Edinburgh Worldwide Investment Trust

Catching them young

Investment trusts

Following the broadening of its investment policy in February 2014, Edinburgh Worldwide Investment Trust (EWI) differentiates itself through its globally unconstrained approach focusing on immature companies at the time of initial investment. The managers seek to identify companies with unique businesses at an early stage in their development that have sustainable competitive advantage. Typically these are smaller companies innovating through disrupting market incumbents or creating entirely new markets. Near-term valuation measures are considered less relevant in stock selection than growth potential and the focus is on a company's prospects over at least three to five years.

12 months ending	Total share price return (%)	Total NAV return (%)	Blended benchmark (%)	S&P Global Small Cap (%)	MSCI AC World (%)	FTSE All-Share (%)
30/09/11	(4.5)	(8.5)	(4.4)	(5.4)	(4.4)	(4.4)
30/09/12	6.6	16.6	17.4	17.4	17.4	17.2
30/09/13	37.0	29.2	18.0	25.5	18.0	18.9
30/09/14	3.3	(0.5)	5.3	7.1	11.8	6.1

Note: *Twelve-month rolling discrete total return performance. Blended benchmark is MSCI All Countries World index until 31 January 2014 and S&P Global Small Cap index thereafter.

Investment strategy: Early-stage, long-term growth

EWI invests in a broad portfolio of immature companies, typically with a market capitalisation below US$5bn when the initial investment is made. EWI's approach is long term and index agnostic so short-term performance can differ notably from the comparative S&P Citigroup Global Small Cap index. The managers undertake extensive fundamental research focusing on five key factors: industry background, competitive advantage, financial strength, management attitude and valuation. The aim is to select stocks with medium- and long-term outperformance potential, focusing on a company's prospects over at least three to five years. There is a bias towards growth, although valuation can also drive investment decisions.

Outlook: Subdued near-term market prospects

Market strength over the last two years has pushed up valuation multiples suggesting a more subdued near-term outlook, although tech and biotech sectors only stand at average forward P/E ratings. The global economic outlook is for improvement but growth expectations are being trimmed, while speculation over the timing of US and UK interest rate rises and global geopolitical risks means market volatility may rise in the near term. Given this backdrop, a differentiated fund such as EWI, focused on companies with the potential to achieve significant growth irrespective of economic or market conditions, could appeal to investors.

Valuation: Discount tending to narrow

EWI's share price discount to NAV (debt at fair value including income) has narrowed over the past 12 months from an average 12% over the previous two years to an average 6% over the last 12 months. The board believes the discount previously reflected low levels of liquidity in EWI's shares and expects the recently adopted differentiated investment approach to help address this issue.

13 October 2014

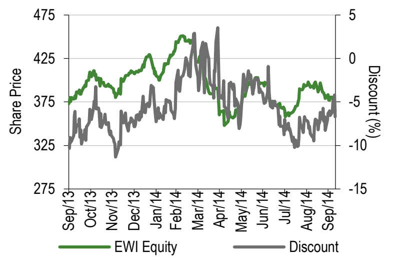
Price	**365p**
Market cap	**£179m**
AUM	**£217m**

NAV*	382.8p
Discount to NAV	4.8%
NAV**	390.6p
Discount to NAV	6.7%
Yield	0.6%

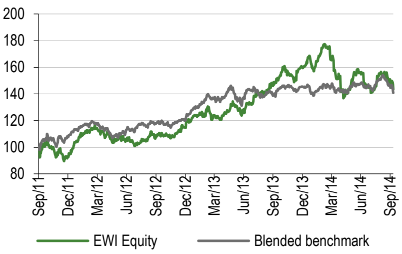
*Excluding income. **Including income.

Ordinary shares in issue	49.0m
Code	EWI
Primary exchange	LSE
AIC sector	Global

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	451.3p	348.0p
NAV* high/low	465.1p	367.6p

*Excluding income.

Gearing

Gross	14%
Net	9%

Analysts

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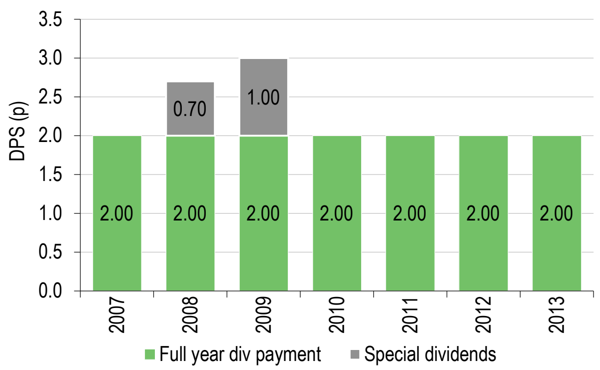
Edison profile page

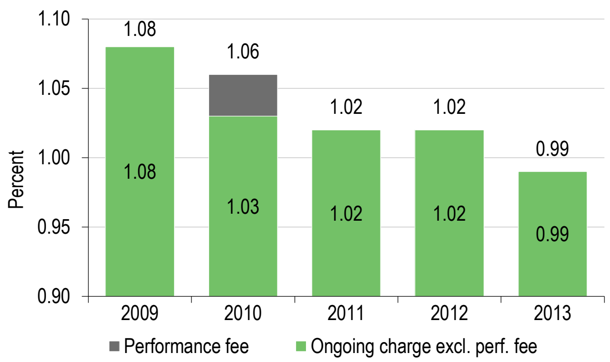
Exhibit 1: Trust at a glance

Investment objective and trust background	Recent developments
Edinburgh Worldwide Investment Trust's objective is to achieve long-term capital growth by investing primarily in listed companies globally. The portfolio has been realigned since 1 February 2014 to invest in a broader portfolio of companies at an earlier stage of development, typically with a market capitalisation of less than US$5bn at the time of initial investment. Performance is compared with the S&P Citigroup Global Small Cap index; before 1 February 2014 the benchmark was the MSCI All Countries World index.	20 August 2014: Q3 IMS to 31 July 2014 – NAV total return +4.4%; index +1.3%. 9 June 2014: Interim results to 30 April 2014 – NAV total return -12.8%; benchmark -1.3%. 1 February 2014: Portfolio realignment to invest in earlier-stage companies.

