

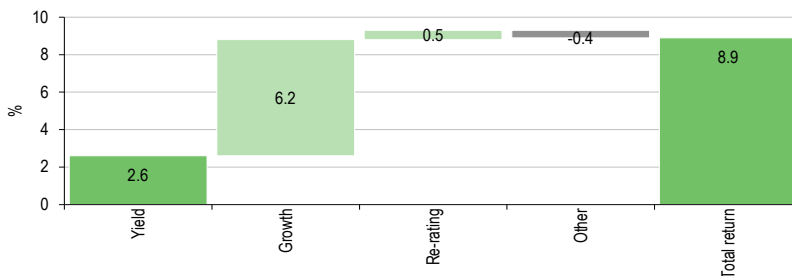
# Securities Trust of Scotland

Initiation of coverage

## The Trojan horse

Securities Trust of Scotland (STS) has had an eventful 2020. Following a competitive selection process, the board appointed Troy Asset Management (Troy AM) as investment manager in September, having served protective notice on Martin Currie in June, following the resignation of former manager Mark Whitehead. The trust is retaining its combined income and long-term capital growth investment objective, while adding a sustainability twist. STS's board has reset the dividend to what it believes to be a resilient level of 5.5p per share. There will no longer be income derived from writing options, and the board aims to steadily grow the dividend from the set level. Troy AM as a house has an absolute return mindset, so capital preservation is equally important within the revised mandate as income and capital growth at a sustainable pace.

### Trojan global income fund's total return breakdown (%)



Source: STS, Troy AM. Note: Annualised since inception in 2016 to 31 December 2019.

## The opportunity

Troy AM's cautious, low volatility approach has resulted in a steady long-term performance. The chart above shows Trojan global income fund's annualised total return of c 9%, supported by a resilient income stream (2.6% yield). The fund was launched and run by James Harries since 2016.

## Why consider investing in STS

- Proven top-quartile, long-term track record of Troy AM's global equity income manager; focus on sustainable income and quality capital growth.
- A discount control mechanism introduced with the aim of ensuring that the trust trades close to NAV.
- Contribution to costs by Troy AM includes a 12-month fee waiver and significant ongoing annual payments towards the company's administration fees.
- Proactive board committed to promoting the trust and serving shareholders' interests.

## Discount fluctuations stabilised at close to NAV level

STS is currently trading at a 0.7% discount to its cum-income NAV. In September 2020, the market received the announcement about Troy AM's appointment positively. Since mid-September the discount has stabilised at a narrower than 4% level, having recovered its fluctuations following the news about a change in manager in June 2020.

### Investment trusts Global equity income

2 December 2020

**Price** 201.0p  
**Market cap** £210.4m  
**AUM** £235.0m

NAV\* 199.0p  
 Premium to NAV 1.0%  
 NAV\*\* 202.5p

Discount to NAV 0.7%

\*Excluding income. \*\*Including income. As at 30 November 2020.

Yield 3.2%

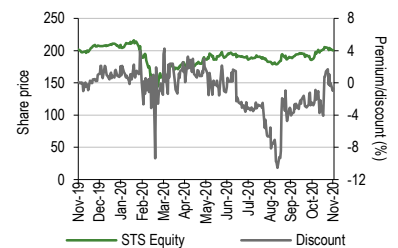
Ordinary shares in issue 104.7m

Code STS

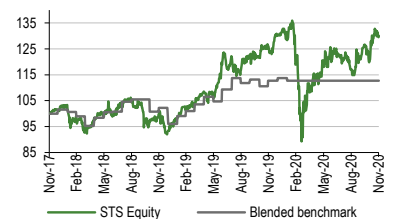
Primary exchange LSE

AIC sector Global Equity Income

### Share price/discount performance



### Three-year performance vs index



52-week high/low 216.0p 142.0p

NAV\* high/low 211.9p 148.4p

\*Including income.

### Gearing

Net\* 6.0%

\*As at 30 November 2020.

### Analysts

Victoria Chernykh +44 (0)20 3077 5700

Mel Jenner +44 (0)20 3077 5720

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

[Edison profile page](#)

**Securities Trust of Scotland is a  
research client of Edison Investment  
Research Limited**

## Exhibit 1: Trust at a glance

### Investment objective and fund background

Securities Trust of Scotland's investment objective is to achieve rising income and long-term capital growth through investment in a balanced portfolio constructed from global equities. Following the adoption of an unconstrained mandate from 1 June 2016, the trust measures its performance versus the Lipper Global - Global Equity Income Index.

