. With the FT-30 yielding 13 per cent and selling on a price/earnings ratio of 3.8, I don't know about you, but we are starting to buy."

Whether this story is apocryphal or not, the recovery was dramatic when it came, leaving those who had opted to sell and stay in cash missing the boat. Over the 12 months to 1 November 1975 alone, the trust's share price surged by no less than 82 per cent, while the NAV rose by 69 per cent.

As a series of good years followed, Guild's advice to steer on through the storm – if necessary lashed to the wheel – proved correct. By the end of the decade, the trust – still heavily focused on UK, US, and Canadian equities throughout – had made up all its losses dating to the truly terrible early 1970s, passing the £50m barrier for the first time in 1978.

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Return to Contents

Return to Contents

The 1980s: a new dawn

After the 1979 general election in which the Conservatives returned to power, the top rate of income tax was reduced from 83 per cent to 60 per cent and the basic rate from 33 per cent to 30 per cent, personal tax allowances were raised, and foreign exchange controls – some dating to the aftermath of the second world war – were removed.

The Japanese economic boom of the 1980s.
© Gamma-Rapho/Getty Images.

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For many investment trusts, while some dollar holdings had been sold in anticipation of a legislative change, this meant accepting a one-off hit as the investment currency premium lost its value. In the case of the Northern American, with substantial dollar-denominated holdings, this involved significant short-term pain as it meant the disappearance at a stroke of £5m from the balance sheet of what was then a £53m trust. With hindsight, might this have been avoidable, given that the Conservatives' plans must have been known in advance, at least in outline?

Either way, Guild stressed the positives of the development, saying: "The ability to invest throughout the world without premium will give your managers freedom to invest in areas such as Australia and the Far East, as well as in the Americas, where larger or faster-growing economies, fewer labour problems, or greater development potential promise higher profits."

This prediction would soon prove correct as the Japanese market in particular entered a phase of explosive growth, during which the trust's investments in the country grew to almost a third of its portfolio. Early investments in Japan included Daiwa House, Fuji Heavy Industries, Sony, and – perhaps less obvious – Yamazaki Baking.

By the first half of the 1980s, the board consisted of chairman Guild plus directors Marr, Aitkenhead – who retired from his dual role as joint manager and secretary at the end of 1980 – and George Simpson, the chairman of General Accident Fire & Life Assurance Corporation, who had been appointed in 1975.

Valentine Fleming, executive director of Robert Fleming Holdings, became a director in 1979, taking up the mantle of Richard, who had died suddenly in 1977 and, said Guild that year, whose "great charm and his advice, based upon wide experience, will be sadly missed".

As the 1980s progressed, the trust's portfolio became far more internationally spread as major stock markets gained ground. By 1985, the portfolio – geared largely by US dollar loans of $10m – had some 35 per cent invested in the US, 25 per cent in Japan, 20 per cent in the UK, and the same percentage in continental Europe.

Return to Contents

Dundee no more

The formation of Dunedin Fund Managers stemmed from a conversation held in the Plaza Hotel in New York between Marr and Grant Cochrane, manager of The Edinburgh Investment Trust, of which Guild was also the chairman. “Dunedin” began as a code word for the project, being an amalgam of Dundee and Edinburgh, but soon became adopted as the name of the merged management company. Dunedin is also the ancient name for Edinburgh, taken from its 5th century Celtic title ‘Din Eidyn’, a dun or hill fort associated with the kingdom of the Gododdin.

The merger took effect from 1 February 1985. The aim, Guild noted, was “to obtain a greater depth of management and a larger research base than at present, so that the company might have the best possible sources of information”. In the boardroom, Aitkenhead retired following the 1985 AGM, after more than 30 years’ service in various capacities, being replaced by the Earl of Eglinton and Winton, the deputy chairman of City discount house Gerrard & National.

The management of the investment portfolio was now conducted from what had been The Edinburgh Investment Trust’s offices at 3 Charlotte Square in the Scottish capital. Client administration was initially still carried out 60 miles away in Dundee, via a computer link to Belsize House. Eventually, new premises were identified in Ravelston Terrace, on the western edge of Edinburgh’s city centre, which were refurbished and renamed Dunedin House.

The trust’s portfolio was now being run by a team at Dunedin led by Marr, who was still a director at this time, and his assistant, Brian Aitken. In the autumn of 1987, the small group was just settling into its new offices when that year’s “Great Storm” turned into the 1987 stock market crash.