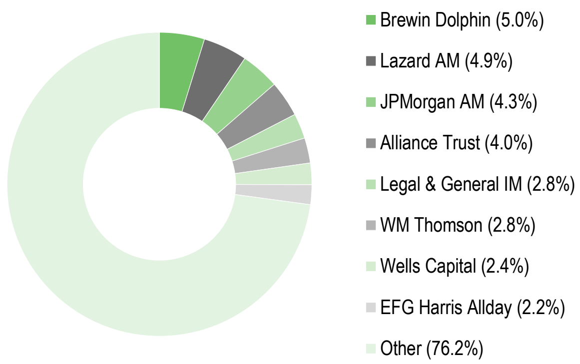
Forthcoming		Capital structure		Fund details	
AGM	January 2015	Ongoing charges	0.99%	Group	Baillie Gifford
Preliminary results	December 2014	Net gearing	9%	Manager	Douglas Brodie, John MacDougall (deputy)
Year end	31 October	Annual management fee	0.95% first £50m net assets, thereafter 0.65%; no perf. fee	Address	Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Dividend paid	July, February				
Launch date*	9 July 1998	Trust life	Indefinite	Phone	+44 (0)131 275 2000
Continuation Vote	None	Loan facilities	£30m multi-currency facility	Website	www.edinburghworldwide.co.uk

Dividend policy and history	Ongoing charges
Interim and final dividends are paid in July and February.	Since April 2013, the annual management fee has been 0.95% on the first £50m of net assets and 0.65% on the remainder, with no performance fee.

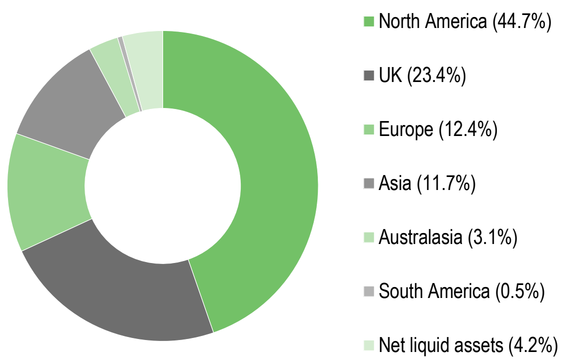




Shareholder base (as at 25 September 2014)



Distribution of portfolio (as at 31 August 2014)



Top 10 holdings (as at 31 August 2014)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 August 2014**	**31 October 2013****
IP Group	UK	Financials	3.8	1.2
Zillow	US	Information Technology	3.4	N/A
Stratasys	US	Information Technology	3.1	1.5
Alnylam Pharmaceuticals	US	Healthcare	3.1	N/A
Tesla Motors	US	Consumer Discretionary	3.1	0.6
TripAdvisor	US	Consumer Discretionary	2.8	2.4
MarketAxess	US	Financials	2.5	N/A
Ocado	UK	Consumer Discretionary	2.2	N/A
LinkedIn	US	Information Technology	2.1	2.1
Dexcom	US	Healthcare	2.0	N/A
Top 10			**28.1**	**N/A**

Source: Edinburgh Worldwide Investment Trust, Edison Investment Research. Note: *Following the reconstruction of Dunedin Worldwide Investment Trust; **N/A where not in October 2013 portfolio.

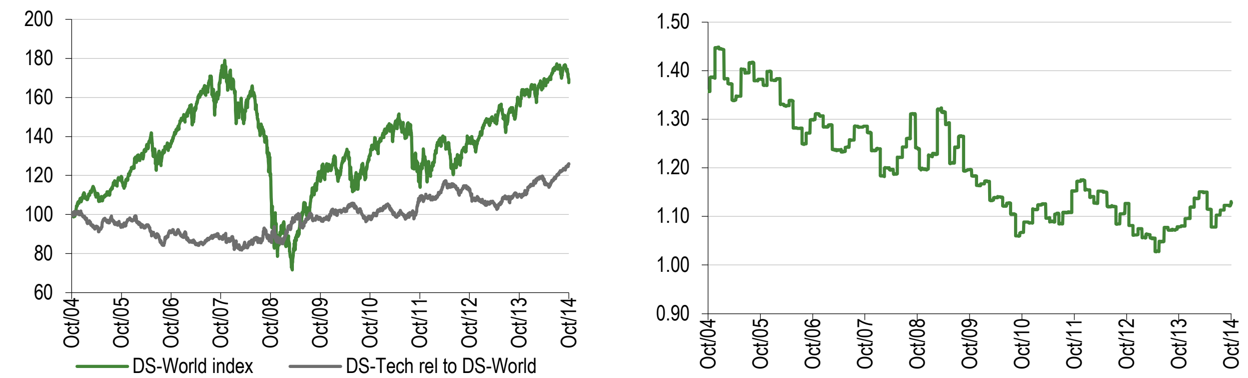
Outlook: Subdued near-term equity market prospects

The trust's unconstrained global mandate and focus on trying to identify disruptive companies means that commenting on broad market drivers is only of partial relevance. Nevertheless, the portfolio is likely to respond to near-term market moves driven by changes in sentiment. The current context for global equities seems mixed: economic growth is still expected to improve but expectations are being trimmed (the IMF, for example). Concerns over China's and Europe's growth rates, together with the course of interest rates, are all sources of potential market volatility. From a valuation perspective, the global market P/E is noticeably above its 10-year average, but still below its high point (see Exhibit 3).