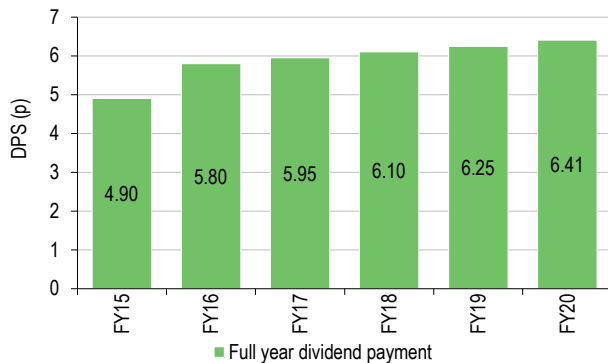
### Recent developments

- 12 November 2020: Announcement that Troy AM is formally appointed as the company's investment manager.
- 17 September 2020: Change of investment management arrangements announcement, including the appointment of Troy AM as manager; no change in the investment objective and introduction of discount control mechanism.
- 1 July 2020: Annual results to 31 March 2020. NAV TR -8.3% vs peer group TR -9.5%. Share price TR +2.7%. Total dividend for FY20 of 6.41p per share.

Forthcoming		Capital structure		Fund details	
AGM	September 2021	Ongoing charges	0.9%	Group	Troy Asset Management
Interim results	December 2020	Net gearing	6.0%	Manager	James Harries
Year end	31 March	Annual mgmt fee	(see page 10)	Address	28 Walker Street, Edinburgh EH3 7HR
Dividend paid	Quarterly	Performance fee	None	Phone	+44 (0) 131 378 05 00
Launch date	28 June 2005	Trust life	Indefinite	Website	<a href="http://www.securitiestrust.com">www.securitiestrust.com</a>
Continuation vote	None	Loan facilities	£25m (see page 10)		

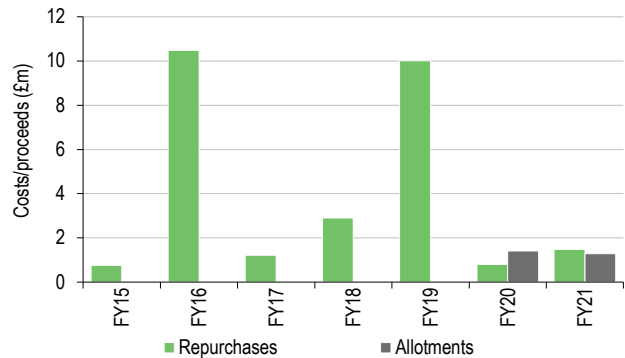
### Dividend policy and history (financial years)

Dividends are paid quarterly in October, January, April and July. Dividends were increased in FY16 after the announcement of a new progressive dividend policy.

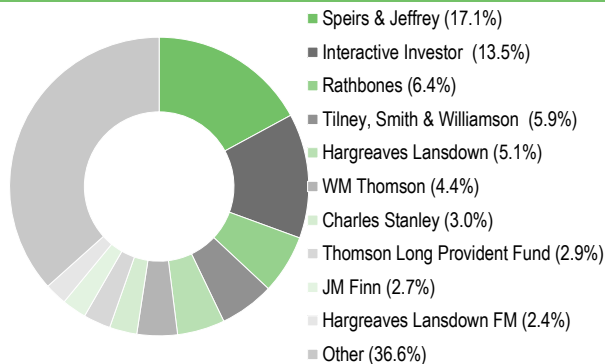


### Share buyback policy and history (financial years)

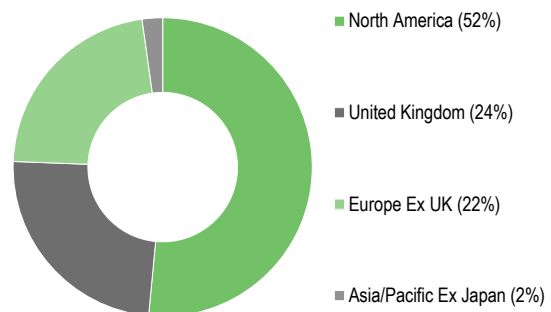
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital.



### Shareholder base (as at 31 October 2020)



### Portfolio exposure by geography (as at 25 November 2020), net of cash, gearing, based on Troy AM's portfolio



### Top 10 holdings (as at 25 November 2020), Troy AM's portfolio

Company	Country	Sector	Portfolio weight %
British American Tobacco	UK	Consumer staples	6.0
Unilever	Netherlands	Consumer staples	5.8
Philip Morris International	US	Consumer staples	4.7
Paychex	US	Information technology	4.6
Roche	Switzerland	Healthcare	4.6
Reckitt Benckiser	UK	Consumer staples	4.5
PepsiCo	US	Consumer staples	4.5
Novartis	Switzerland	Healthcare	4.4
Medtronic	US	Healthcare	4.2
Automatic Data Processing	US	Information technology	3.9
<b>Top 10</b>			<b>47.2</b>

Source: Securities Trust of Scotland, Troy AM, Edison Investment Research

## Fund profile: Capital preservation, growth and income

In September 2020, the board of STS announced the appointment of Troy AM as the trust's manager. The previous manager was Martin Currie, who launched the trust in 2005.