Return to Contents

Prime Minister Margaret Thatcher visits the London Stock Exchange.
© Hulton Archive/Getty Images.

From the Great Storm to Black Monday

In the first week of October 1987, US prime rates were suddenly increased from 8.75 per cent to 9.25 per cent. Then, in echoes of the run-up to the 1929 Wall Street Crash, US analysts Elaine Garzarelli of Lehman Brothers and Robert Prechter, the latter a follower of the arcane 'Elliot Wave' theory, separately put out strong warning signals about a fall in the market.

On Friday 16 October, the morning after a hurricane had raged across southern England, the US prime rate was raised again to 9.75 per cent and the Dow was still falling. With phone lines down and road and rail transport in chaos, many City workers could neither get to their desks nor, without one of the brick-sized mobile phones then owned only by a privileged few, even call their office.

Massive selling pressure built up over the weekend. On Monday 19 October, the FTSE 100 fell by a record 249 points and by virtually the same again the next day. But the title 'Black Monday' refers to the even sharper fall on Wall Street that day when the Dow Jones Industrial Average dropped by almost 22 per cent.

The recovery, when it came, was not only swift but had enough momentum to allow major markets to resume their upward trend. In the end, though 1987 was a year marked by extreme volatility, the valuation of world shares was little different at its end than at its beginning. As the Scottish investment expert and raconteur Robin Angus quipped, 1987 had been "a year of illusory gains – as insubstantial as froth, steam, or support for the Conservative party in Scotland".

As for the trust, it began the 1980s with £47m of gross assets, or £38m in net asset terms, rising by 1 November 1989 to £230m and £208m respectively. Over the same period the dividend gradually rose from 4p to 7.5p.

Return to Contents

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The Gulf War and a slowing economy

By late 1989, Guild was on the one hand celebrating the fact that the trust's NAV had grown more than five times over the previous 10 years but, on the other, saying: "A shadow falls over the British economy… but, with the major part of the portfolio invested overseas, there is a protection against a fall in sterling and a recession in Britain."

This reference to the global spread of investments caused the chairman to continue: "It has been suggested that the name of your company is misleading … whilst one does not lightly change a name to which almost a100 years of history is attached … I believe an alteration is necessary."

Resolutions were duly brought forward such that, by the end of the AGM, the trust had become Dunedin Worldwide Investment Trust. The investment objective was now: "The achievement of long-term capital growth from an international portfolio at a higher rate than the Morgan Stanley Capital International (MSCI) World Index in sterling."

In 1990 UK equities fell for the first year in a decade, triggered not just by slowing economic growth but by Saddam Hussein's invasion of Kuwait that August, leading to the Gulf War in early 1991. The previous October, Chancellor of the Exchequer John Major had simultaneously raised base rates to 14 per cent and taken sterling into Europe's exchange rate mechanism. Though less severe than some financial crises, the early 1990s downturn was later recognised as having been the longest technical recession since the Great Depression in the 1930s.

The trust's first full year as Dunedin Worldwide was therefore a difficult one, in which it suffered a fall in NAV per share of 25 per cent. The next three years were a different story as the 1990s equities boom gathered pace, with increases of 27 per cent, 1 per cent, and a notable 39 per cent of NAV. By the end of 1993, net assets had reached a new peak of £283m, or £321m in gross asset terms. Dividends had also risen to a fresh high of 9.5p.

Return to Contents

Changing of the guard

After 1994's AGM, Guild retired as chairman. A director since 1964 and a legal adviser to the company before that, he signed off by thanking Dunedin Fund Managers "for their assistance so readily given … and my colleagues for their good humoured and congenial company".

Until his death at the age of 90 in 2015, Guild – who lived at Edinburgh's New Club on Princes Street for the last 57 years of his life – remained an active member of the city's financial community and a keen participant in AGMs. A bachelor, he had few possessions, did not drive and rarely bought clothes. Asked why he had lived in the club for so long, he pointed out that during his career he could walk to work in seven minutes and "at my age, any change is undesirable".

Marr, who had stepped down as chairman of Dunedin Fund Managers the previous year, became the new chairman of Dunedin Worldwide, having already been involved with the trust since the late 1950s, variously as company secretary, joint manager and secretary, manager and secretary, and director.

