Chairman's Statement

Performance

The past year has seen continued progress for Scottish Mortgage with the share price reaching a new high of 862.5p in early March 2013, before falling back to close at 822.5p at the end of March. Over the course of the year to 31 March 2013 the share price rose by 16.2% and the net asset value (NAV) per share by 11.6%, whereas the benchmark index (the FTSE All-World Index in sterling terms) rose by 13.8%. Over 10 years to end March 2013, the share price total return (including both capital returns and dividends) has been 336%, the net asset value total return, 270% and the FTSE All-World Index total return, 174%. The five year figures are more modest as they still reflect the impact of the 2008 financial crisis. Nonetheless, over five years the total return was, respectively: 53% (share price), 45% (NAV) and 50% (benchmark). Given the long term investment approach, we consider that measurements over longer periods are more significant.

A year ago, the prevailing attitude towards equity markets was one of fear and nervousness. In the event, there was no wholesale renewal of the financial crisis, the European Union – despite some testing moments emanating from Cyprus and Italy – continues to hold together, there was progress in the United States towards a resumption of sustainable growth and at the same time operating conditions for many companies around the world have been favourable. More importantly, the Managers still seem to find plenty of opportunities, as can be seen from their Report which follows. In particular, technology in its broadest sense and the growth of developing markets continue to provide fertile ground for those with a long term investment view. Despite some very significant holdings, the portfolio remains well diversified and growth opportunities are not restricted to these two criteria.

Earnings and Dividend

Earnings were strong in the past year, boosted by non recurring dividends, most notably from our holding in the Polish copper mining company KGHM. Earnings per share totalled 15.59p compared to 13.07p in 2011/12. A final dividend of 7.3p is proposed which will give a total for the year of 14.0p per share. This represents a rise of 7.7%, which is well ahead of sterling inflation (currently 3.3% as measured by RPI), which means that we have now increased our dividend by more than prevailing inflation for 31 years in a row.

It is probable that earnings in 2013/14 will be lower than in the past year as the Company has benefitted from the special dividends and accelerated timing of dividend receipts. Although the primary focus of this trust is to provide long term capital growth, it is the Board's intention to provide progressive and real dividend growth; the existence of reserves of 26p per share would allow us, if necessary, to smooth dividend payments from year to year should the need arise. Longer term, the outlook for dividend increases remains healthy.

Gearing

Scottish Mortgage remains committed to the use of gearing. Gearing levels were maintained throughout the year.

Demand for Shares

I am pleased to say that over the past year the discount has progressively narrowed, meaning that the share price has risen faster than the underlying net asset value. To an extent this must reflect the fact that the long term and global approach, which was adopted as a strategy by the Company ten years ago, has proved attractive to investors. Ten years ago the discount stood at 12.5% and the following two years at 15.9% and 16.5% respectively. At the close of the year under review it stood at 4.1%. While performance is the primary impetus, a combination of judicious share buy backs as well as effective communication and marketing influence the balance between supply and demand. In the past year 2,475,000 shares (1% of issued share capital at the start of the year) were bought back at discounts ranging from 4.0% to 5.8%. This should be seen as part of your Board's desire to maintain the trend of a narrowing discount.

A total of 33.2 million shares have been bought back since 2006, and these are held in Treasury and are available for reissue. The main advantages of reissuing shares are: the continued provision of good liquidity, the maintenance of scale and the further spreading of costs across a wider shareholder base. Shareholders' authority is being sought at the Annual General Meeting to sell shares held in Treasury at a premium to the NAV.

2013 has also seen the implementation of the Retail Distribution Review which is designed to provide greater clarity on the true costs associated with different types of investments. As Scottish Mortgage enjoys one of the lowest expense ratios in the industry (currently 0.51%), we stand to benefit. Against this, we are currently in the process of complying with the EU-wide Alternative Investment Fund Managers Directive (AIFMD). This has been conceived by legislators in Brussels with, on the one hand, an agenda to bash hedge funds, but, on the other, with a limited understanding, at best, of how an Investment Trust operates – is Scottish Mortgage really an 'Alternative Investment'? The AIFMD will, in your Board's opinion, provide little additional investor protection, yet it stands to add significantly (and in our view unnecessarily) to our annual cost base.

Board

Dr Linda Yueh resigned as a Director with effect from 31 March 2013 following her appointment as BBC World News Chief Business Correspondent, based in Singapore. The Board greatly appreciated Dr Yueh's contributions in her year with Scottish Mortgage and wishes her well in her new post.

The Annual General Meeting will be held in Edinburgh at Baillie Gifford's offices at 4.30pm on the 18th June. James Anderson and Tom Slater will make presentations on the investments and I hope you will be able to attend.

Outlook

The past four years have seen a steady recovery in equity markets as investor confidence has returned and many equity indices are close to, or in, new high ground. This is happening at a time when interest rates in many markets, notably those scarred by the 2008 crash, remain abnormally low. Many pension funds, driven by

Past performance is not a guide to future performance.

regulatory requirements to match investment allocations to eventual liabilities, are increasingly investing in bonds where yields are historically low and prices high, a process sometimes referred to as 'de-risking'. Fortunately, the private investor has greater flexibility and can be less inhibited when it comes to asset allocation and long term equity investment which, while carrying greater risk, also offers the potential for commensurate returns. It is to this type of investor that Scottish Mortgage is designed to appeal; we offer a high conviction equity portfolio invested across the world's markets, constructed with little heed paid to short term performance relative to indices but with great attention to the long term fundamentals of our investee companies.