STS aims to achieve rising income and long-term capital growth through the investment in a balanced portfolio of global equities. The named fund manager, James Harries, supported by the assistant fund manager, Tomasz Boniek, employs an actively managed global equity income strategy with a focus on generating low volatility returns. The concentrated portfolio of 35–55 stocks is constructed without reference to benchmarks and with careful consideration of the absolute risk posed by each investment. STS invests primarily in global equities but may also invest in investment companies, real estate investment trusts, collective investment schemes and warrants. Derivatives may be used for the purposes of efficient portfolio management, which includes the hedging of currency risk. The managers do not intend to hedge currency or use derivatives and will stick to investing in equities. The trust now operates a strict discount control policy that seeks to ensure that the shares trade at, or close to, NAV. Gearing is permitted up to 20% of net assets; at end-November 2020, net gearing was 6.0%.

## The fund manager: Troy AM

### Manager change

Following a letter of resignation from the global income team at Martin Currie on 2 June 2020, and a subsequent review of the investment management arrangements for STS, the board announced the appointment of Troy AM as the trust's investment manager on 17 September 2020. Martin Currie's manager, Mark Whitehead, who ran STS from May 2016, and its income team was fully engaged in the management of the fund and the handover from the notice date until 1 December 2020, when Troy AM fully took over management of the trust. This ensured a smooth transition between the managers.

The trust's name remains the same, as does its investment strategy. Troy AM will manage the fund to meet its joint global equities income and growth investment objective. Exhibit 2 below compares the trust's current and previous features. The Troy AM team has restructured the fund and aims to run it as a quality growth and income portfolio.

**Exhibit 2: Comparing the trust's current and previous features**

Feature	Troy AM	Martin Currie (prior to 12 November 2020)
The manager	Troy AM	Martin Currie
Fund manager(s)	James Harries and Tomasz Boniek	Mark Whitehead (4 years)
The mandate	Global equity income and growth	Global equity income and growth
The name	Securities Trust of Scotland	Securities Trust of Scotland
Investment strategy	Income and growth	Income and growth
Investment objective	To achieve rising income and long-term capital growth through investment in a balanced portfolio constructed of global equities.	To generate rising income and long-term capital growth for shareholders through investing in a diversified portfolio of predominantly larger companies (with market capitalisations over £1bn and high trading liquidity).
Benchmark	Lipper Global - Global Equity Income Index	Blended benchmark was the UK All Companies Index until 31 July 2011, MSCI World High Dividend Yield Index until 31 May 2016 and the rolling three-year median return of open- and closed-ended peers thereafter
Portfolio composition	35–55 large cap (over £1bn) stocks	35–55 high-conviction large cap (over £1bn) stocks
Stock limits	Maximum 6% for large caps, 3% for mid-caps	The sum of all holdings over 5% of the total fund must not exceed 40% of the portfolio
Dividend yield	3.1% (historic)	3.0% (last 12 months)
Derivatives	Derivatives may be used for the purposes of efficient portfolio management, which includes the hedging of currency risk	Income-enhancing derivative strategies: sale of predominantly put options (and occasionally calls) on held stocks
Discount control	Yes	No
Gearing	Maximum up to 20% of net assets	Maximum up to 20% of net assets

Source: STS, Troy AM, Edison Investment Research

## Troy AM

Troy AM was set up in 2000 by Lord Weinstock and Sebastian Lyon and remains an independent, owner-managed boutique, aligned with investors. It has an independent board and adheres to strong governance principles. The company employs 38 people and has c £13bn of assets under management (AUM) at November 2020, managing five strategies, including a global equity income strategy. Since inception, Troy AM's investment focus has been on the preservation of capital and absolute returns. It invests in companies that it deems to be of high quality and that have a high return on invested capital (ROIC).

Troy AM has a proven track record of managing and growing investment trusts. Since being appointed, Troy AM has grown the shareholders' funds of Personal Assets Trust from £149m in October 2008 to £1.3bn in November 2020 and the shareholders' funds of Troy Income & Growth Trust from £47m in 2009 to £236m in November 2020.

## The team

The trust is managed by James Harries and Tomasz Boniek with the support of Troy AM's wider investment team of 14 investment professionals. Harries is the fund manager responsible for Troy's Global Income strategy. He has 23 years' investment experience and has managed global equity portfolios since 2002.

Joining Troy AM in 2016 to establish the Troy Global Income Fund, Harries was previously a fund manager at Newton Investment Management, where he established and managed the Newton Global Income Fund. He was also the alternate manager on the Newton Real Return Fund. Under Harries' management, the Newton Global Income Fund grew to c £4.5bn in AUM and was a top quartile performer in its sector over 10 years. Boniek has worked alongside Harries on Troy AM's global equity income portfolios since 2017.