Focusing on EWI's relatively high exposure to technology stocks (Information Technology 37% and technological development being a key driver of a number of stocks in other sectors such as Tesla Motors), the left-hand chart in Exhibit 2 shows that this sector has outperformed recently, although its P/E relative to the broader market has only risen modestly and is below its 10-year average (at 1.13 vs a high of 1.45).

Exhibit 2: Datastream world & technology indices performance and prospective P/Es to 2 October 2014

DS World and DS Tech. relative to DS World over 10 years | DS Tech. P/E 12-month forward relative to DS World over 10 years



Source: Thomson Datastream, Edison Investment Research

We have drawn together valuation data for the world market and technology and biotechnology (relevant to EWI's 21% healthcare exposure) sectors in Exhibit 3. Although the global forward P/E multiple is above its 10-year average we note that, while they may only be broad indicators, tech and biotech sectors only stand at average forward P/E ratings. While looking at these 'point' multiples it is worth remembering that, when it comes to assessing a stock, EWI's managers use them more as an indicator of market sentiment than a real measure of value.

Exhibit 3: Datastream world, technology & biotechnology indices 10-year valuation metrics

	Last	High	Low	10-year average	Last as % of average
DS World P/E (12-month forward)	13.9	15.1	8.7	12.9	108%
DS World Price to book	2.0	2.5	1.1	1.9	106%
DS World Dividend yield	2.5	4.6	2.0	2.5	100%
DS World Return on equity	11.5	16.8	4.7	12.4	92%
DS Tech P/E (12-month forward)	15.7	20.5	10.5	15.6	101%
DS Biotech P/E (12-month forward)	19.7	26.3	13.7	19.6	101%

Source: Thomson Datastream, Edison Investment Research

On a broader view, the potential for technology-enabled companies to create new markets and a dominant position with relatively limited capital requirements, illustrated by some of the current internet market leaders, suggests there should be good opportunities for a fund such as EWI to implement its growth-focused process.

Fund profile: Seeking long-term growth potential

Launched in July 1998 following the reconstruction of Dunedin Worldwide Investment Trust, EWI is an LSE-listed investment trust, which aims to achieve long-term capital growth by investing primarily in a global portfolio of listed companies. In November 2003, EWI appointed Baillie Gifford as investment manager and adopted a long-term concentrated approach that was relatively unconventional among global growth sector funds. This approach has subsequently become increasingly prevalent and the decision was taken in January 2014 to differentiate EWI by shifting the emphasis to investing principally in smaller, less mature companies (when the initial investment is made) in a less concentrated portfolio. From 1 February 2014, the investment policy has been to invest in a broader portfolio of companies at an earlier stage of development, typically with a market capitalisation of less than US$5bn at the time of initial investment. Performance is compared with the S&P Citigroup Global Small Cap index; before 1 February 2014 the performance benchmark was the MSCI All Countries World index. EWI's investment philosophy remains index agnostic and long term, typically with a five-year horizon and often longer, so it would be expected to experience periods when performance differs notably from the comparative index. EWI was previously managed by Mark Urquhart from Baillie Gifford's Long Term Global Growth team and from February 2014 has been managed by Douglas Brodie from Baillie Gifford's Global Discovery team. Brodie and deputy portfolio manager John MacDougall are supported by two investment managers and an investment analyst. The team has managed the Baillie Gifford Global Discovery OEIC since May 2011 employing the same investment strategy.

The managers: Douglas Brodie, John MacDougall

The managers' view: Small is beautiful

The managers summarise the effect of broadening EWI's investment policy as enabling it to access attractive companies earlier in their lifecycle. This means that EWI is now able to address less well trodden areas of the market, exploiting opportunities to invest in a portfolio of companies with significant potential for structural growth in underexploited and dynamic markets. These are typically smaller immature companies characterised by innovation, giving them the ability to disrupt market incumbents or create entirely new markets. Such companies may be classified simplistically as 'small' with reference to their current market capitalisation, but they possess characteristics that allow them to become significantly larger.

Douglas Brodie believes that the investment team's approach, considering smaller companies in a genuinely global way, is a real differentiator compared with the typical regional approach to small-cap investing that seeks to compartmentalise companies. His view is that the smaller subset of innovative, entrepreneurial businesses tends to be quite insulated from the broader economy and will usually succeed or fail dependent on their own actions. He also finds conventional valuation multiple comparison analysis less relevant as the most attractive growth companies often sacrifice near-term profitability for long-term positioning. He considers that the ability to maintain holdings in successful companies as their market caps grow is a further key differentiating factor of EWI's approach.

Brodie emphasises that the investment opportunity is not about the small size of companies but the immaturity of their development; the stronger culture of innovation and entrepreneurialism lower down the market cap scale; and the potential for pronounced market inefficiencies and valuation anomalies. He sees the smaller company universe as a source of highly asymmetric investment opportunities ideal for EWI's long-term focused bottom-up investment approach.