The list of potential threats to global political, economic and commercial stability is no shorter than before and, close to home, there have been concerns at the level of unemployment in several of Europe's largest economies and their stubborn refusal to show any real signs of growth. At the same time, there may be profound long term consequences of the 'bail-in' in Cyprus, which demonstrated that, even within the EU, private bank deposits can be at risk. However, despite the drive to austerity amongst those governments and consumers who are over-indebted, many quoted companies are enjoying favourable operating conditions. Accepting that economic growth and stock price appreciation do not always go hand in hand, a world where the IMF forecast for annual global growth is 3.3% is a fairly benign environment, even given the continued work needed to repair and reform banking systems and to balance national budgets – especially in developed economies.

I take this opportunity to remind our shareholders that Scottish Mortgage is founded on the principle of selecting well managed companies from around the world and investing in them on a long term basis; and, thanks in part to our size, doing so in a way which costs our shareholders less than most other approaches. The skill which your Managers display in identifying growth opportunities as well as the successful execution of individual corporate strategies will determine returns to a very great extent. Whilst, as we are always reminded, past performance is no guide to the future, the record of our Managers in the past decade and their process for selecting investments to generate returns for the next one gives me great confidence in the investment proposition offered by Scottish Mortgage.

John Scott
Chairman
10 May 2013

Managers' Review

We made few changes to your portfolio in 2012/13. We still own all of the top thirty holdings of a year ago. Market movements accounted for the bulk of the changes in the rankings of these stocks. Overall turnover has been little over 10%.

Whilst equity markets have generally moved forward over the year it has been a frustrating period for patient investors looking for strongly growing companies. Our approach will not change but there is little sign that the markets are willing to abandon their preoccupation with alternating waves of macroeconomic and political hope followed by renewed angst. In the terrible but revealing jargon of our time this is presented as 'risk on' or 'risk off' with risk defined as short term share price volatility. Any serious assessment of the long-run competitive prospects of individual companies appears unlikely at the current juncture.

Whilst our portfolio is built upon the attractions of individual companies we think that the opportunities available to us are in turn moulded by the dominant forces in the global economy. For several years now we have believed that three factors are especially critical:

— The rise of China (and to a lesser extent other emerging economies).

— The underestimated power of structural technological change.

— The flaws of the Western financial system.

We see no imminent reason to amend this framework.

Our Core Investment Beliefs as set out in last year's Review are reiterated in the section following the California Note.

China

It is on this topic that we find ourselves most out of sympathy with current market sentiment. The disdain shown to Chinese equities (wherever they may be listed) is but part of a sustained and continuing antipathy towards the stocks of all the major emerging markets. Brazil, Russia and India have been similarly unpopular. This is an extraordinary contrast with the mood five years ago when the BRIC countries were perceived to be the saviours of the global economy. Whilst we share some disillusion with the current progress of Brazil, India and Russia we have long believed that China is in a class apart. This conviction has grown rather than shrunk over the last year. Growth has migrated from exports to domestic demand and from the coasts to the underdeveloped heartlands. Wages have risen as has productivity. Inflation is subdued. Naturally further progress is needed in several areas from corruption to pollution but the underlying transformation has been impressive. We cannot expect China to grow at 10% per annum as it has in the past. We do not want it to do so with the dramatic export surpluses of that era. The current trend of 7% growth and burgeoning import demand contribute far more to the health of the global economy than the unbalanced and immature boom of the past.

The future drivers of the Chinese economy are reflected in the portfolio. As imports have grown we have maintained significant exposure to international companies that have the skills and vision to enable them to flourish in China. PPR's luxury goods have been a major beneficiary of the conspicuous consumption of the newly wealthy Chinese consumer but broad gains in disposable income have opened up prospects for classic middle class purchases. This has made China fertile ground for the superb business model of Inditex in which we now have a larger holding. In such ways does the Chinese consumer aid even the rural economy of bedraggled Spain.

PPR
A luxury goods company, a beneficiary of Chinese consumer consumption.

We remain most excited by the opportunities surrounding the Chinese internet. This was the specific area in which we have been most out of step with the market mood in the last year. In particular Baidu's share price has been extremely weak. As it began the year as our largest holding this has obviously had a substantial impact on our NAV. We do not intend to retreat from our belief in the company and its management. Baidu has been investing heavily in replicating its dominance of desktop search in the booming mobile business. This seems to us to be very sensible. It has been characteristic of the last year that equity markets are deeply intolerant of any investment spending by companies that crimp immediate profit growth. We find this both remarkably short term even by recent standards and deeply disturbing in its implications for corporate behaviour and the global economy. In the course of the year we have participated in a placing of unquoted convertible preference shares in Alibaba. This is China's dominant e-commerce enterprise. On its peak trading day last year Alibaba's gross merchandise volumes ran at double that of the entire US e-commerce sector on Cyber Monday. Alibaba too will continue to invest fearlessly and admirably. Its reticence about a full IPO reflects both this characteristic and its strong cash-flows.