## The manager's view: Back to fundamentals

---

As the world is immersed in politics, including the recent US presidential election, Brexit and US-China trade relations, and pandemic management strategies, Harries and Boniek have been focusing on the current results from their portfolio companies. They believe that in the long run, companies' sustainable cash flows and business growth will have much more of an impact on shareholders' returns, than politics. They continue to monitor the investible universe, typically consisting of companies with high resistance to macroeconomic and political shocks, such as those caused by the COVID-19 pandemic.

## Asset allocation

---

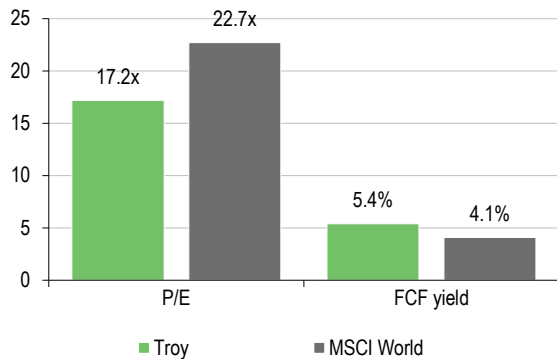
### Investment strategy: Focus on sustainable income growth

Troy AM's global income strategy applies a patient and disciplined capital allocation approach to create a concentrated portfolio of high-quality companies, purchased at attractive valuations and held for the long term. The team identifies exceptional global companies that can sustain growth and generate high returns on capital to compile an investible universe. These businesses have strong management teams that allocate capital effectively. Relative valuation is considered: the team selects attractively valued companies relative to similar investment opportunities.

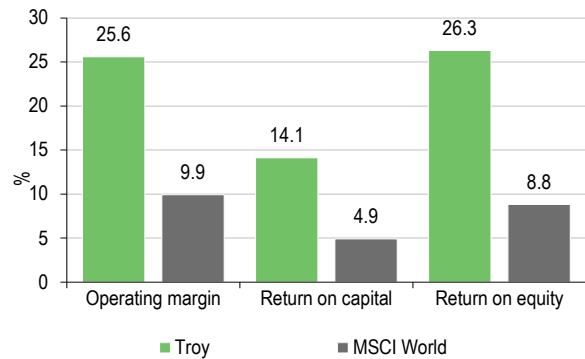
Exhibit 3 illustrates Troy AM's global income strategy characteristics relative to the MSCI World Index. These are based on the Trojan global income fund. The strategy has lower valuations with a P/E multiple of 17.2x versus 22.7x, a higher cash flow yield of 5.4% versus 4.1%, a higher

operating margin of 25.6% versus 9.9%, a higher return on capital of 14.1% versus 4.9% and a higher ROE of 26.3% versus 8.8%.

**Exhibit 3a: Strategy valuations\***



**Exhibit 3b: Strategy quality measures\***



Source: STS, Troy AM at 31 August 2020. Note: \*Trojan Global Income strategy versus MSCI World Index.

Portfolio turnover is typically low (under 10% pa). Troy AM considers itself as an owner of businesses and buys equities to access their long-term futures, targeting compounding value over time.

The strategy seeks to deliver high-quality sustainable income from a diversified portfolio of high conviction stocks, aiming to grow the portfolio's income steadily over time. The fund manager intends to derive income from the dividend distributions of the underlying portfolio and does not intend to use option writing as part of the income strategy. As a consequence, in the short term, the revised strategy will deliver a lower level of income than is currently received by the company, but the board believes that the long-term income growth prospects will be enhanced.

### Investment process: Selecting from the investable universe

Troy AM's team maintains a global income investable universe of around 200 stocks in its favoured sectors (shown in Exhibit 5a). The team monitors and updates the universe, using quantitative and qualitative screens. Ideas on candidate companies are presented to the fund manager. Each stock has a two-page review of its investment case. If the stock passes the selection criteria of the team, further research is undertaken including:

- a full review of primary documents;
- a detailed risk/environmental, social and governance/cash flow-focused financial analysis;
- an assessment of fair value;
- meeting with a company's management; and
- all of the above are documented on Troy AM's proprietary template.

**Exhibit 4: Characteristics of companies in the investible universe**

Characteristic	Details	Stock examples
Durable competitive advantages	Unique intangible assets	Microsoft, Reckitt
	Powerful network effects	Benckiser, Paychex,
	Cost advantages	Accenture, British
	High switching costs	American Tobacco,
	High regulatory hurdles	PepsiCo, Roche
Attractive business models	Long runway for growth	
	Small ticket, essential products and services	
	Few/no rivals, limited customer concentration	
	Wide geographic diversification	
	Financially productive	
Strong management teams	Allocate capital to maintain and grow the business	
	Return cash to the owners where appropriate	
	Alignment of interest with shareholders	

Source: STS, Troy AM, Edison Investment Research

Troy AM's team seeks businesses that should be insulated from ongoing disruption, have predictable growth, recurring revenues and high free cash flows. Exhibit 4 shows the characteristics of the type of company it seeks and some stock examples.

