

# Scottish Mortgage Investment Trust

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Everything you need to know  
about going global





## What is the Scottish Mortgage Investment Trust?

Launched in 1909, Scottish Mortgage is considered to be Baillie Gifford's flagship investment trust. It is, and always has been, a truly global proposition, investing in companies across both Western economies and emerging markets.


The trust, which currently has more than £3.2 billion\* in net assets under management, is jointly managed by James Anderson and Tom Slater.

In a nutshell Scottish Mortgage is an actively managed, low cost investment trust, investing in a high conviction global portfolio with the aim of maximising total returns over the long term. Read on for the full story.

The views and opinions expressed in this guide are not necessarily those of Baillie Gifford. They should not be taken as statements of fact, or used as a basis for making investment decisions. Where possible, Baillie Gifford has checked all references, facts and numbers in this guide.

This leaflet contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

\*As at 30 June 2015



**SCOTTISH MORTGAGE  
WAS ORIGINALLY  
LAUNCHED TO PROVIDE  
LOANS TO RUBBER  
GROWERS IN MALAYSIA  
IN THE EARLY  
20TH CENTURY.**

### What are its origins?

The Straits Mortgage and Trust Company was born in the wake of the 'bank panic' of 1907, a run that forced the US government to step in with a multi-million dollar rescue package.

The subsequent credit squeeze created an opportunity for Edinburgh duo Carlyle Gifford and Colonel Augustus Baillie to lend to rubber plantations in Sri Lanka (then Ceylon) and the Malay Peninsula, who had seen their finance dry up. With the money secured on real estate, the trust was soon investing in the railways of North America as the credit crisis eased.

The name was changed to the Scottish Mortgage and Trust Company in 1913 as it embarked on international expansion.

North America has been a dominant theme since the early days, particularly after the trust moved out of European holdings in the mid to late 1930s in response to the deteriorating political climate. In the late 1950s almost half of the trust's assets were in North America, while in the 1960s it made its first forays into Japan, being one of the first investment trusts to do so.

The early 1970s were dominated by a stock market plunge that forced the trust to slash its UK holdings, before its fortunes were boosted by the equity rally that started in 1975. The trust also gained from the end of exchange controls in 1979, which created a new flexibility in asset allocation, and from the UK government's exemption of investment trusts from capital gains tax in 1980.

The trust thrived in the 1990s, posting a dividend increase over the decade of 102% and a net asset value increase of 282%. As with every stock market investment, please remember that past performance is not a guide to future performance.

New highs were reached in early 2000 before the Dotcom bubble burst, sending share prices down sharply over the next two years. As Western economies emerged from that slump there was a renewed focus on resurgent emerging market economies. The trust was well poised to take advantage of those opportunities, following a strategic review that positioned it as a global operation with a definitively long-term view.




## What does it do now?

The broad objective of Scottish Mortgage is to invest in a range of companies from around the world that demonstrate potential for sustainable, long-term growth.

The global approach is reflected throughout the trust's investments, with holdings in Europe and North America, complemented by exposure to emerging markets such as China.

The benchmark against which performance is measured is the FTSE All-World Index. However, the trust is not tied to it, nor does the index determine the composition of the portfolio. Rather than tracking the benchmark, the trust takes a longer-term view, seeking to produce a return above that of the index over five-year rolling periods.

Scottish Mortgage is a listed UK company. The value of its shares can fall as well as rise and investors may not get back the amount invested. Due to the trust's investments in overseas securities, changes in the rates of exchange may also cause the value of investments to go down or up. Scottish Mortgage also invests in emerging markets and is only suitable for those investors prepared to accept a higher level of risk.



**WE'RE 100% COMMITTED  
TO MAKING SURE OUR FUND  
MANAGERS NEVER HAVE A  
RESTRICTED OUTLOOK. THAT  
WAY, THE LONG-TERM VIEW  
IS A CLEAR ONE.**

## What's the investment philosophy?

The Scottish Mortgage Investment Trust approach is built on a belief in long-term growth from patient investing in global opportunities.

The trust is relatively focused, usually investing in 70 to 80 stocks from around the world that are identified and selected on a 'bottom-up' basis. Typically more than 40% of its assets are allocated to the top 10 holdings, a list that includes companies based in the US, China and Spain.