Three of the top 10 holdings that exemplify the characteristics sought by the investment managers are IP Group, Ocado Group and Stratasys, with IP Group and Stratasys already in the portfolio before the broadening of the remit. Ocado is a pure online UK food retailer, which does not face the struggle of the large established bricks-and-mortar food retailers in cannibalising their existing customers. As it matures, it is developing some interesting competitive advantages around customer perceptions of range, reliability and freshness. From 2009 to 2013, Ocado nearly doubled revenue and EBITDA increased almost five-fold. IP Group is a maturing British venture capital portfolio based on the science of various eminent scientists from numerous UK universities. The apparent jewel in the crown of the portfolio is an unlisted company that has pioneered a wholly new, cheap and effective means of DNA sequencing. From 2009 to 2013, IP Group moved from being loss-making to recording attributable profit of £73m and net assets nearly doubled. Stratasys is the market leader in the still nascent industry of additive manufacturing that is commonly known as 3D printing. This industry appears to be at an adoption tipping point as faster production, better materials and engineers trained on 3D CAD design software combine to allow a potential explosion of end-users and applications in industries ranging from healthcare to aviation. From 2009 to 2013, although reporting an operating loss in 2013 due to amortisation of intangibles, Stratasys achieved an almost five-fold increase in both sales and gross profit.

To give a better feel for the managers' approach, a case study of the thinking behind the decision to invest in Alnylam follows.

Case study: Alnylam Pharmaceuticals

Douglas Brodie believes Alnylam is one of the most attractive investment prospects the Global Discovery team has unearthed and it is one of the largest holdings in EWI's portfolio (3%).

Alnylam is a biopharmaceutical company using a new approach to drug discovery and development known as gene silencing, gene knockdown or RNAi (ribonucleic acid interference). This approach exploits a natural mechanism that interferes with (or regulates) the process by which genes provide cells with instructions for making proteins. These proteins are essential for life, but may also be instrumental in disease. The RNAi approach is described by the company as turning off the tap rather than mopping up the unwanted disease proteins.

Brodie is attracted by a number of aspects of this approach, which he outlines as follows:

- **The potential range of targets**. Any gene can be targeted by RNAi; unlike antibodies it is not restricted to targeting proteins on the outside of a cell. The ability to interfere at will and with precision in cell signalling or biochemical pathways allows them to move either upstream or downstream of the disease-causing gene to achieve the desired outcome – the use of RNAi may only be limited by the degree of molecular understanding of a disease.
- **The ease of generating a drug against a chosen target**. Once a target gene is identified, a high-quality RNAi treatment targeting it can be generated in around six to nine months (this would potentially include early proof-of-concept studies to validate its efficacy).
- **The potency observed in humans is striking**. Alnylam's latest RNAi drugs (incorporating the new chemistry) can achieve strong target gene knockdown at very low doses (significantly lower than antibody therapeutics). In practice this could mean significantly lower volume injections and strong backing from the regulatory authorities.
- **The platform is potentially safe and well tolerated**. No worrying side effects have been seen in c 2000 doses given thus far and the fact that it employs a natural biological pathway is seen as holding out the potential for a safe and effective platform.
- **Treatment regimes look very favourable and are possibly transformational** (depending on the disease setting). Alnylam has pioneered its system to be suitable for patient-administered injections and improvements in the chemistry raise the possibility of patients dosing as infrequently as once a quarter. This would probably result in significantly better patient compliance versus intravenously administered drugs or daily tablets.

In addition, Brodie notes the progress Alnylam has made with its technology in the last two years in getting RNAi into cells and improving the active life of the drug once inside. These developments may broaden the application of the platform and enable the development of a whole new class of innovative medicines, potentially much broader than the company's original focus on rare, single gene-mediated orphan diseases. He feels the market may be increasingly missing the point that improvements in Alnylam's platform give a tantalizing glimpse of RNAi potentially being superior to both antibodies and small molecule drugs.

We see Alnylam as a good example of the managers identifying a business where they see substantial growth potential based on a significant technical innovation, which could be transformational/disruptive in its market. An important characteristic the Global Discovery team seeks when assessing investments is a business with a platform that can be applied to broader markets and the RNAi approach to drug development fits this well.

It should not be forgotten that a business such as Alnylam comes with significant risks, as it has yet to record a profit[1] and faces a range of risks and uncertainties associated with a pharmaceutical company at a relatively early stage of development.

Asset allocation

Investment process: Bottom-up benchmark agnostic approach

Baillie Gifford's Global Discovery team takes a fundamental, non-indexed approach to stock selection, aiming to add value by making long-term investments in well researched and well managed businesses that enjoy sustainable competitive advantages. The investment team undertakes its own fundamental research, which has a strong emphasis on analysing companies' financial statements and assessing management. Research focuses on five key factors: industry background, competitive advantage, financial strength, management attitude and valuation. The aim is to select stocks with the potential to outperform over the medium and long term, focusing on a company's prospects over at least three to five years. There is a bias towards growth and the investment process assesses growth potential ahead of considering valuation, although this can also drive investment decisions.

New idea generation is focused on investment opportunities in companies with a market capitalisation of US$5bn or below. This is because less mature, more entrepreneurial businesses are believed to offer the most significant potential for profit growth and share price appreciation. The managers consider that there are about 30,000 smaller companies of sufficient size and liquidity in which EWI can invest out of a universe of around 50,000 globally. Efforts are focused on businesses the managers believe will benefit from change. This could either be a change in market conditions including macroeconomic factors, demographics, rising wealth or environmental issues; or a company's response to change through innovation, the use of technology or a new business model. Stocks not exhibiting one of these characteristics are qualitatively screened out to leave a more manageable universe. The team analyses around 500 stocks each year to generate investment ideas for the portfolio.