The team conducts ongoing reviews, including regular company meetings, and continuously stress tests the investment case of all the monitored companies. Portfolio managers are responsible for investment decisions and select stocks for the portfolio from the investible universe.

The STS's investment approach is bottom-up, unconstrained in general and by any benchmark. Lipper Global - Global Equity Income Index is used as a reference index. Despite the high stock concentration, quality bias de-risk the portfolio to an extent, relative to a global basket of stocks. The following limits are set:

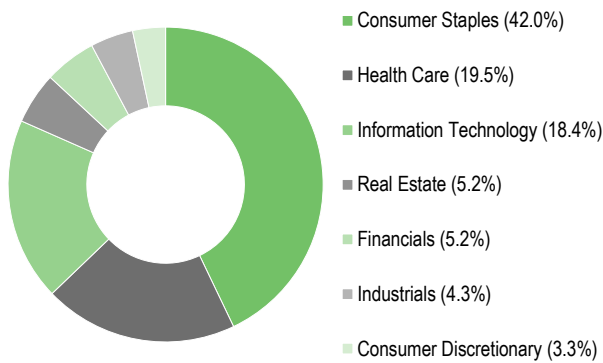
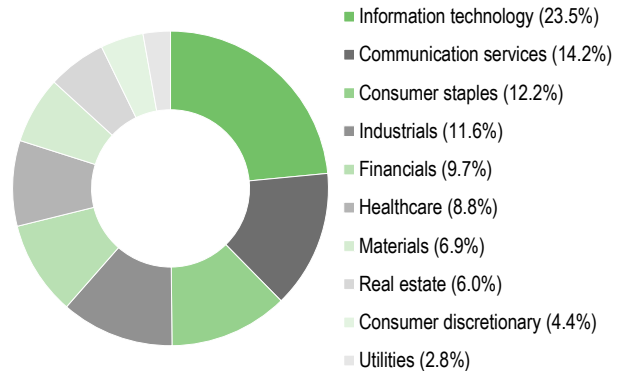
- no more than 10% of the company's gross assets may be invested in listed investment companies (including UK-listed investment trusts);
- the board must approve in advance all investments in investment schemes, which are sponsored by Troy AM;
- the sum of all holdings over 5% of the total portfolio must not exceed 40% of the portfolio;
- no more than 15% of the total portfolio can be invested in collective investment schemes, of which no holding can exceed 10% of the value of the collective investment scheme;
- warrants cannot exceed 5% of the total portfolio.

The company's exposure to listed equities is set within a range of 90% to 120% of shareholders' funds in normal circumstances. The team's objective is to use gearing (up to 20% permitted) in a tactical way as valuations change.

## Current portfolio positioning

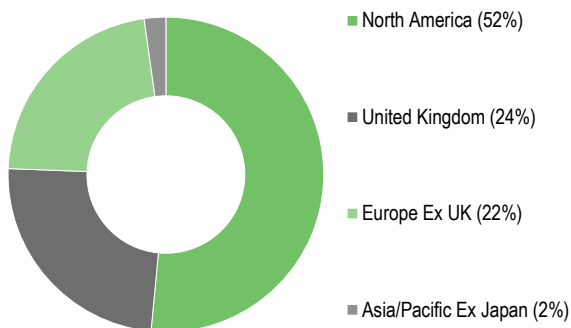
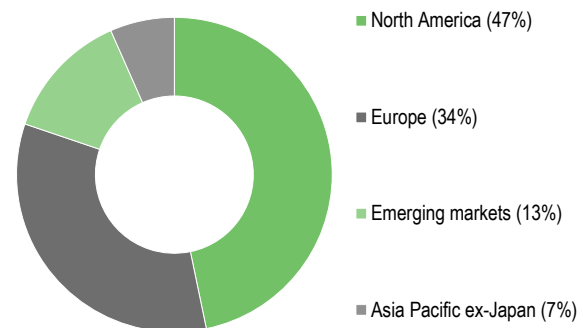
Since being appointed on 12 November, Troy AM's team extensively restructured STS's portfolio within a few days. At 25 November 2020, the restructured portfolio had 33 holdings.

Exhibit 5b shows STS's portfolio by sector exposure as at end-September 2020. Exhibit 5a illustrates the model portfolio compiled by Troy AM and highlights the change in the sector mix. Troy's portfolio is more concentrated across seven sectors – those deemed by the team to have quality bias, with the top three being consumer staples (42.0%), healthcare (19.5%) and information technology (18.4%), compared with information technology (23.5%), communication services (14.2%) and consumer staples (12.2%) in the Martin Currie fund.