Marr's first annual report as chairman noted that £1,000 invested on 1 November 1980 would, after 15 years with dividends reinvested, have become worth £8,884 by 1 November 1995. That figure contrasted with a return of £3,203 from the best building society account and outstripped inflation, which would have turned £1,000 into £2,185 when measured via the retail price index. It was thus on a high note that Marr announced that, having passed his 65th birthday, he would retire at the 1996 AGM. "Directors and shareholders," incoming chairman David Coltman said, "would like to express their warmest thanks for his valuable contribution to our affairs."

Return to Contents

PART 3: The Baillie Gifford years

Return to Contents

Centenary celebrations

The trust passed the 100th anniversary of its incorporation on 15 July 1996 and marked the occasion by holding that year's AGM at Discovery Point in Dundee, the visitor centre adjacent to Captain Scott's ship, RRS *Discovery*. Over its first 100 years, the now retired Guild noted with customary brevity in the centenary leaflet "the company had prospered, while the initial capital of £300,000 in 1896 had grown to £320m by 1996".

Another milestone in the trust's history passed the same year with the acquisition of Dunedin Fund Managers (DFM) for £83.5m by Edinburgh Fund Managers (EFM). As part of the move, the trust received not only several million pounds from the sale of the management company it had helped to found but, with excellent timing, a final revenue distribution from DFM sufficient to underpin a special centenary dividend of 2p.

Once the trust's assets and administrative arrangements had been fully transferred into EFM's control, the moment had come to restructure and reincorporate the company under its present name of Edinburgh Worldwide Investment Trust, which began trading on 9 July 1998. The trust's objective remained "the achievement of long-term capital growth in excess of the capital return (in sterling terms) of the Morgan Stanley Capital International World Index by investing in stock markets throughout the world."

Following the changes, and in the wake of the departure of some of the institutional investors linked to the now defunct Dunedin group, the trust – now known as EWIT for short – set off on its new life in somewhat shrunken form, with net assets of about £120m, plus a hefty £39m multi-currency loan, which had the effect of adding substantial gearing and which took the total assets of the reconstituted trust to just under £160m. "The majority of the current shareholders transferred their investment from Dunedin Worldwide," noted chairman Coltman, "and I thank them for their current support."

There were several changes in the boardroom following the end of the Dunedin era. By late 1998, the board comprised Coltman, accompanied by Robert Douglas Miller, chairman of Jenners, the now-defunct Edinburgh department store once known as 'the Harrods of the North', plus recent joiners David Reid, a director of Fleming Asset Management, and Kim Fraser, who was an independent financial adviser and a past director of stockbroker Strauss Turnbull & Co.

Return to Contents

Sue Inglis, the first woman to be appointed to the trust's board.

The first female director of EWIT, Sue Inglis, a corporate financier and former partner at law firm Shepherd & Wedderburn, was appointed, albeit briefly, to the board the same year. The Earl of Eglinton & Winton and Valentine Fleming retired after the 1998 AGM. Lastly, William Ducas, previously a director of WestLB Mellon Asset Management and a managing director of F&C Asset Management of North America, was appointed as a director in March 2002, retiring in 2021.

The millennium and the dotcom crash

As these boardroom changes were taking place, the 1990s bull market was approaching its peak, with investments in internet or technology stocks frequently being funded by money withdrawn from what were seen as 'old economy' companies, which were therefore losing ground.

These were demanding times for fund managers, with shareholders demanding 'tech' exposure at any cost, despite the non-existent profits, track records, or dividend distributions of many of the companies then soaring in price. In the case of EWIT, the portfolio was extensively reshaped during its reconstruction, with the list of its largest holdings now gaining a degree of technology exposure in the form of MCI WorldCom and Microsoft.

After a shaky first quarter from July 1998 – in which the NAV fell by 17 per cent, as against a 9 per cent fall in the MSCI World Index – the revamped, and significantly geared, trust had a barnstorming first full financial year. For the 12 months to 31 October 1999, NAV per share increased by 34 per cent while the MSCI benchmark index rose by 28 per cent. The discount, on the other hand, remained stubbornly wide at around 20 per cent.

A few weeks later the FTSE 100 index would peak, eerily within 36 hours of the turn of the millennium, at a little above 6,930, a level it would not regain for 15 years. Within months, the euphoria had evaporated, the internet bubble had burst, and the bear market of 2001–2003 was on its way.