The investment team's methodology has been tailored specifically to exploit the highly asymmetric investment opportunities that are the focus of EWI's long-term, bottom-up approach through addressing their primary characteristics in the following ways:

- **Immature businesses**. These are the exception in the investment universe, so the portfolio needs to be focused; they can evolve rapidly, with changes to the business model being a positive development; they need to have large (ideally global) addressable markets.

[1] About 25% of the portfolio companies have yet to reach profitability.

- **Innovation**. The investment managers need to understand innovation cycles and where businesses sit within them; new platforms create scalable opportunities; innovation compounds.
- **Valuation anomalies**. Asset class arguments need to be avoided; uncertainty should be embraced; valuing young, often pre-profitability businesses requires a long-term approach that weighs up what is proven and tangible alongside what has promise and long-term potential.
- **Asymmetry**. Successful investments should be retained in the portfolio and not sold based on size alone; early investment provides greater exposure to the identified growth potential; a broad base of initially small holdings is required to capture the small number of highly successful investments.

Bottom-up research is considered most valuable when assessing immature businesses as, although they are often simpler, it is typically during the early stages that the market's understanding of a company's growth potential is least developed. Additionally, market inefficiencies and valuation anomalies are observed by the managers as being more common further down the market cap scale.

The early-stage nature of the companies that meet EWI's investment criteria leads to a wide range of potential investment outcomes. Consequently, it is considered important that the portfolio is adequately diversified by holding and thematic influence, as well as being sufficiently broad to enable the inclusion of new ideas. The following portfolio exposure parameters have been set to achieve an appropriate level of diversification:

- 75 to 125 holdings (previously 25 to 50);
- Holding sizes typically 0.5% to 2.0% at the time of purchase:
  - standard initial position c 1%
  - higher starting weight (up to 2%) determined purely by investment merit
  - 0.5% holding size for higher-risk, binary outcome-type investments;
- a minimum of six countries;
- minimum of 15 industries (previously six sectors);
- market cap typically US$5bn or below at initial purchase; and
- unlisted investments no more than 5% of portfolio.

Currency factors are incorporated into the stock selection process, but no currency management techniques are adopted at the portfolio level. The rationale is that currency moves are believed to even out over the medium term, stock-specific risks dwarf currency risks and trying to analyse currencies is not straightforward and would divert attention away from stock picking.

A team-based approach is operated with stocks under consideration for inclusion in the portfolio discussed by the investment team before an investment being made. Each team member is a generalist and their skill sets are considered to be complementary. No specific regional responsibilities are allocated, although Douglas Brodie has a bias towards the US market and John MacDougall, Asian markets. While Douglas Brodie, as portfolio manager, is ultimately responsible for EWI's portfolio, an environment is encouraged that gives individual team members a high degree of influence over investment decisions. Once purchased, the operational performance and valuation of portfolio companies are continually monitored and the team conducts a formal portfolio review on a quarterly basis.

The Global Discovery team is also able to draw on the research performed by Baillie Gifford's other investment teams. The location of all the teams in one office in Edinburgh enables knowledge sharing in the development of cross-border investment themes and facilitates analysis of the competitive strengths and valuations of companies relative to their international peers.

Current portfolio positioning

Following the broadening of the investment policy in January 2014, the managers report that 85% of the portfolio was turned over. While this represented a substantial change, 10 of the 38 previous holdings were retained in the portfolio. Five of these are top 10 holdings at 31 August 2014 and four have substantially increased weightings compared with a year earlier (see Exhibit 1).

While the managers focus on the more granular industry composition of the portfolio, we set out normal sectoral and geographical analyses, which simplify comparison with the index in Exhibits 5 and 6. We first show an indicative analysis of thematic exposures provided by the company (see Exhibit 4) with examples of companies held shown against each theme in the central column. This is useful in that it groups companies in terms of some of the common themes that have informed the investment case. There is significant exposure to the enabling capability of the internet, companies facilitating more cost-effective healthcare and those providing smart manufacturing and processing capabilities. These themes emerge from an analysis of the portfolio, but the managers make clear the selection process is predominantly bottom up rather than thematically driven.

Exhibit 4: Thematic analysis at 30 June 2014

Theme/sub-theme	Example holding	Approximate % of portfolio
The Internet		36.5
Aggregators - conveying digital information to end users	TripAdvisor	18.4
Platforms and services	Ocado	14.1
Hardware supporting mobile consumption of digital content	Imagination	4.0
More efficient healthcare		18.6
Novel therapeutic platforms	Alnylam Pharmaceuticals	10.6
Medtech - sensing, imaging and diagnostics	Dexcom	8.0
Automation		17.8
Robotics/hardware related automation	Stratasys	9.0
Digitisation of processes/ business process outsourcing	Temenos	8.8
Energy/Commodities	Tesla	6.6
Innovative new materials	Nanoco	5.0
Other holdings		15.5
		100.0

Source: Edinburgh Worldwide Investment Trust

At 31 August 2014, Information Technology, healthcare and consumer discretionary sectors were the most significant exposures representing 76% of the portfolio, as shown in Exhibit 5. This is similar to the position at the end of the last financial year when these three sectors comprised 80% of the portfolio, although the weightings are more balanced with healthcare exposure increasing 11 percentage points to 21% and consumer discretionary reducing 14 points to 18%. EWI is overweight these three sectors compared with the S&P Global Small Cap index and underweight in all other sectors, most significantly in financials, industrials and materials. While portfolio sector exposure appears relatively concentrated, we note that at 31 August 2014 EWI has exposure to 26 industries, the largest being biotechnology with a 10.7% weighting.