**Exhibit 5a: Portfolio (Troy AM) breakdown by sector\***

**Exhibit 5b: Portfolio (MC) breakdown by sector\*\***


Source: STS, Troy AM, Edison Investment Research. Note: \*STS's portfolio at Troy AM at 25 November 2020. \*\*Martin Currie at 30 September 2020. Rebased for cash.

Geographically, Troy AM's model portfolio also differs from the Martin Currie fund. Exhibit 6a and 6b illustrates Troy AM's higher exposure to Europe (including UK) 46% versus 35% at Martin Currie and lower weightings in emerging markets and Asia (combined) at 2% versus 20% respectively.

**Exhibit 6a: Portfolio (Troy AM) by geography\***

**Exhibit 6b: Portfolio (MC) breakdown by geography\*\***


Source: STS, Troy AM, Edison Investment Research. Note: \*STS's portfolio at Troy AM at 25 November 2020. \*\*Martin Currie at 30 September 2020. Rebased for cash.

Exhibit 7 presents the top 10 holdings. Troy AM's model portfolio has a defensive consumer staples and healthcare tilt, with some technology, compared to wider sector representation at Martin Currie, with some dominance (four stocks out of 10) of the technology sector.

**Exhibit 7: Top 10 holdings**

Troy AM			Portfolio weight %	Martin Currie			Portfolio weight %
Company	Sector	Country	25-Nov-20	Company	Country	Sector	30-Sep-20
British American Tobacco	Consumer staples	UK	6.0	Microsoft	US	Technology	6.5
Unilever	Consumer staples	Netherlands	5.8	Taiwan Semiconductor	Taiwan	Technology	5.9
Philip Morris International	Consumer staples	US	4.7	Samsung Electronics	South Korea	Technology	4.5
Paychex	Technology	US	4.6	Sanofi	France	Healthcare	4.2
Roche	Healthcare	Switzerland	4.6	Crown Castle	US	Infrastructure	3.9
Reckitt Benckiser	Consumer staples	UK	4.5	Verizon Communications	US	Communication services	3.8
PepsiCo	Consumer staples	US	4.5	Koninklijke DSM	Netherlands	Materials	3.7
Novartis	Healthcare	Switzerland	4.4	Broadcom	US	Technology	3.5
Medtronic	Healthcare	US	4.2	Tencent	China	Communication services	3.5
Automatic Data Processing	Technology	US	3.9	Air Products & Chemicals	US	Materials	3.5
<b>Top 10 (% of portfolio)</b>			<b>47.2</b>				<b>43.0</b>
<b>Number of holdings</b>		<b>33</b>		<b>Number of holdings</b>		<b>36</b>	
<b>Number of countries</b>		<b>6</b>		<b>Number of countries</b>		<b>13</b>	

Source: Securities Trust of Scotland, Troy AM, Edison Investment Research

The trust is geared by approximately 6%.

## Performance: Inherited solid mid-term performance

STS's former manager, Mark Whitehead, was appointed in May 2016 and adopted the trust's current mandate on 1 June 2016. Performance was measured against the median of all relevant open- and closed-ended peers (sourced from the Lipper Global – Global Equity Income and AIC Global Equity Income sectors respectively) on a rolling three-year basis. Therefore, the most relevant performance figures to consider are five years and less. Exhibit 9 shows STS's NAV outperforming its blended benchmark over three years and five years by 8.1% and 8.7%, respectively, on a total return basis.

We have also included the performance track record of the current fund manager, Harries, who has assumed responsibility for STS from 12 November 2020. We highlight the Trojan Global Income Fund, which was established and has been managed by Harries since 2016. Considering that the Trojan Global Income Fund is an open-ended vehicle and does not employ gearing, its performance has been very robust. Exhibit 9 illustrates that the Trojan Global Income Fund outperformed STS, on the NAV total return basis, over the three-year period by 2.5%. The Trojan fund underperformed STS's NAV on a total return basis over one year and shorter periods, as Asian markets, China in particular, performed very strongly, and the fund has little exposure to China.

### Exhibit 8: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Blended benchmark (%)	MSCI World (%)	Trojan Global Income O Acc (%)	MSCI World High Yield (%)
30/11/16	27.4	23.4	26.5	24.3	--	27.3
30/11/17	12.5	14.8	11.3	14.1	9.6	12.2
30/11/18	(0.2)	0.5	2.3	6.2	8.3	7.0
30/11/19	26.4	16.8	10.2	13.0	12.8	11.1
30/11/20	2.6	3.8	(0.0)	11.0	2.2	(2.3)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. \*Blended benchmark is UK All Companies Index until 31 July 2011, MSCI World High Dividend Yield Index until 31 May 2016 and the rolling three-year median return of open- and closed-ended peers thereafter.