Technology

We are appending a note by Tom Slater describing his extended stay in Silicon Valley last autumn. It describes areas of potential interest in the future. It may be worth adding a few words on current developments. Here too the dominant characteristic is extreme impatience and intolerance of even the most modest and temporary halt in earnings gratification. Thus we have seen the rise and dramatic fall of Apple (with a loss approaching $300bn in capitalization over the last seven months) although it is hard to see that future prospects have changed substantively. Such a pattern has been replicated from the high-profile lurches in Facebook's share price to similar but less heavily observed gyrations in cloud-computing company Rackspace. The only surprise is that Amazon has thus far avoided such dramatic share price swings (albeit with quite sufficient volatility around results). This is remarkable as Amazon is more dedicated to the pursuit of much deferred rewards than any other quoted company in our experience. It is possible that it has a shareholder base that tries to match this pleasing perspective.

The greatest encouragement of the year has been the continued progress in genomic science. Prices for sequencing continue to plunge, diagnostic improvements are following and gradually health systems and pharmaceutical behemoths are adjusted to a new world. Illumina continues to lead this technology. We are pleased it has preserved its independence.

Western Financial Flaws

There is little sign that banks have become less complex, less greedy or less dangerous. Management modesty remains rare. Regulatory changes have been piecemeal and hardly distinguished by their own simplicity. All we are left with is the hope that the combination of the savage lesson of 2008/9 and a gradual push for more equity within the banks has dampened the imminent threats.

Over the last year more attention has been paid to the flaws of government finances than those of banks. At times conventional interpretations appeared lacking in common sense. It has always seemed improbable that the ECB and Germany were willing to walk away from the continued existence of the euro. That it was believed to be so appears to us to owe more to the lurid imaginings of the London establishment than to serious analysis. Equally it is becoming increasingly probable that the gospel of austerity that has so appealed to so many in conservative financial and political sectors is self-defeating in practice. That it appears historically and evidentially questionable is becoming increasingly obvious. Structural reform accompanied by the pursuit of growth rather than consolidation appears the appropriate policy in almost all the developed world.

Conclusion

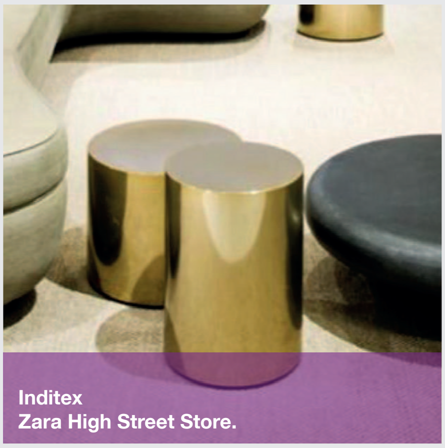
Although the last 12 months have seen a modest improvement in stock markets the atmosphere remains acutely nervous and confidence low. Only those stocks and those countries perceived to be the safest and most stable have enjoyed consistent rallies. Even in America politics and economic data points continue to fray emotions. The corporate sector has as yet proven unwilling to re-invest its extraordinary cash riches – perhaps unsurprisingly given the suspicion investors have shown when any such ambitions have been mooted. At the same time prior optimism about emerging markets has been leeched away by the drip-drip of underperformance and redemptions. Yet all this seems to neglect substantial improvements. America is recovering – however inelegantly. The risk of extreme outcomes in Europe has been shown to be lower than once feared. China has transformed itself and in doing so assisted the global economy. Above all there are truly great, growing and sustainable companies available to us at alluring prices. Eventually this will matter.

James Anderson
Manager of Scottish Mortgage
10 May 2013

Alibaba Group
China's dominant e-commerce enterprise.

Tencent
Tencent's 'WeChat' logo.

Atlas Copco
Swedish engineering excellence.



Inditex
Zara High Street Store.

Intuitive Surgical
Continued advance in diagnostic technology and robotic surgery techniques.

Our portfolio is built upon the attractions of individual companies.

California Note

The model of capitalism that exists on the West Coast of the United States has produced several of the largest holdings in our portfolio. I spent the autumn there visiting existing holdings, thinking about the emerging technologies and meeting early stage companies that may become significant in future years.

Despite the efforts of many imitators, the San Francisco Bay Area remains the most important centre for the generation and growth of new technology companies. The influence of such companies is increasing rapidly in both geographic reach and economic impact. The personal computer reached the upper income tier of the developed world. Over the coming decade, computers in the form of smartphones are likely to be in the hands of billions of users. This level of ubiquity transforms the opportunity set for those that can harness the technology. It is not just the scale of this change that is impressive. The way consumers access internet services is moving at astonishing speed. It is plausible that within the next two years the majority of access will be from mobile devices.

Today in the Western world there are four dominant platforms in the consumer internet: Amazon, Google, Facebook and Apple. We currently own shares in all of them. Whilst a lot is written in the media about the skirmishes between these companies, it appears to us that their core businesses encounter limited competition. They are growing rapidly. Their management teams have thus far been highly successful in navigating the shift towards mobile access and it seems no coincidence that three of the four are run by their founders. From IBM to Microsoft to Hewlett Packard to Intel it is striking that long periods of dominance in technology have coincided with the reigns of founder-managers. In the consumer internet in particular, having a CEO who is very close to product development seems likely to be a critical factor as user behaviour continues to evolve so quickly.

Spending time with some of the area's venture capitalists provided a perspective on some of the most interesting areas of early stage investment. In general the companies they are investing in build on top of the big four consumer platforms. This allows them to minimise development costs and also to acquire users rapidly. Instagram, a mobile photo sharing service recently acquired by Facebook, provides an example. Prior to acquisition, its user base grew from 10m people to 30m in six months. It served these users with just 13 employees and a modest amount of capital. This profile isn't unusual for a breakthrough consumer internet service.