Exhibit 5: Sector composition (all data as at 31 August 2014 except where shown)

	Trust weight (%)	Trust weight (%) 31 October 2013	Change (pp)	Index weight (%)	Trust active weight (pp)	Trust weight/ index weight
Information Technology	36.5	37.8	-1.3	12.7	23.8	2.9
Healthcare	21.2	10.0	11.2	8.7	12.5	2.4
Consumer Discretionary	18.0	31.9	-13.9	15.1	2.9	1.2
Industrials	9.6	5.0	4.6	19.1	-9.5	0.5
Financials	8.3	3.6	4.7	22.5	-14.2	0.4
Materials	1.8	0.0	1.8	8.6	-6.8	0.2
Energy	0.4	0.0	0.4	4.9	-4.5	0.1
Consumer Staples	0.0	6.3	-6.3	4.3	-4.3	0.0
Utilities	0.0	0.0	0.0	3.1	-3.1	0.0
Telecoms Services	0.0	0.0	0.0	1.0	-1.0	0.0
Net liquid assets	4.2	5.4	-1.2	0.0	4.2	N/A
Total	**100.0**	**100.0**		**100.0**		

Source: Edinburgh Worldwide Investment Trust, S&P Dow Jones, Edison Investment Research

Exhibit 6 shows the geographic distribution of the portfolio, highlighting that the most significant change from a year earlier is the 19-point increase in exposure to the UK to 23%. Offsetting this increase are six to seven point reductions in exposure to each of North America, Europe and Asia. North America represents the largest exposure at 31 August 2014. The most significant differences compared with the S&P Global Small Cap index are EWI's overweight UK and underweight North America, Asia and Europe positions.

Exhibit 6: Geographic distribution (all data as at 31 August 2014 except where shown)

	Trust weight (%)	Trust weight (%) 31 August 2013	Change (pp)	Index weight (%)	Trust active weight (pp)	Trust weight/ index weight
North America	44.7	51.4	-6.7	52.5	-7.8	0.9
UK	23.4	4.3	19.1	7.7	15.7	3.0
Europe	12.4	19.4	-7.0	16.0	-3.6	0.8
Asia	11.7	17.6	-5.9	17.8	-6.1	0.7
Australasia	3.1	0.0	3.1	2.6	0.5	1.2
South America	0.5	0.0	0.5	1.9	-1.4	0.3
Other	0.0	0.0	0.0	1.5	-1.5	0.0
Net liquid assets	4.2	7.3	-3.1	0.0	4.2	N/A
Total	**100.0**	**100.0**		**100.0**		

Source: Edinburgh Worldwide Investment Trust, S&P Dow Jones, Edison Investment Research

Performance: Outperformance over the long term

Due to the change in EWI's investment policy and investment team on 1 February 2014, there is only limited relevance in assessing the trust's longer-term historic performance. EWI's investment team has been managing the Baillie Gifford Global Discovery OEIC since its launch in May 2011 employing the investment strategy adopted by EWI in February 2014 and therefore this fund's past performance has potentially greater relevance. The Global Discovery Fund OEIC and EWI portfolios are likely to be similar but not identical and performance will be affected by the OEIC's inflows and outflows and EWI's gearing. Exhibit 7 shows that the Global Discovery Fund has appreciably outperformed EWI and its current and former performance benchmarks since inception.

Exhibit 7: Global Discovery Fund and benchmarks total return performance (%) to 30 September 2014

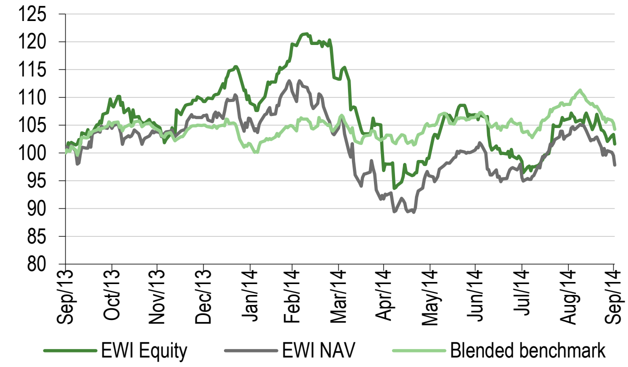
	One month	Three months	Six months	One year	Three years	Since 3 May 2011
Global Discovery Fund A Acc	(2.5)	(0.5)	(2.4)	2.6	85.7	50.1
Global Discovery Fund B Acc	(2.4)	(0.3)	(2.0)	3.4	90.5	54.6
EWI Share Price	(2.5)	(3.3)	(8.8)	3.3	50.9	22.9
EWI NAV	(3.3)	(1.0)	(4.8)	(0.5)	49.9	22.0
S&P Global Small Cap	(3.1)	(1.0)	0.0	7.1	57.9	28.2
MSCI AC World	(0.8)	3.2	5.8	11.8	54.8	31.4

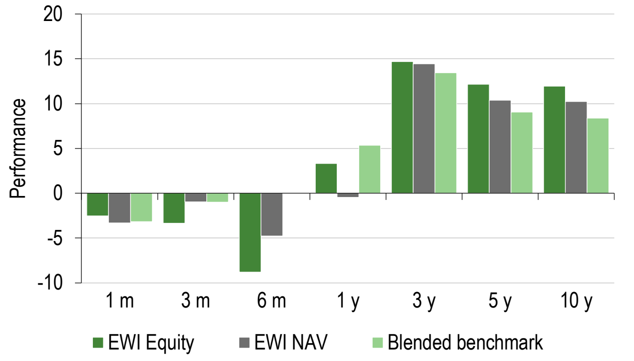
Source: Edinburgh Worldwide Investment Trust, Thomson Datastream, Edison Investment Research. Note: The Global Discovery Fund was launched on 3 May 2011.