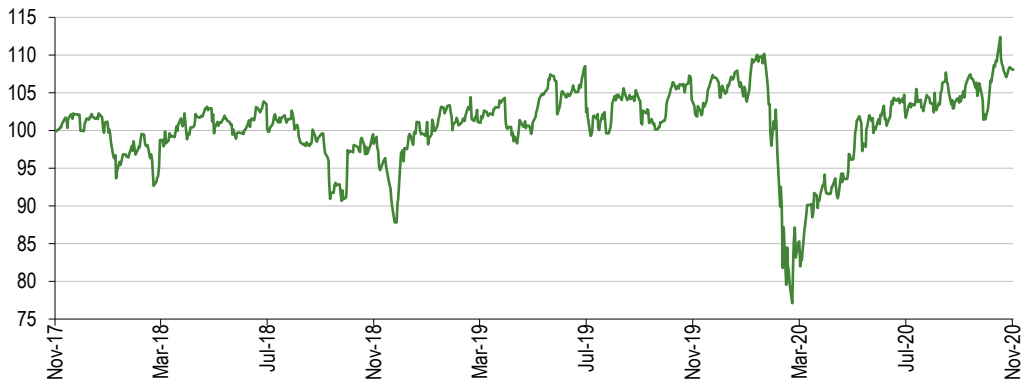
### Exhibit 9: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended benchmark	8.1	10.6	9.1	2.7	14.9	16.9	12.3
NAV relative to blended benchmark	6.5	4.3	12.4	3.8	8.1	8.7	5.5
Price relative to MSCI World	(1.0)	4.5	(2.7)	(7.5)	(2.8)	(1.8)	(7.9)
NAV relative to MSCI World	(2.5)	(1.5)	0.2	(6.5)	(8.6)	(8.7)	(13.5)
Price relative to Trojan Global Income O Acc	1.8	8.4	8.4	0.4	3.7	N/A	N/A
NAV relative to Trojan Global Income O Acc	0.3	2.2	11.6	1.6	(2.5)	N/A	N/A
Price relative to MSCI World High Yield	(0.2)	4.4	4.5	5.1	11.6	11.9	4.0
NAV relative to MSCI World High Yield	(1.7)	(1.6)	7.6	6.3	4.9	4.0	(2.3)

Source: Refinitiv, Edison Investment Research. Note: Data to 30 November 2020. Geometric calculation.



**Exhibit 10: NAV total return performance relative to benchmark over three years**



Source: Refinitiv, Edison Investment Research. Note: Data to 30 November 2020

## Valuation: Discount stabilised, trading close to NAV

STS is currently trading at a 0.7% discount to its cum-income NAV. As shown in Exhibit 11, the previously persistent discount to NAV started to close in H219, and between December 2019 until the sharp market correction in March 2020, the trust consistently traded at a premium or close to NAV. The average discount over the past one and three years is 0.9% and 4.2%, respectively. The discount began widening from June 2020 following the news that former Martin Currie manager, Mark Whitehead, had resigned until September 2020, when the market positively received the announcement about Troy AM's appointment. Since mid-September the discount has narrowed significantly and the trust has been trading at a narrower than 4% discount.

At the time of the handover to Troy AM, STS's board introduced a discount control mechanism aiming to maintain the share price at around NAV. In 2019, in conjunction with Martin Currie, it significantly increased the marketing budget and activity, and in October 2018 it appointed Sarah Harvey as a director, bringing considerable marketing expertise. With the transition to Troy AM the board intends to sustain the marketing initiatives to promote the trust. It has the authority (renewable annually) to repurchase up to 14.99% of issued capital and to allot up to 5% to help manage the supply and demand for STS shares.

**Exhibit 11: Share price premium/discount to NAV (including income) over three years (%)**



Source: Refinitiv, Edison Investment Research

## Capital structure and fees

---

STS remains a conventional investment trust with one class of share; there are currently 104.7m shares in issue and 17.6m shares held in treasury. Reflecting the narrowing of the share price discount to NAV from H219, repurchase activity has reduced significantly. As shown in Exhibit 1, during FY20, the board repurchased 0.4m shares at a cost of £0.9m and so far in FY21, 0.7m shares have been repurchased at a cost of £1.5m. In FY19, 6.0m shares were repurchased, representing 5.3% of share capital. More recently, as shown in Exhibit 11, STS has traded at a premium to NAV and during FY21 the board issued 0.6m shares from treasury at a premium to NAV and at a cost of £1.3m. During FY20 the board issued 0.7m shares from treasury at a cost of £1.4m. Following the newly introduced discount control mechanism, the board intends to continue issuing shares when the trust trades at a premium to NAV.

The board introduced a discount control mechanism aiming to ensure that in normal market conditions the shares trade consistently close to NAV. The company will seek to buy back shares if they are trading at a discount to their underlying NAV and conversely will look to issue new shares if the company's shares are trading at a premium to their underlying NAV. The aim will be to protect shareholders from the company trading at a material discount to NAV, while also growing the fund through NAV-accretive share issuance at a premium to NAV.