E-commerce

E-commerce remains an area of active interest for early stage funding and new business models are emerging. However there seems little that might challenge the dominance of Amazon in the distribution of any item with a universal product code. Amazon's reputation for investing large sums of money over long periods of time in order to reinforce its dominance has informed the behaviour of the venture capital community, which is unwilling to fund direct competitors. Instead the new generation of e-commerce companies are finding other ways to serve customers. They are designing and sourcing their own goods. Often they are collapsing inefficient legacy supply chains by cutting out intermediate layers. They are re-inventing physical retail merchandising online and developing alternative ways of distributing their products. It seems very unlikely that there will be any let-up in the assault on high-street retail anytime soon.

Payments

A variety of venture-funded companies are seeking to reinvent the way we pay for goods and services. The underlying idea is that if mobile computing devices become widespread, consumers may use online methods to pay for goods in the offline world. This would be attractive to retailers as it would give them more information about their customers and allow them to better target their advertising budget. However, the user experience of swiping a payment card is straightforward and well understood. To change behaviour, the key will be providing sufficient incentive. Several ideas are being pursued, the most promising of which seems to me to be the elimination of physical checkout and the associated queues altogether. Through our holding in eBay we currently have exposure to the largest online payments business in the world, PayPal. This is a remarkable business which has continued to grow rapidly despite its already significant scale and a relatively lackluster pace of product development. The huge investment in infrastructure that has been required to get PayPal to its current base of 120m users in 190 countries now represents a significant asset and a major hurdle for new players. Following a change in leadership there seems to be a marked acceleration in the pace of product development at PayPal. This leaves it well placed to benefit from future growth in its addressable market despite the emergence of new and innovative competition.

Enterprise

The technologies that have been created by the recent wave of innovation in consumer internet are being adapted and developed for the enterprise marketplace. The latest consumer websites are driven by software architecture and interfaces that have great potential in a corporate setting. Whilst most of the existing enterprise software companies are built around providing systems of record in areas such as accounting or human resources, the next generation of businesses are utilising the data that exists outside of such a structured environment. Inexpensive storage techniques mean that huge volumes of data can be retained and the technologies to make the most of this information are starting to emerge. Typically, Amazon has been at the forefront of understanding the implications of these changes. It is now commonplace for new technology companies to outsource their computing infrastructure to Amazon rather than investing in servers or data centres. Similarly, Rackspace is rapidly becoming the world's largest IT department providing an outsourced service for those companies that no longer want such distractions.

The historic core functions of enterprise software are also being challenged by companies employing more modern approaches. Workday was founded in 2005 by the former management of Peoplesoft and listed on the stock market recently. Its centrally-hosted software is accessed via a webpage to deliver accounting and human resources systems. Centralisation allows for much greater efficiency. Because all users are running the latest version of the software, support costs are lowered and development cycles are shortened. Salesforce.com has achieved a similar feat in customer relationship management and is trying to broaden the application of its software to manage online marketing.


Electricity – using existing resources to increase efficiency.

Healthcare

Healthcare seems like an industry ripe for disruption through innovative technology. However the regulatory environment and unionised workforce are off-putting to the venture capitalist community, which creates a difficult funding environment for start-ups. Whilst Intuitive Surgical is nominally a healthcare company, it is headquartered in Silicon Valley, its research and development is lead by an engineer, not a doctor, and its robots run over a million lines of software code. To date, these instruments have employed artificial intelligence to recreate open surgery using minimally invasive techniques. The future might look quite different. Developments in diagnostic technology mean that clinical targets will get smaller. Targeting nerves or vessels will require precision beyond the abilities of most human surgeons. Equally the ability to distinguish between different tissue types can be beyond the scope of the human eye and new visualisation techniques are required. Over the coming decade we should anticipate that these technologies will expand the realm of what is surgically possible.

Electricity Consumption

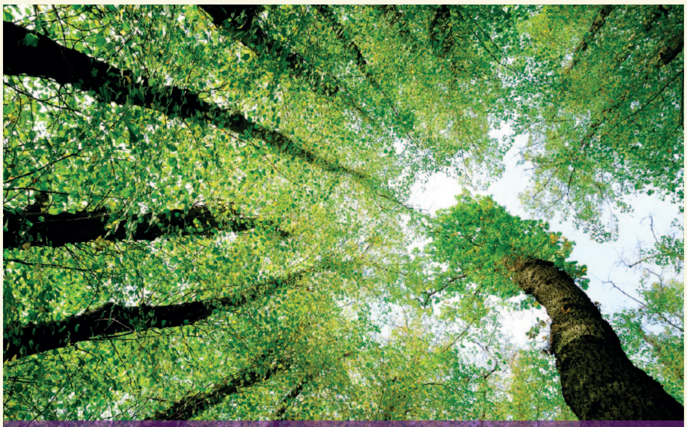
Whilst much of the innovation we invest in is implemented by software companies, there are exceptions. The efficiency with which computers use electrical power has been doubling every eighteen months for the past sixty years equating to a 100-fold improvement every decade. It is this progress that has enabled laptop computing and subsequently the smartphone market. If a modern-day MacBook Air operated at the energy efficiency of computers from 1991, its fully charged battery would last 2.5 seconds. In recent years, the contribution of one of our holdings, ARM, to microprocessor designs has been increasingly important to this trend. Its designs are used in over 90% of mobile phone handsets as they offer the best trade-offs between performance and power consumption. Their technology continues to drive down power requirements and the implications of this progress continuing are fascinating. University laboratories are already producing sensors that use 60 microwatts when active. In metropolitan areas, this amount of power can be harvested from ambient radio and TV signals. Without the need for batteries you get sensors that run indefinitely. Such distributed computing power could significantly reduce our energy consumption by increasing the efficiency with which we use existing resources.