As shown in Exhibit 9, EWI's NAV total return has outperformed its blended benchmark (MSCI All Country World index until 31 January 2014 and the S&P Global Small Cap index thereafter) over three, five and 10 years while underperforming over one year. As illustrated in Exhibit 8, performance has diverged considerably from the benchmark over the last 12 months. While the benchmark made reasonably steady progress over the period, EWI delivered considerable outperformance over the first five months, sharply underperformed in March and April 2014, then outperformed again through to the end of August. The managers attribute the correction in March and April to a largely indiscriminate sell-off in technology and biotech stocks, to which the portfolio has significant exposure (see Exhibit 5).

Exhibit 8: Investment trust performance to 30 September 2014

Price, NAV and benchmark total return performance, one year rebased	Price, NAV and benchmark total return performance (%)*





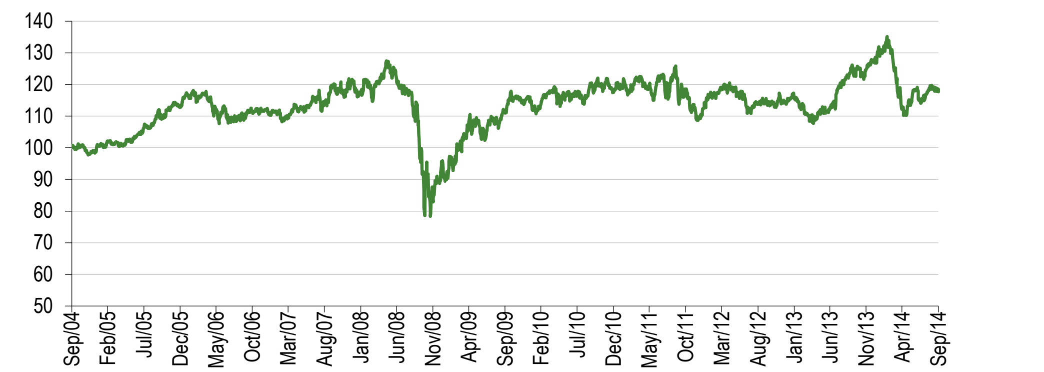
Source: Edinburgh Worldwide Investment Trust, Thomson Datastream, Edison Investment Research. *Note: Three-, five- and 10-year performance annualised.

Exhibit 9: Share price and NAV total return performance versus benchmarks (% points) to 30 September 2014

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Blended benchmark	0.7	(2.4)	(8.8)	(1.9)	3.4	15.1	38.0
NAV relative to Blended benchmark	(0.1)	0.0	(4.8)	(5.5)	2.7	6.3	18.5
Price relative to S&P Global Small Cap	0.7	(2.4)	(8.8)	(3.5)	(4.4)	1.8	N/A
NAV relative to S&P Global Small Cap	(0.1)	0.0	(4.8)	(7.0)	(5.1)	(5.9)	N/A
Price relative to MSCI AC World	(1.7)	(6.3)	(13.8)	(7.6)	(2.6)	8.5	30.1
NAV relative to MSCI AC World	(2.5)	(4.0)	(10.0)	(10.9)	(3.2)	0.2	11.7
Price relative to FTSE AllShare	0.3	(2.4)	(9.9)	(2.6)	2.0	11.5	40.2
NAV relative to FTSE AllShare	(0.5)	0.0	(5.9)	(6.2)	1.3	3.0	20.4

Source: Edinburgh Worldwide Investment Trust, Thomson Datastream, Edison Investment Research. Note: EWI's blended benchmark index is MSCI All Country World index until 31 January 2014 and S&P Global Small Cap index thereafter. Geometric calculation.

Exhibit 10: NAV total return vs blended benchmark total return over 10 years

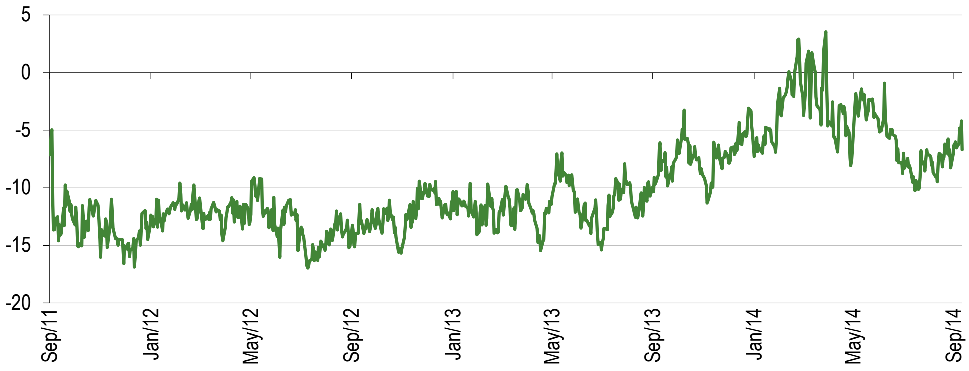


Source: Edinburgh Worldwide Investment Trust, Thomson Datastream, Edison Investment Research.

Discount: Tending to narrow

The board believes that the key driver of the discount is the trust's long-term performance record, but also takes into consideration whether there is a need to balance supply and demand factors in the interest of all shareholders through issuing or repurchasing shares. EWI's share price discount to NAV (debt at fair value including income) has narrowed over the past 12 months from an average 12% over the previous two years to c 7% currently. The shares moved briefly to a premium in March and April 2014 before returning to a discount in May 2014 and the discount has averaged 6% over the last 12 months. The board believes the 10% to 15% level of discount that prevailed during 2012 and the majority of 2013 reflected low levels of liquidity in EWI's shares and sought to address this through the broadening of the investment policy effective from 1 February 2014.