The managers are not concerned with short term volatility instead, by endeavouring to make the right stock selection decisions, the managers seek to produce consistent outperformance in the longer run.

They take a high conviction approach to investing, willing to back global companies they view as offering particular promise. The trust aims to invest in

companies that have a sustainable competitive advantage in their sector and have the potential to produce above average earnings and cash flows. There are guidelines in place aimed at ensuring that a certain amount of diversification is maintained.

The unconstrained approach and the long-term perspective give the managers an opportunity to capitalise on short term market volatility when share prices diverge from company fundamentals.



## How are investment decisions made?

Companies are judged on criteria including management quality, business model, competitive advantage, financial strength and growth prospects. In assessing a prospective holding the manager will ask a series of questions that cover all of these areas. Is there potential for significant sales growth over the next five years, for example? How sustainable is the company's competitive advantage over the long-term? Is it good value?

The outlook for margins and the way in which a company allocates its capital are also among the factors influencing the decision as to whether to hold shares.

The merits of an individual company take precedence over considerations such as their fit with the portfolio and the benchmark. The wider economic picture is not ignored, but neither is it a key driver in the selection of holdings.

The asset allocation of the trust is determined by the companies selected, rather than by any targeted regional, industrial or sector criteria.

Stocks usually remain in the portfolio for at least five years, in accordance with the long-term perspective, and turnover is consequently low.



## How has it performed?

The unconstrained and long-term philosophy of the trust means that investors should be prepared for some short-term volatility, with growth assessed over rolling terms of five years or more.

Scottish Mortgage sits in the AIC's (Association of Investment Companies) Global sector, where it is comfortably above the five-year sector average.

Performance over the last five and 10 years has also outstripped the trust's benchmark, the FTSE All-World Index.

As at the end of March 2015 the total dividend rose from 2.90 to 2.93 pence per share compared to the previous year\*, the 33rd successive annual increase.

\*Source: Baillie Gifford – figures restated after the five for one share split on 30 June 2014.

## Performance Tables

### Periodic Performance (%)

	1 year	3 years	5 years	10 years
Scottish Mortgage Investment Trust PLC	25.8	105.8	154.6	329.4
FTSE All-World Index (GBP)	10.2	46.7	71.4	127.3

### Discrete Performance (%) to 30 June each year

	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015
Scottish Mortgage Investment Trust PLC	39.0	-11.0	26.9	28.9	25.8
FTSE All-World Index (GBP)	21.7	-4.1	21.4	9.6	10.2

Past performance is not a guide to future performance.

Source: Morningstar, share price, total return.

All performance data as at 30 June 2015.



## Where does it go from here?

The investment themes in the trust reflect the view that uncertainty and the noise generated by short-term factors is secondary in the long run to the trends and developments that will go towards shaping the future. With this firmly in mind, the focus within the portfolio remains solely on long-term growth opportunities.

We believe that the ubiquity of technological developments mean that it is misguided to classify all companies utilising them within a single sector. Long-term investment opportunities, routed in technological advances are everywhere and it appears to us that the apparently shocking exponential change they can produce, is actually more predictable and more enduring than most think.

Improvements in semiconductors have helped to develop sophisticated software, mobile communications and the internet – shaking up the consumer economy through the growth of ecommerce and changing advertising, as the consumption of media shifts. These developments are now beginning to encroach on the financial industry. From here, we see a potential revolution looming in healthcare, as genomic science and gene therapies drive us towards personalised medicine, improved clinical outcomes and even lower costs. Similarly the progress of luxury electric vehicles and battery storage by Tesla provides a challenge to the sleepy incumbents in the automobile and energy sectors, but also offers opportunities to others.

Our hypothesis is that the years ahead may prove to be very different; several industries may face dramatic change. We are not gamblers on speculative conjunctures but respectful observers of the powers of foundational technologies and the application of time and patient capital. By the time we tend to have large holdings in such companies, the underlying trends have normally been securely established, although not recognised by the wider market. We will continue to take just this approach regardless of where such extraordinary growth opportunities arise.