We are continually trying to improve our investment approach. Whilst we base ourselves in Edinburgh, in part to get away from the noise and compulsion to act that are present in major financial centres, spending time in the parts of the world that are producing great companies is a fabulous opportunity to learn. We are told by the efficient market theorists that future outcomes are down to chance and the best we can hope for is to diversify our portfolio. Engaging with the entrepreneurs who are out there creating value by building new companies reveals a very different view of the world. They don't leave things to the chance outcomes of normal distributions and believe that they must build the future for themselves. Most will fail (experimentation and failure is a badge of honour) but the returns that accrue to the winners can be very large. Our belief is that by developing our knowledge of the potential winners at an earlier stage of their development cycle we will be able to do a better job at investing in them for our shareholders in the future.

Tom Slater
Deputy Manager of Scottish Mortgage
10 May 2013

Our Core Investment Beliefs

Whilst fund managers claim to spend much of their careers assessing the competitive advantage of companies they are notoriously reluctant to perform any such analysis on themselves. The tendency is to cite recent performance as evidence of skill despite the luck, randomness and mean-reverting characteristics of most such data. If this does not suffice then attention turns to a discussion of the high educational qualifications, hard work and exotic remuneration packages that the fund manager enjoys. Sometimes the procedural details of the investment process are outlined with heavy emphasis on risk controls. Little attention is given to either the distinctiveness of the approach or the strategic advantages the manager might enjoy in order to make imitation improbable. We think we should try to do better than this.



We are Growth stock investors.

— We are long term in our investment decisions. It is only over periods of at least five years that the competitive advantages and managerial excellence of companies becomes apparent. It is these characteristics that we want to identify and support. We own companies rather than rent shares. We do not regard ourselves as experts in forecasting the oscillations of economies or the mood swings of markets. Indeed we think that it is hard to excel in such areas as this is where so many market participants focus and where so little of the value of companies lies. Equally Baillie Gifford is more likely to possess competitive advantages for the good of shareholders when it adopts a long term perspective. We are a 100 year old Scottish partnership. We think about our own business over decades not quarters. Such stability may not be exciting but it does encourage patience in this most impatient of industries. We only judge our investment performance over five year plus time horizons. In truth it takes at least a decade to provide adequate evidence of investment skill.

— The investment management industry is ill-equipped to deal with the behavioural and emotional challenges inherent in today's capital markets. Our time frame and ownership structure help us to fight these dangers. We are besieged by news, data and opinion. The bulk of this information is of little significance but it implores you to rapid and usually futile action. This can be particularly damaging at times of stress. Academic research argues that most individuals dislike financial losses twice as much as they take pleasure in gains. We fear that for fund managers this relationship is close to tenfold. Internal and external pressures make the avoidance of loss dominant. This is damaging in a portfolio context. We need to be willing to accept loss if there is an equal or greater chance of (almost) unlimited gain.

— We are very dubious about the value of routine information. We have little confidence in quarterly earnings and none in the views of investment banks. We try to screen out rather than incorporate their noise. In contrast we think that the world offers joyous opportunities to hear views, perspectives and visions that are barely noticed by the markets. From our office in Shanghai to futurists in California there is more in the investment world than the *Financial Times* or *Wall Street Journal* describe.

— We are global in stock selection, asset allocation and attribution. We are active not passive – or far worse – index plus in stock selection. Holding sizes reflect the potential upside and its probability (or otherwise) rather than the combination of the market capitalization and geographical location of the company and its headquarters. We do not have sufficient confidence in our top-down asset allocation skills to wish to override stock selection. We do not have enough confidence in our market timing abilities to wish to add or remove gearing at frequent intervals. We do, however, have strong conviction that our portfolio should be comparatively concentrated, and that it is of little use to shareholders to tinker around the edges of indices. We think this produces better investment results and it certainly makes us more committed shareholders in companies. We suspect that selecting stocks on the basis of the past (their current market capitalization) is a policy designed to protect the security of tenure of asset managers rather than to build the wealth of shareholders. Companies that are large and established tend to be internally complacent and inflexible. They are often vulnerable to assault by more ambitious and vibrant newcomers.

— We are Growth stock investors. Such has been the preference for Value and the search to arbitrage away minor rating differentials that investors find it very hard to acknowledge the extraordinary growth rates and returns that can be found today. The growth that we are particularly interested in is of an explosive nature and often requires minimal fixed assets or indeed capital. We think of it as 'Growth at Unreasonable Prices' rather than the traditional discipline of 'Growth at a Reasonable Price'. We need to be willing to pay high multiples of immediate earnings because the scale of future potential and returns can be so dramatic. On the stocks that flourish the valuation will have turned out to be derisorily low. On the others we will lose money.

— We believe that it is our first duty to shareholders to limit fees. Both the investment management fee (equivalent to 0.32%) and ongoing charges (0.51%) are low by comparative standards but at least adequate in absolute terms. We think that the malign impact of high fees is frequently underestimated. The difference between ongoing charges of 0.5% and one of 1.5% may not appear great but if the perspective is altered to think of costs as a percentage of expected annual returns then the contrast becomes obvious. If annual returns average 10% (sadly they have not in recent years) then this is the difference between removing 5% or 15% of your returns each year. Nor do we believe in a performance fee. Usually it undermines investment performance. It increases pressure and narrows perspective.