The table below shows the roller coaster ride endured by shareholders as the boom collapsed, followed by the appalling terrorist attacks of 9/11:

Year (to 31 October)	Total assets (£m)	NAV per share (p)	Discount (%)
1998	138	202	17
1999	172	270	21
2000	196	313	14
2001	142	205	15
2002	105	152	19
2003	109	162	20

The FTSE 100 index fell by 18 per cent in 2002 and by a further 31 per cent the following year. For EWIT, the downturn was even worse, with the NAV per share falling by 34 per cent during the financial year to 31 October 2001, while its benchmark fell by 26 per cent. "This underperformance against our benchmark," Coltman told investors, "was attributable to a combination of gearing and poor stock selection."

Return to Contents

Switching from EFM to Baillie Gifford

As well as stock market volatility, EFM was enduring upsets of its own. In 2002, the management company faced a takeover bid by Hermes Asset Management, only for Hermes to pull out when it became clear the independent boards of the EFM investment trusts would not play ball and would be very likely to move elsewhere. Other bidders lay in the background, including Isis Asset Management, Britannic Asset Management, and Aberdeen Asset Management, the latter acquiring EFM a year later for £36m in an all-share deal.

By December 2003, Coltman found it necessary to admit that "the performance of the company has been disappointing recently". A detailed review of the trust's investment management arrangements had been made, he continued, with the assistance of Bestinvest Research. The aim was to enhance shareholder value through both improved investment performance and a reduction in the company's share price discount to NAV.

Following the review, Baillie Gifford was appointed to manage the company in place of EFM, with the new arrangements taking effect from 1 November 2003. It did not take long for the incoming equities management team, led by Baillie Gifford partner Mark Urquhart, to reposition the trust's portfolio so as "to find companies on a global basis that offer good prospects of long-term growth wherever they are listed".

Over the next two years, the number of equity holdings in the portfolio was sharply reduced from 106 to 41, focusing entirely on companies "where we are genuinely enthusiastic about their growth prospects for the next decade … new purchases over the past year have included Amazon.com, Dell, eBay, HDC, Pulse Homes, SCP Pool, VCA Antech and Whole Foods Market". Equities now comprised 93 per cent of the portfolio, with the balance made up of sterling, dollar, and yen-denominated bonds.

Ten largest portfolio holdings as at 31 October 2005

		% of total investments
1	Moody's	4.7
2	Lukoil	4.0
3	Gazprom	3.8
4	Golden West Financial	3.6
5	CVRD	3.4
6	Atlas Copco	3.4
7	Samsung Electronics	3.1
8	Canon	3.1
9	Petrobras	3.1
10	Teva Pharmaceuticals	2.9
Total percentage invested in top 10:		35.1

The table above shows the heavily revised top 10 holdings list following the managerial change, which was accompanied by a marketing initiative involving regular presentations to existing and potential shareholders and to investment trust analysts. Also promised were "the production of an investment trust magazine, *Trust*, and the creation of webpages specific to EWIT".

By the end of 2006, Urquhart was able to report: "We think it is getting toward a sensible period over which to measure performance … both absolute and relative returns have been strong." The figures bear out his statement. During Baillie Gifford's first three years as manager, the share price increased by 79 per cent and the NAV by 55 per cent. Not only did these results significantly outperform the benchmark's return of 34 per cent on the same basis, but the worryingly wide discount that had dogged the trust for years had all but disappeared and was even replaced by a small premium for a time. "This scale of outperformance," Urquhart warned, "is most unlikely to be repeated in the future."

Baillie Gifford partner Mark Urquhart.
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Return to Contents

The global banking crisis

One of the early tests for Baillie Gifford's management of the trust came during the 2007–2009 global banking crisis. Although assets continued to perform well during most of 2007, by the end of the year Urquhart was warning that, during the later months, a credit crunch had developed and "we think the probability of a prolonged downturn has markedly increased".

While the banking crisis was being played out, a small piece of positive news emerged in the form of a refund of the VAT payments levied on the trust's annual management fees. The Association of Investment Companies had achieved a worthy victory for its sector by challenging HM Revenue & Customs, initially failing, refusing to accept defeat, then taking the case all the way to the European Court of Justice and winning.

When the dust had settled, EWIT received a repayment of £257,000, plus interest of £22,000, offering a ray of sunshine amid the dark days of the wider crisis. Taken with a particularly strong year in terms of dividend growth, especially from a fund not investing for income, total revenues for the year to 31 October 2008 jumped to 3.48p from 2.63p the previous year, allowing a special dividend of 0.7p to be paid.

