THE RESILIENT ONES

To impress SAINTS' managers it's not enough to be a high-growth company or a solid payer of dividends. The trust's joint manager Toby Ross talks about the search for companies built for bad times as well as good.

The value of your investment and any income from it can go down as well as up and as a result your capital may be at risk.

Cold Wars, real wars, trade wars, financial crises, oil shocks, downturns, tech bubbles: over four decades all have successively messed with financial markets. None has stopped the Scottish American Investment Company (SAINTS) achieving its goal of real dividend growth even in the most challenging times. The last time the trust cut its dividend was in 1938, when the world was on the brink of cataclysm.

"The globe-spanning companies the trust invests in must provide investors with a dependable dividend income regardless of market adversity, while promising substantial future growth," according to Toby Ross.

He sums up this rare combination in a single word: resilience. SAINTS' managers think very hard about the underlying characteristics of a business and how much it needs to invest capital to boost further growth. Companies free from this requirement can often find cash to pay dividends, even in hard times.

Then there is the future growth trajectory. Can management look beyond current adversity with confidence that the business will be much larger in five or ten years' time? Those that can are much more likely to stand by dividend commitments.

SAINTS also likes management teams that take a very long-term view of the business, and which see sustaining a dividend as part of their bond with shareholders.

"Some boards don't see the dividend as a priority and when things get difficult it will be the first thing to be cut. Those businesses are unlikely to be a good fit for SAINTS," Ross says.

To illustrate the many forms that resilience can take, Ross cites two very different global businesses and markets from the trust's holdings.

The first is Sonic Healthcare, an Australian medical diagnostics company whose shares have been owned by SAINTS since 2014 and whose patience and vision excite the trust's managers.

As well as strengthening its standing with clinicians, this philosophy has also made Sonic the go-to buyer for independent lab owners looking to secure a legacy for their business.

Ross says that "Sonic's business is very resilient to the ups and downs of the global economy. We think that this management team truly understands that what matters is the speed and accuracy with which they deliver to doctors and patients."

Another poster child of resilience from SAINTS' broad range of holdings is C.H. Robinson, a Minnesota-based trucking broker that matches loads to be transported with available drivers through its Navisphere software platform. Access to the largest pool of customers and the largest pool of truckers allows it to provide a better service than rivals. It has few physical assets and does not require big capital expenditure for further growth.

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SAINTS total dividend per ordinary share (net) – pence per share

2014	2015	2016	2017	2018
10.50	10.70	10.825	11.10	11.50

Source: Baillie Gifford & Co, data as at 31 Dec 2018.

Past performance is not a guide to future returns.

Sonic has invested heavily in the fragmented but fast-growing global market for laboratory testing. This includes studying samples of tissue, blood and urine to determine the cause and nature of different cancers and other diseases. Over time, the combination of an ageing population and continued medical innovation mean that more of us are being tested for a wider range of conditions. Ross says that what makes Sonic stand out from its peers is long-standing CEO Colin Goldschmidt's culture of 'medical leadership'. When Ross met Goldschmidt in Sydney recently, he defined this culture as "doing the best for our patients [and] truly understanding what the doctor needs".

"If times get more difficult and revenues slow, that's ok because the business doesn't need big reinvestment to grow. The management's commitment to maintaining and growing the dividend is really high, regardless of whether the margins this quarter are higher or lower," Ross says.

He also cites the commitment of C.H. Robinson management to pay out to shareholders from a sense of corporate duty. "They are very aware that there are lots of retired employees who live on these dividends. Management has been very clear that they would rather not grow the dividend too fast but make sure it's resilient, to allow them to keep growing it even when business is slower."

Sustaining and improving on the trust's long legacy of dividend growth, says Ross, is about "trying to understand what has made some companies resilient dividend payers even when things have got really hard". The nuances can be subtle, but the reward is a portfolio dominated by companies in that sweet spot: able to bolster long-term growth and steadily increasing annual pay-outs to investors for the next four decades and beyond. ■

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Toby Ross

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Baillie Gifford

Toby graduated MA in English Literature from the University of Cambridge in June 2006 and joined Baillie Gifford in the same year. Toby became Joint Manager of The Scottish American Investment Company P.L.C. (SAINTS) in 2017.

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