Thirty Largest Holdings and Twelve Month Performance at 31 March 2013

Name	Business	Fair value 31 March 2013 £'000	% of total assets	Absolute † performance %	Contribution to absolute performance %	Fair value 31 March 2012 £'000
Amazon.com	Online retailer	214,120	8.26	38.6	3.8	186,895
Atlas Copco	Engineering	134,345	5.18	27.7	1.6	113,961
PPR	Luxury goods producer and retailer	129,785	5.00	39.0	2.2	136,045
Baidu	Online search engine	128,692	4.96	(36.7)	(3.8)	197,279
Inditex	International clothing retailer	125,978	4.86	48.9	1.9	60,201
Tencent Holdings	Internet services	94,668	3.65	20.2	1.1	102,012
Google	Online search engine	91,998	3.55	30.3	1.1	70,674
Salesforce	Cloud computing and hosting	81,120	3.13	21.8	0.7	61,701
Illumina	Biotechnology equipment	76,518	2.95	8.0	0.2	70,861
Prudential	International insurance	67,109	2.59	46.6	1.1	42,165
Brazil CPI Linked 2045	Brazilian government inflation linked bond	66,857	2.58	19.8	1.2	120,575
Intuitive Surgical	Surgical robots	62,307	2.40	(4.6)	(0.2)	65,370
Apple	Computer technology	61,270	2.36	(21.2)	(0.6)	40,894
Reckitt Benckiser	Consumer goods company	57,706	2.22	37.7	0.8	35,330
Banco Santander	Banking	53,199	2.05	3.9	0.3	53,022
KGHM	Copper mining	52,720	2.03	36.1	1.1	51,141
Novozymes	Enzyme manufacturer	50,676	1.95	24.0	0.4	41,186
BASF	Chemicals	49,848	1.92	9.2	0.1	27,811
Vale (CVRD)	Iron ore and nickel mining	49,461	1.91	(19.4)	(0.7)	60,946
Rolls-Royce Group	Aerospace equipment	45,200	1.74	39.2	0.6	32,480
Whole Foods Market	Food retailer	40,351	1.56	12.4	0.3	32,383
Deere	Farm machinery	40,021	1.54	14.0	0.3	35,792
Alibaba Group#	Online retail	38,064	1.47	23.8 *	0.3 *	–
Rackspace Hosting	Cloud computing and hosting	35,852	1.38	(7.6)	0.1	22,671
New Oriental Education & Technology	Education and training	35,730	1.38	(29.9)	(1.2)	51,851
Fiat	Automobiles	34,599	1.33	(5.1)	0.0	15,349
Intertek Group	Business support providers	34,375	1.33	36.9	0.6	36,746
Facebook	Social networking site	29,493	1.14	(29.2)*	(0.4)*	–
ABB	Power systems and automation	29,473	1.14	20.7	0.1	43,642
Housing Development Finance Corporation	Mortgage bank	28,197	1.09	23.2	0.3	23,296
		2,039,732	**78.65**			**1,832,279**

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2012 to 31 March 2013.
* Figures relate to part-period returns where the equity has been purchased during the period.
# Denotes holding in unlisted convertible preference shares.
Source: Baillie Gifford & Co/StatPro.

Past performance is not a guide to future performance.

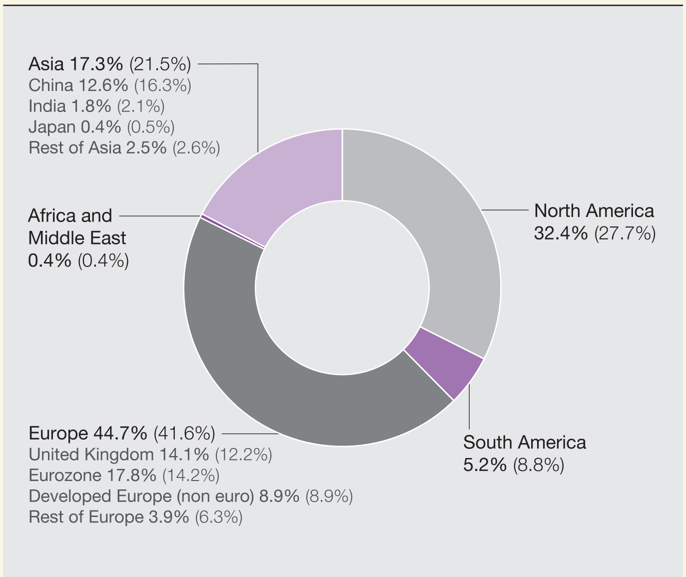
Investment Changes

	Valuation at 31 March 2012 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2013 £'000
Equities*:				
North America	644,348	75,908	117,315	837,571
South America	85,297	(6,706)	(13,181)	65,410
Europe				
United Kingdom	298,459	(13,857)	76,298	360,900
Eurozone	337,320	43,579	80,546	461,445
Developed Europe (non euro)	212,396	(22,367)	39,795	229,824
Rest of Europe	149,571	(35,847)	(11,930)	101,794
Africa and the Middle East	10,448	183	(629)	10,002
Asia				
China	387,940	4,497	(66,689)	325,748
India	48,271	–	(1,593)	46,678
Japan	11,012	–	183	11,195
Rest of Asia	55,999	(721)	9,147	64,425
Total equities	**2,241,061**	**44,669**	**229,262**	**2,514,992**
Brazilian bonds	120,575	(69,444)	15,726	66,857
Total bonds	**120,575**	**(69,444)**	**15,726**	**66,857**
Total investments	**2,361,636**	**(24,775)**	**244,988**	**2,581,849**
Net liquid assets	16,683	(3,998)	(1,088)	11,597
Total assets	**2,378,319**	**(28,773)**	**243,900**	**2,593,446**