By March 2009, the Dow Jones index (prop name is Ind Ave) had fallen to levels not seen since 1997 and other markets had followed suit. As the end of the noughties approached, the recovery – when it came – was dramatic. Aided by quantitative easing on a truly titanic scale on both sides of the Atlantic, liquidity returned to the markets and, as investor confidence picked up, the FTSE All-Share index rallied by almost 50 per cent from its low point during the crisis.

The post-banking crisis turnround arguably marked the start of a long bull market that was to continue until the onset of the Covid-19 pandemic almost 10 years later. The whole episode, Urquhart said with feeling, reinforced the view that reporting performance statistics on an annual basis was "a perfect illustration of how short-term numbers are filled with noise".

Robert Douglas Miller retired from the board in 2008 after almost two decades of service. He was replaced in the same year by Jake Leslie Melville, an energy specialist and partner at consultancy firm Booz Allen Hamilton, and – being aged in his late 30s – relatively youthful for a director.

In 2010, he was joined on the EWIT board by Helen James, managing director of corporate communications firm Investis, and Donald Cameron, an advocate at the Scottish bar and qualified barrister in England and Wales, later a Conservative Member of the Scottish Parliament. The three appointments were all part of solving the problem, Coltman said, "of how to pass the baton to the next generation of directors".

Months later, board member and now chairman Reid was obliged to announce the death of David Coltman: "He oversaw the reconstruction of Dunedin Worldwide Investment Trust in 1998 … and the appointment of Baillie Gifford as investment manager. He will be sorely missed."

In November 2011, the current chairman of EWIT, Henry Strutt, a chartered accountant who had spent more than 20 years with the Robert Fleming Group, mostly in East Asia, also joined the board. In his first chairman's remarks, Reid reflected that, since Baillie Gifford had been appointed manager of the trust eight years earlier, "there have been financial crises in places as far flung as Dubai, Iceland and Greece whilst almost every economy felt at least a ripple from the collapse of the credit boom".

He added: "Also, during these years Amazon has increased its turnover tenfold, Apple has revolutionised three markets with the iPod, iPhone and iPad … China's retail sales have more than doubled and Facebook has become the company with the most users worldwide – currently 800 million and counting. It remains our firm belief that by investing in companies with opportunities created by such monumental change we can add value to the portfolio, and we will continue to be judged over five-years-plus time periods."

Return to Contents

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Return to Contents

A change of direction

Douglas Brodie, current manager of EWIT.

The time had come for the board to carry out a detailed examination of the trust's long-term objectives

By the beginning of November 2013, Baillie Gifford had been managing EWIT for 10 years, and it was time to take stock. Not only had the trust had an excellent 12 months to 31 October that year, with rises of 35 per cent and 44 per cent in the NAV and share price respectively, against 21 per cent for the benchmark, but, bearing in mind Urquhart's observation that one-year numbers were often merely noise, it had delivered the goods on a 10-year view as well.

The trust, now with gross assets of some £241m (£212m in net assets terms), had delivered an NAV increase of 191 per cent in total return terms over 10 years and an even more noteworthy 245 per cent increase in the share price on the same basis, while the MSCI All Country World Index had advanced by a more modest 132 per cent. The discount to NAV had also narrowed over the 10 years from 19.3 per cent to 6.3 per cent.

Further positive news came the same year with the introduction of streamlined management fee arrangements. An annual fee of 0.95 per cent was now levied on the first £50m of assets and 0.65 per cent thereafter, with no separate secretarial or performance fee element. "Had the former fee structure been in place for the entire year," the 2013 annual report noted, "approximately a further £274,000 would have been payable to the managers."

Further reductions lay ahead. A tier of 0.55 per cent at £250m of net assets took effect from 1 September 2016, while the fee on the first £50m of net assets was reduced from 0.95 per cent to 0.75 per cent with effect from 1 January 2019.

The time had also come for the board, supported by the investment manager, to carry out a detailed examination of the trust's long-term objectives in a rapidly changing world. Following the review, shareholders' authority was sought at the AGM held on 27 January 2014 to allow a greater level of investment in companies at an earlier point in their growth cycles. The trust's objective was updated at the same time, becoming "to achieve long-term capital growth by investing primarily in listed companies throughout the world". Investments of up to 5 per cent of total assets would also now be permitted in unlisted equity investments in aggregate at the time of acquisition.

Return to Contents

The index against which performance would now be compared was the S&P Citigroup Global Small Cap index in sterling terms, with effect from 1 February 2014, replacing the MSCI All Country World Index. The implementation of this revised strategy and investment policy, approved by shareholders with a resounding 97 per cent of votes in favour, would have a profound and markedly successful impact upon the trust. The next phase of EWIT's life had begun.

From 27 January 2014, the management of the portfolio moved from Urquhart and Baillie Gifford's Long Term Global Growth (LTGG) team to Douglas Brodie, EWIT's present manager, with John MacDougall as deputy manager, and Baillie Gifford's Global Discovery team. In December 2017, two new young deputy managers – Svetlana Viteva and Luke Ward – were appointed, with MacDougall having decided to concentrate on his increased LTGG responsibilities.

In moving towards the opportunity offered by less mature companies, Brodie said: "At times such an approach is likely to be out of kilter with the myopic gyrations and sentiment-led exaggerations of stock markets … such oscillations are part of modern investing."

In the most recent boardroom moves, Mungo Wilson, associate professor of finance at the University of Oxford's Saïd Business School, was appointed as a director on 8 December 2016, followed by chartered accountants Caroline Roxburgh and Jonathan Simpson-Dent with effect from 1 February 2020. Strutt was appointed chairman after the January 2017 AGM, following the retirement of Reid.

Henry Strutt, the trust's current chairman.

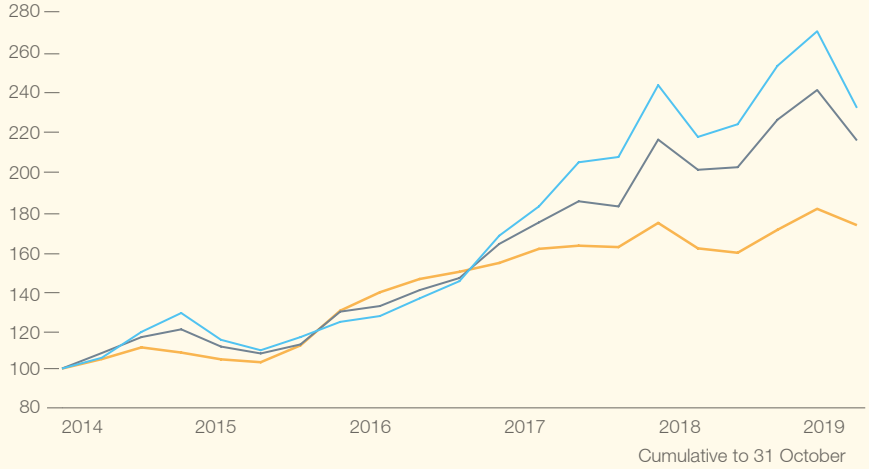
The next phase of EWIT's life had begun

Return to Contents

Outperformance and the pandemic

During the first five years since the broadening of the trust's investment policy, the refocused EWIT enjoyed spectacular success. Boosted by the rapid growth of portfolio holdings such as Alnylam Pharmaceuticals, a genetics company, LendingTree, an online loan marketplace, and IPG Photonics, a manufacturer of fibre lasers used in metal processing, the trust's NAV and share price performed handsomely, whether in absolute or benchmark-relative terms, as shown in the charts below.

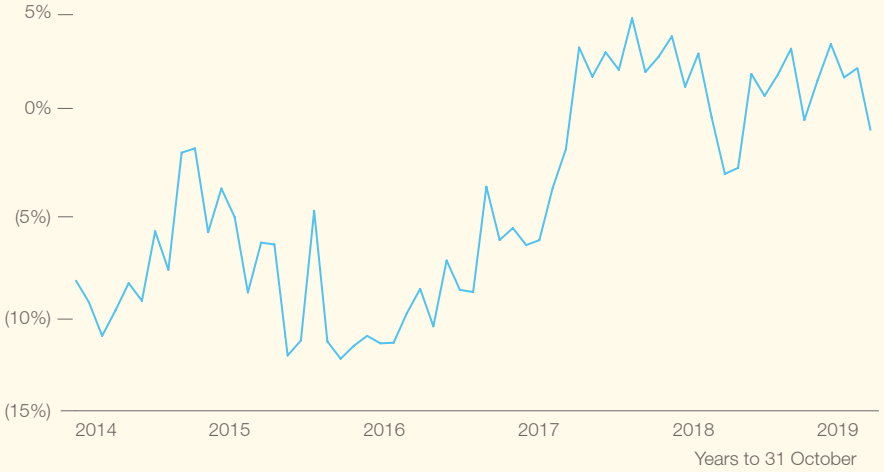
Five-year performance (total return)
(figures rebased to 100 at 31 October 2014)



Source: Refinitiv and relevant underlying index providers.
Share price total return
NAV (after deducting borrowings at fair value) total return
S&P Global Small Cap Index total return (in sterling terms)

Return to Contents

Discount/premium to net asset value
(plotted on a monthly basis)



Source: Refinitiv/Baillie Gifford.
Edinburgh Worldwide discount
The (discount)/premium is the difference between Edinburgh Worldwide's quoted share price and its underlying net asset value (after deducting borrowings at fair value).

Past performance is not a guide to future returns.

Return to Contents

Total assets passed the £500m barrier for the first time in the second half of 2018, having been £237m in late 2014, and a mere £109m when Baillie Gifford assumed management of the trust in 2003. Periods in which the trust's stock has traded at a premium to its NAV have also created the right conditions to issue new shares.

As long as investment trusts are trading at a discount to NAV, it is difficult or impossible to issue new shares and grow the fund except through performance because new investors are unlikely to subscribe at NAV when they can buy the shares more cheaply in the market. When a persistent premium develops, the opposite argument applies. It is now cheaper to subscribe for new shares issued free of stamp duty at NAV or even a penny or two more than to make a market purchase, which will usually be liable to stamp duty.

With demand for EWIT's shares persistently exceeding supply, from January 2018 onwards more shares have been issued. This has generated the double bonus of reducing the overall costs of management in percentage terms and of increasing the size of the trust to £1bn and beyond.

Increases in the trust's share price and NAV continued during 2020, with many of its technology and healthcare investments growing during the coronavirus pandemic. Management made use of technological advances to work from home, while the board harnessed video conferencing software to continue with meetings and shareholder updates.

As 2021 ended, the trust reported a 11 per cent rise in its share price and an 18 per cent increase in its NAV for the year to 31 October. Edinburgh Worldwide has maintained its remarkable upward trajectory, becoming not just a £1.4bn investment vehicle but one for which the all-in running costs, or ongoing charge ratio sits at 0.66 per cent*.

*Ongoing charges as at end of October 2021. Calculated in accordance with the methodology of the Association of Investment Companies.

Return to Contents

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Return to Contents

Conclusion

Return to Contents

From its earliest days in Robert Fleming's gaslit offices at 13 Albert Square in Dundee some 126 years ago, The Northern American Trust morphed first into the Dunedin Worldwide Investment Trust and now into Edinburgh Worldwide Investment Trust. While its investment policy and geographical focus may have shifted over the decades, two factors link the story of the trust from its very earliest days to the present: an emphasis on meticulous primary research, and a keen eye on the impact of technological developments.

Fleming criss-crossed the Atlantic to study his potential investments first-hand – a technique still employed today by Baillie Gifford's Global Discovery team. Geography has been no barrier, either for Fleming or for his successors.

Modern technology in the form of the steam train opened up North America to economic and financial development, with Fleming picking and choosing the highest-quality investments during the railroad boom. So too do the trust's managers today, running the rule over the companies that are harnessing digital technology to disrupt sectors as diverse as pharmaceuticals and grocery delivery.

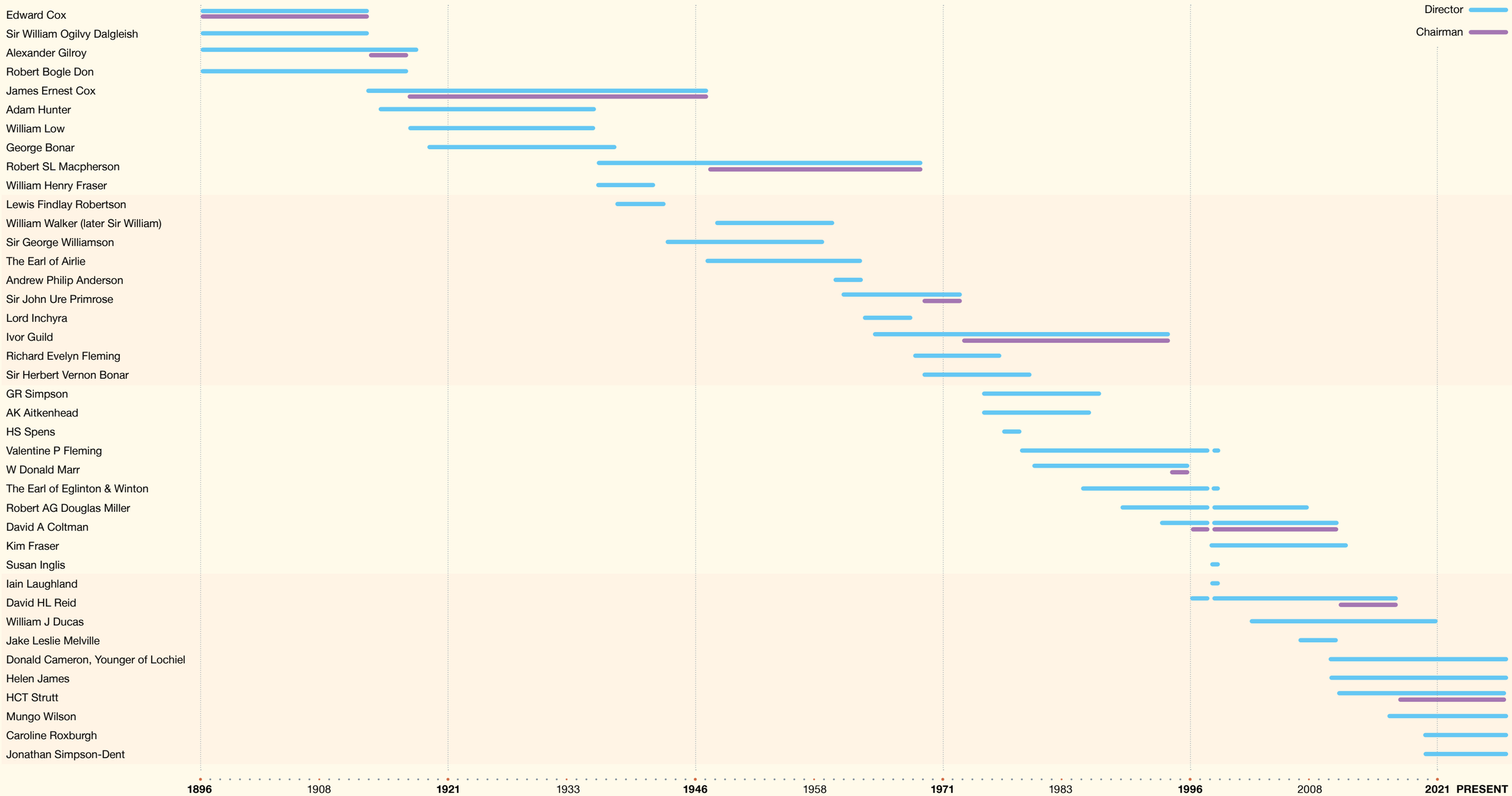
The presence of an independent board, now taken for granted by the investment trust community, remains far from universal in other forms of investment but provides a crucial layer of safety and security to shareholders. With what other kind of investment can a member of the public, after buying a single share, turn up at an AGM and praise or harangue the fund manager and board, face-to-face?

The very fact that a fund manager can face awkward, unrehearsed questions – whether from a board member or from an investor – is likely to prompt that little bit of extra homework 'just in case'. Ever since the trust's first AGM in Lamb's Temperance Hotel back in 1896, investors in EWIT and its predecessors have been able to fill in attendance cards, turn up, and ask away.

Return to Contents

Appendix: Board members, 1896–2022

Return to Contents



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Return to Contents

ABOUT THE AUTHOR

JOHN NEWLANDS
Historian

John Newlands is an independent investment trust analyst and historian. After leaving the Royal Navy in 1994, he completed a full-time master's degree in business administration (MBA) at Edinburgh University Management School (now Edinburgh University Business School), graduating in 1995. He subsequently worked as an investment trust analyst in the City at Williams de Broë and later as head of investment companies research at Brewin Dolphin from 2007 to 2017.

He has written company histories of Aberdeen Asset Management, British Empire (now AVI Global) Trust, Dunedin Income & Growth Investment Trust, The Edinburgh Investment Trust, Foreign & Colonial (now F&C) Investment Trust, Murray International Trust, The Merchants Trust, and Witan Pacific Investment Trust (now Baillie Gifford China Growth Trust).

Return to Contents

CURIOUS ABOUT THE WORLD

edinburghworldwide.co.uk

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

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