Exhibit 11: Share price discount / premium to NAV (fair incl. income) over three years



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

EWI has 49.0m shares in issue. Although the trust has annually renewed authority to repurchase up to 14.99% of the shares in issue and to allot new shares up to 5% of issued share capital, no share issues or repurchases have been made since reconstruction in 1998. Gearing is restricted to a maximum of 30% with 10% being considered an approximately neutral level believed by the board and managers to be appropriate for a long-term investment vehicle. At 31 August 2014, EWI had borrowings of £28.9m, gross gearing stood at 13.9% and net gearing was 9%. The trust has a five-year fixed rate multi-currency loan from National Australia Bank of £7.5m, €9.4m and US$25.6m.

In April 2013, the annual management fee was changed from 0.80% of EWI's market capitalisation to 0.95% on the first £50m of net assets and 0.65% on the remainder, with no performance fee payable. In FY13, the management fee was £1.4m, 75% allocated to capital and 25% to revenue, and ongoing charges were 0.99%. Ongoing charges have reduced gradually from 1.08% in FY09 (see Exhibit 1) and FY14 should see a further reduction to around 0.95% as the lower management fee has a full year affect.

Dividend policy

Although EWI's objective is capital growth and portfolio income can fluctuate substantially from year to year, the board is mindful of the importance of the dividend to some shareholders. Accordingly, despite a decline in revenue earnings to 1.68p per share the FY13 total dividend was maintained at 2.00p, unchanged for the eighth successive year (see Exhibit 1). A 0.05p revenue loss per share was reported for H114 and, while the interim dividend was maintained at 0.50p, the expected decline in earnings for FY14 means the level of the final dividend will be kept under review. EWI has revenue reserves equating to more than one and a half years of dividend payments.

Peer group comparison

Exhibit 12 shows a comparison of EWI with selected closed-ended peers from the AIC Global sector, which has 38 constituents. The selected trusts are those with between 35% and 55% exposure to North America. While EWI's NAV total return is at the lower end of the sector over one year, it is in line with or ahead of the sector average over three, five and 10 years. In terms of risk-adjusted returns, EWI has Sharpe ratios below one over three and five years similar to the sector average. EWI's share price discount to NAV is similar to both the sector and selected peer group averages. EWI's ongoing charge is above the selected peer group average, but in line with the sector average and should see a reduction in FY14 due to the full-year effect of the lower management fee.

Exhibit 12: Selected global closed-ended sector peers, as at 10 October 2014

Company	Market Cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 3yr (NAV)	Sharpe 5yr (NAV)	Discount (ex par)	Ongoing Charge	Perf Fee	Net Gearing	Dividend yield (%)
Edinburgh Worldwide	178.6	(7.0)	33.2	47.8	141.3	0.6	0.7	(6.7)	0.99	No	112	0.6
Alliance Trust	2,424.0	2.3	36.2	44.9	97.7	1.0	0.8	(12.0)	0.77	No	112	2.3
F&C Global Smaller Cos.	429.9	2.9	62.2	87.6	218.2	1.6	1.2	0.6	0.53	Yes	110	1.0
F&C Investment Trust	2,140.1	6.0	42.9	57.8	135.5	1.2	1.0	(10.5)	0.51	No	107	2.4
Henderson Global Trust	137.2	2.5	31.5	45.5	140.1	0.9	0.8	(10.3)	0.95	No	100	2.8
JPMorgan Overseas	215.6	5.5	43.4	53.5	143.6	1.1	0.8	(7.1)	0.65	Yes	108	1.6
Martin Currie Global	168.2	5.2	40.8	57.4	143.1	1.3	1.0	(0.3)	0.75	Yes	99	2.4
Monks	804.8	(3.5)	21.3	31.0	113.0	0.6	0.7	(15.2)	0.57	No	101	1.1
RIT Capital Partners	2,032.0	1.4	20.5	33.5	128.3	0.9	0.8	(3.6)	1.25	Yes	118	2.3
Scottish Mortgage	2,643.5	13.7	64.1	99.4	234.7	0.9	1.0	(3.6)	0.50	No	115	1.3
Selected peers average	**1,117.4**	**2.9**	**39.6**	**55.8**	**149.5**	**1.0**	**0.9**	**(6.9)**	**0.75**		**108**	**1.8**
Sector average	**510.2**	**3.5**	**32.7**	**47.8**	**130.4**	**0.9**	**0.8**	**(6.7)**	**0.99**		**101**	**2.0**

Source: Morningstar. Note: TR=percentage total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as percentage of shareholders' funds.

The board

The board comprises five non-executive directors, all of whom are considered to be independent of the investment manager. David Reid (appointed chairman February 2011; director May 1998) was previously a director of Smith & Williamson and Fleming Private Asset Management. Senior independent director, William Ducas (appointed March 2002), was previously a director of West LB Mellon Asset Management and a managing director of F&C Management North America. Donald Cameron (appointed December 2010) is an advocate at the Scottish Bar, a qualified barrister in England and Wales and a director of Murray Income Trust. Helen James (appointed December 2010) is CEO of Investis, a leading digital corporate communications company, and a director of The Mercantile Investment Trust. Henry Strutt (appointed November 2011) spent over 20 years at Robert Fleming, including 17 in the Far East, and is a director of Smith & Williamson.

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