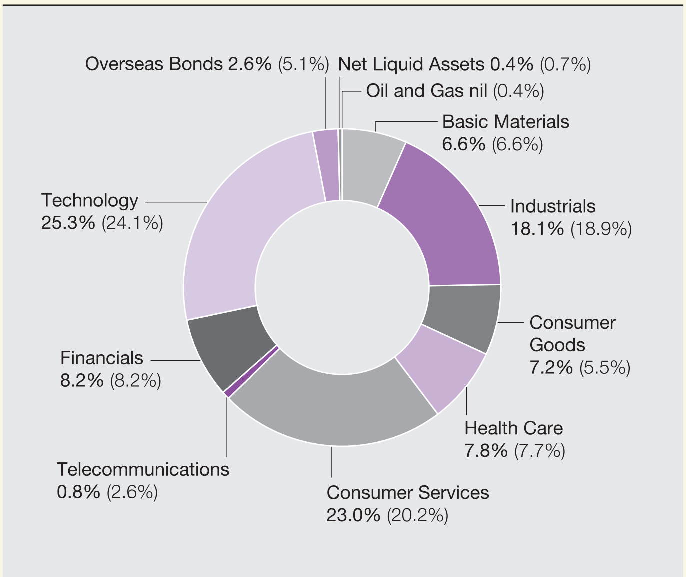
The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings.
* Equities include OEICs.

Distribution of Portfolio

Geographical 2013 (2012)



Sectoral 2013 (2012)



Classification of Investments

Classification Equities*:	North America %	South America %	Europe %	Africa and Middle East %	Asia %	2013 Total %	2012 Total %
Oil and Gas	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**
Oil and gas producers	–	–	–	–	–	–	0.4
Basic Materials	**–**	**1.9**	**4.7**	**–**	**–**	**6.6**	**6.6**
Chemicals	–	–	2.7	–	–	2.7	1.8
Mining	–	1.9	2.0	–	–	3.9	4.8
Industrials	**3.4**	**–**	**13.3**	**–**	**1.4**	**18.1**	**18.9**
Aerospace and defence	–	–	2.7	–	–	2.7	2.2
Electronic and electrical equipment	0.9	–	1.1	–	–	2.0	2.7
Industrial engineering	1.5	–	7.7	–	–	9.2	8.9
Support services	1.0	–	1.8	–	1.4	4.2	5.1
Consumer Goods	**–**	**0.6**	**4.9**	**–**	**1.7**	**7.2**	**5.5**
Automobiles and parts	–	–	2.2	–	1.4	3.6	3.0
Household goods and home construction	–	–	2.2	–	–	2.2	1.5
Personal goods	–	0.6	0.5	–	0.3	1.4	1.0
Health Care	**5.4**	**–**	**2.0**	**–**	**0.4**	**7.8**	**7.7**
Health care equipment and services	2.4	–	–	–	–	2.4	2.7
Pharmaceuticals and biotechnology	3.0	–	2.0	–	0.4	5.4	5.0
Consumer Services	**11.3**	**–**	**11.2**	**–**	**0.5**	**23.0**	**20.2**
Food and drug retailers	1.6	–	0.8	–	–	2.4	2.0
General retailers	9.7	–	10.4	–	0.2	20.3	17.9
Travel and leisure	–	–	–	–	0.3	0.3	0.3
Telecommunications	**–**	**–**	**0.8**	**–**	**–**	**0.8**	**2.6**
Mobile telecommunications	–	–	0.8	–	–	0.8	2.6
Financials	**0.2**	**–**	**5.9**	**0.4**	**1.7**	**8.2**	**8.2**
Banks	–	–	2.6	0.4	–	3.0	3.8
Financial services	0.2	–	2.8	–	1.7	4.7	4.0
Open ended investment companies	–	–	0.5	–	–	0.5	0.4
Technology	**12.0**	**–**	**1.7**	**–**	**11.6**	**25.3**	**24.1**
Software and computer services	9.6	–	1.3	–	11.6	22.5	22.0
Technology hardware and equipment	2.4	–	0.4	–	–	2.8	2.1
Total Equities*	**32.3**	**2.5**	**44.5**	**0.4**	**17.3**	**97.0**	
Total Equities* – 2012	27.1	3.6	41.9	0.4	21.2		**94.2**
Bonds	**–**	**2.6**	**–**	**–**	**–**	**2.6**	5.1
Net Liquid Assets	**0.1**	**0.1**	**0.2**	**–**	**–**	**0.4**	0.7
Total Assets (before deduction of debentures, long and short term borrowings)	**32.4**	**5.2**	**44.7**	**0.4**	**17.3**	**100.0**	
Total Assets – 2012	27.7	8.8	41.6	0.4	21.5		**100.0**
Debentures, Long and Short Term Borrowings	**(6.7)**	**–**	**(7.8)**	**–**	**–**	**(14.5)**	(15.4)
Shareholders' Funds	**25.7**	**5.2**	**36.9**	**0.4**	**17.3**	**85.5**	
Shareholders' Funds – 2012	20.8	8.8	33.1	0.4	21.5		**84.6**
Number of equity investments*	**16**	**2**	**35**	**1**	**16**	**70**	**69**

* Including OEICs.