The trust has a £15m seven-year, multi-currency, fixed-rate facility, alongside a £10m two-year revolving credit facility with the Royal Bank of Scotland. Gearing is permitted up to 20% of net assets; at end-November the trust had net gearing of 6.0%.

Troy AM will receive an annual management fee of 0.65% of STS's net assets up to £750m, 0.55% of net assets between £750m and £1bn, and 0.50% above £1bn. As a contribution towards the costs of the change of investment manager, Troy AM will waive its management fee for a period of 12 months from its appointment, as well as making a significant ongoing annual contribution to the cost of the company secretarial and administration services.

The fee is paid 65:35 between capital and income respectively, reflecting the board's expected long-term split of the fund's capital gains and income. As at end-FY20 (March 2020), the trust's ongoing charges were 0.9%.

## Dividend policy and record

---

STS's investment objective is to deliver rising sustainable income as well as long-term capital growth. Troy AM's strategy is to deliver future dividend payments from the revenue earned by the portfolio and these payments will not be enhanced by writing options. Anticipating an initially lower level of income from the revised strategy than was previously received by the company, the board decided to reset the dividend for the year to 31 March 2021 to a deemed to be more sustainable level of at least 5.5p per share. The board anticipates steady growth in dividends from the revised level, thus employing a progressive dividend policy.

Over the past 10 financial years to FY20, the dividend has grown at a compound annual growth rate of 3.3%, reflecting good appreciation in the level of dividends received from investee companies. The board also has the flexibility to pay dividends out of retained capital reserves, if necessary, with the aim of providing a rising and reliable income to STS's shareholders.

## Peer group comparison

Exhibit 12 shows the AIC Global Equity Income sector, which consists of six funds. The open-ended peer group comprises 53 funds and we show their averages for comparative purposes. STS remains one of the smallest funds among its peers, ranking fifth. The trust's performance from June 2016 to the end of November 2020 was principally down to Whitehouse, Martin Currie's manager. The most relevant NAV total return performance periods to consider are one and three years, where STS's ranking slid to third for both periods (from second in April 2020).

**Exhibit 12: AIC Global Equity Income peer group as at 30 November 2020\***

% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Securities Trust of Scotland	210.4	3.8	21.8	72.5	166.3	(0.7)	0.9	No	106	3.2
Henderson International Income	292.5	0.3	8.7	56.1		(6.3)	0.8	No	112	4.0
Invesco Perp Select Global Eq Inc	52.0	(0.3)	9.2	53.1	146.4	(2.6)	0.9	Yes	111	3.5
JPMorgan Global Growth & Income	553.7	14.4	30.8	90.8	184.4	3.9	0.6	Yes	104	3.4
Murray International	1,418.0	(0.6)	4.9	61.3	98.3	(0.3)	0.6	No	115	4.8
Scottish American	727.6	12.9	37.6	105.8	180.7	3.8	0.8	No	111	2.6
<b>Simple average</b>	<b>542.4</b>	<b>5.1</b>	<b>18.8</b>	<b>73.3</b>	<b>155.2</b>	<b>(0.5)</b>	<b>0.8</b>		<b>110</b>	<b>3.6</b>
<b>STS rank in sector (six funds)</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>2</b>		<b>5</b>	<b>5</b>
Trojan Global Income Fund I Inc	437.7	1.8	23.4	N/A	N/A	N/A	1.4	No	N/A	3.1
<b>Open-ended peers simple average</b>	<b>322.7</b>	<b>2.8</b>	<b>14.8</b>	<b>50.9</b>	<b>116.4</b>	<b>N/A</b>	<b>1.4</b>		<b>N/A</b>	<b>3.3</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance to 30 November 2020 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

We have also shown the performance of the new fund manager, Harries, using his Trojan Global Income fund. Its total return is competitive. The fund outperformed the average of the six closed-ended funds and the 53 open-ended funds over three-year period. Despite being an open-ended fund without the use of gearing, it also outperformed three of the six trusts over one year and four over three years.

STS's ongoing charge of 0.9% is closer to high end in the group; but the new fee structure is likely to produce lower charge, going forward. There is no performance fee. The trust trades at a small discount around its cum-fair NAV, ranking fourth on the date shown. The newly introduced discount control mechanism is likely to keep the share price around the NAV level. STS ranks second on its level of gearing and fifth on its dividend yield (3.2%).

## The board

The board consists of four independent non-executive directors. John Evans (appointed February 2016) was appointed as chairman at the AGM on 17 September 2019. Angus Gordon Lennox is the senior independent director (appointed to the board in November 2013 and assumed his current role in July 2017). The other directors and their dates of appointment are Mark Little (October 2014) and Sarah Harvey (October 2018).

---

## General disclaimer and copyright

This report has been commissioned by Securities Trust of Scotland and prepared and issued by Edison, in consideration of a fee payable by Securities Trust of Scotland. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia