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Investment manager James Dow discusses SAINTS' journey to 50 years of dividend growth, recent portfolio adjustments, and a positive outlook despite economic uncertainties

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. The level of income is not guaranteed. Past performance is not a guide to future returns.

Hello, and welcome to this annual update on SAINTS, the Scottish American Investment Company. I'm James Dow, head of the Global Income Growth Team at Baillie Gifford, and manager of SAINTS.

Performance

2023 was dominated by headlines about inflation, interest rates and geopolitical tensions. Ultimately though, global economic activity remains robust and inflation fell, which means that interest rates may now have peaked.

In that context, SAINTS delivered strong absolute returns last year, with a net asset value total return of 11.8 per cent. The share price total return was a little lower, at 8.2 per cent, as the discount on the shares widened, a factor which affected many investment trusts in 2023.

On the income front, I am pleased to report that 2023 marked an extraordinary milestone of 50 consecutive years of dividend growth for SAINTS. This achievement underscores our aim to deliver consistent income growth to SAINTS shareholders.

Despite the Company's strong absolute performance, the net asset value return did not fully match the 16 per cent return from global equity markets last year. This was for two main reasons.

First, our equity portfolio is designed for long-term dividend growth, which means we have somewhat limited exposure to the large US technology companies that significantly drove market returns last year.

Second, our small portfolio of property investments, which bring benefits in terms of diversifying the sources of SAINTS returns, does not always keep pace with equities. Last year, the return from the property portfolio was actually negative, which dragged down the Company's returns a little.

Still, the equity portfolio represents the vast majority of SAINTS' assets and tends to drive performance over the long term. Last year, the total return from the equity portfolio was close to 14 per cent.

Two of the standout companies were Watsco, the American distributor of air conditioning equipment, and Novo Nordisk, the Danish pharmaceutical company behind the obesity drug Wegovy. Both of them delivered very strong earnings growth, which translated into strong share price appreciation, as well as good dividend growth.

Over a longer time horizon, SAINTS' performance remains robust, with a net asset value return of 84.5 per cent over the past five years, outperforming both the global equity income sector and the benchmark for global equities.

Our strategy of focusing on income growth rather than starting yield has also been delivered, with SAINTS increasing its dividend at an annualized rate of 3.3 per cent per year, over the past decade. This has beaten the UK Consumer Price Index, or CPI, which has increased by 2.9 per cent per year over the same period. That long-term compounding, ahead of inflation, is really valuable to SAINTS shareholders.

Portfolio activity

In terms of portfolio activity, our approach is characterized by long-term investment and low turnover.

The equity portfolio consists of about 60 investments, and during 2023 we divested from six of them. These included two companies, National Instruments and Silicon Motion, which were acquired by a competitor at attractive prices. Also a Chinese food business Want Want, which has disappointed us on growth for some time, and the mining company Rio Tinto.

Rio Tinto has been a longstanding holding, and a very successful one for SAINTS, but we now see its costs starting to increase significantly, while demand for its product seems likely to weaken in the years ahead. This is unlikely to be an attractive set up for future earnings and dividend growth.

During the year we also trimmed the portfolio's holding in Novo Nordisk a number of times, as its very strong share price performance led to the position size approaching our 6 per cent limit. We've re-invested that money in attractive holdings elsewhere in the portfolio, and in some cases in new names.

We invested in five new companies in 2023: Home Depot, Coloplast, Diageo, Eurofins and Texas Instruments. These new holdings are all well-established franchises with good returns on capital, attractive growth prospects, and strong resilience whatever happens in the world economy. We believe they will compound their earnings and dividends at attractive rates over the next 5-10 years.

Outlook

As we begin 2024, we remain humble about our ability to foresee what is just around the corner. Recent years have shown that trying to forecast economic activity, interest rates or geopolitical developments is usually a fool's game.

What we *can* say with confidence is that SAINTS owns a portfolio of assets that have proved resilient to some extreme tests over the past few years. Earnings have continued growing steadily, and despite the shock of a global pandemic, SAINTS has extended its track record of dividend increases to 50 consecutive years.

Whatever happens in the world at large in 2024, as managers we will continue our search for steady long-term compounding in earnings and dividends from those great companies all around the world where we can invest on behalf of SAINTS shareholders, aiming to grow their income and capital ahead of inflation.

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Share Price Performance to 31 December each year (Net %)

	2019	2020	2021	2022	2023
Scottish American Investment Company P.L.C	25.1	12.0	19.5	-3.5	8.2
NAV*	23.0	14.6	21.5	-3.6	11.8
FTSE All-World Index	22.3	13.0	20.0	-7.3	15.7

Source: Morningstar and underlying index provider, total return sterling.

*Capital and income with borrowing at fair.

Dividend Performance to 31 December each year

	2019	2020	2021	2022	2023
Total dividend per ordinary share (net) – (pence per share)	11.875	12.00	12.675	13.82	14.10

Source: Baillie Gifford & Co.

Past performance is not a guide to future returns.

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SAINTS invests in overseas securities and 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.

The Trust invests in emerging markets, which includes China, where difficulties with trading, liquidity, regulation and taxation could arise, resulting in a negative impact on the value of your investment.

SAINTS has some direct property investments, which may be difficult to sell. Valuations of property are only estimates based on the valuer's opinion. These estimates may not be achieved when the property is sold.

The trust can borrow money to make further investments (sometimes known as “gearing” or “leverage”). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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A Key Information Document is available by visiting bailliegifford.com

FTSE

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