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**BOTH GENUINE INNOVATION AND  
TRADITIONAL SECTORS UNDERGOING  
CREATIVE REINVENTION PROVIDE  
ATTRACTIVE, LONG-TERM  
OPPORTUNITIES FOR EXPERIENCED  
FUND MANAGERS LIKE US.**

## How can I invest in Scottish Mortgage?

With a current ongoing charge of just 0.48%\* p.a. Scottish Mortgage is one of the lowest cost investment trusts on the market.

As the shares are listed on the stock market they can be bought through a broker or by requesting an application pack from Baillie Gifford, this will allow you to access Scottish Mortgage in various other ways, with an ISA and Children's Savings Plan among the options.

The Baillie Gifford Investment Trust ISA offers access to Scottish Mortgage and the other trusts Baillie Gifford manages for monthly savings from £100 or lump sum investments between £2,000 and the annual ISA allowance limit of £15,240 for the 2015/16 tax year.

Those saving for children can invest through the Children's Savings Plan, which accepts monthly payments from £25 or one-off investments starting at £100.

There's also the Baillie Gifford Investment Trust Share Plan, in which £30 a month or lump sums from £250 can be paid into one or more of the firm's trusts.

The trust is available on a range of fund platforms, including Alliance Trust Savings, Charles Stanley Direct, Hargreaves Lansdown and Interactive Investor.

Professional advice is highly recommended, particularly for those with limited experience of investing. If you want to find an independent financial adviser in your area, you can search for one on [www.unbiased.co.uk](http://www.unbiased.co.uk)

### Where can I find out more?

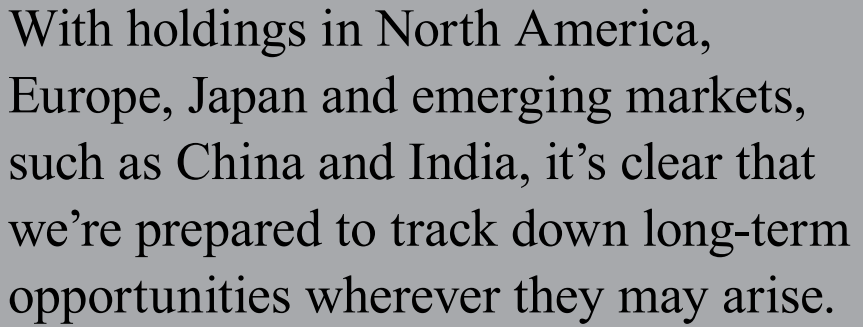
Visit the Scottish Mortgage pages on Baillie Gifford's website at [www.scottishmortgageit.com](http://www.scottishmortgageit.com) for more information on the Scottish Mortgage Investment Trust.

Baillie Gifford can also be contacted by telephone on **0800 917 2112**, by fax on **0131 275 3955** or at Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.

Your calls may be recorded for training or monitoring purposes.

This guide was written by Jeff Salway, in conjunction with Baillie Gifford. Jeff is a freelance journalist who was previously The Scotsman's Personal Finance Editor. Jeff continues to write the weekend personal finance pages for both The Scotsman and Scotland on Sunday and contributes to various other publications.

With holdings in North America, Europe, Japan and emerging markets, such as China and India, it's clear that we're prepared to track down long-term opportunities wherever they may arise.

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**A LOW COST, HIGH CONVICTION  
GLOBAL GROWTH PORTFOLIO  
DESIGNED TO MAXIMISE  
OVERALL RETURNS.**




Our fund managers take a  
‘bottom-up’ approach to investing  
and back companies that are  
believed to have a sustainable  
competitive advantage in their  
sector and provide attractive  
opportunities for long-term growth.





**SCOTTISH MORTGAGE IS A TRULY  
GLOBAL PROPOSITION, INVESTING  
IN COMPANIES ACROSS BOTH  
WESTERN ECONOMIES AND  
EMERGING MARKETS.**





**WE VIEW RESULTS IN A FIVE-YEAR  
TIME FRAME AND ARE ABSOLUTELY  
COMMITTED TO MAINTAINING  
A MEASURED AND CONSIDERED  
LONG-TERM APPROACH.**

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