List of Investments as at 31 March 2013

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Electronic and electrical equipment	Flir Systems	Infrared sensors	**23,238**	**0.9**
Industrial engineering	Deere	Farm machinery	**40,021**	**1.5**
Support services	Linkedin Corp	Business-related social networking site	**27,475**	**1.0**
Health care equipment and services	Intuitive Surgical	Surgical robots	**62,307**	**2.4**
Pharmaceuticals and biotechnology	Illumina	Biotechnology equipment	**76,518**	**3.0**
Food and drug retailers	Whole Foods Market	Food retailer	**40,351**	**1.6**
General retailers	Amazon.com	Online retailer	214,120	
	eBay	Internet trading company	26,150	
	Opentable	Electronic restaurant reservations	10,783	
			251,053	**9.7**
Financial services	WI Harper Fund*	Venture capital	**4,701**	**0.2**
Software and computer services	Facebook	Social networking site	29,493	
	Google	Online search engine	91,998	
	Rackspace Hosting	Cloud computing and hosting	35,852	
	Salesforce	Cloud computing and hosting	81,120	
	Workday	Enterprise information technology	12,174	
			250,637	**9.6**
Technology hardware and equipment	Apple	Computer technology	**61,270**	**2.4**
Total North American Equities			**837,571**	**32.3**
South America				
Mining	Vale (CVRD)	Iron ore and nickel mining – Brazil	**49,461**	**1.9**
Personal goods	Natura	Manufacturer and marketer of skin products – Brazil	**15,949**	**0.6**
Total South American Equities			**65,410**	**2.5**
Europe				
Chemicals	BASF	Chemicals – Germany	49,848	
	Fuchs Petrolub	Manufacturer of lubricants – Germany	21,058	
			70,906	**2.7**
Mining	KGHM	Copper mining – Poland	**52,720**	**2.0**
Aerospace and defence	Meggitt	Aerospace equipment and systems – UK	24,046	
	Rolls-Royce Group	Aerospace equipment – UK	45,200	
			69,246	**2.7**
Electronic and electrical equipment	ABB	Power systems and automation – Switzerland	**29,473**	**1.1**
Industrial engineering	Aggreko	Power equipment rental – UK	23,532	
	Atlas Copco	Engineering – Sweden	134,345	
	Renishaw	Electronic equipment – UK	26,571	
	Sandvik	Engineering – Sweden	15,330	
			199,778	**7.7**
Support services	Intertek Group	Business support providers – UK	34,375	
	Serco Group	Government outsourcing – UK	13,438	
			47,813	**1.8**
Automobiles and parts	Fiat	Automobiles – Italy	34,599	
	Porsche	Automobiles – Germany	21,932	
			56,531	**2.2**

* Denotes unlisted security.

Classification	Name	Business	Fair value £'000	% of total assets
Europe (continued)				
Household goods and home construction	Reckitt Benckiser	Consumer goods company – UK	**57,706**	**2.2**
Personal goods	Burberry Group	Clothing and accessories – UK	**14,156**	**0.5**
Pharmaceuticals and biotechnology	Novozymes	Enzyme manufacturer – Denmark	**50,676**	**2.0**
Food and drug retailers	BIM Birlesik Magazalar	Discount food retail – Turkey	4,882	
	Jeronimo Martins	Retailer – Portugal	14,821	
			19,703	**0.8**
General retailers	Inchcape	Motor distributor – UK	12,541	
	Inditex	International clothing retailer – Spain	125,978	
	PPR	Luxury goods producer and retailer – France	129,785	
			268,304	**10.4**
Mobile telecommunications	Telefonica O2 Czech Republic	Fixed and mobile telecoms – Czech Republic	13,163	
	Telekomunikacja Polska	Fixed and mobile telecoms – Poland	7,480	
			20,643	**0.8**
Banks	Banco Santander	Banking – Spain	53,199	
	Garanti Bankasi	Banking – Turkey	13,423	
	NBNK	Banking – UK	1,047	
			67,669	**2.6**
Real estate investment and services	Black Sea Property Fund	Bulgarian property trust	**100**	**0.0**
Financial services	Level E Maya Fund	Artificial intelligence based algorithmic trading – UK	4,498	
	Prudential	International insurance – UK	67,109	
			71,607	**2.8**
Open ended investment companies	Baillie Gifford Global Discovery Fund	Global growth fund	**12,148**	**0.5**
Software and computer services	Arm Holdings	Semiconductor and software design company – UK	24,533	
	Mail.RU Group	Software and computer services – Russia	10,026	
			34,559	**1.3**
Technology hardware and equipment	Aixtron	LED manufacturing equipment – Germany	5,082	
	ASML Holding	Lithography – Netherlands	5,143	
			10,225	**0.4**
Total European Equities			**1,153,963**	**44.5**
Africa and Middle East				
Banks	Standard Bank Group	Banking – South Africa	**10,002**	**0.4**
Total African and Middle East Equities			**10,002**	**0.4**

Classification	Name	Business	Fair value £'000	% of total assets
Asia				
Support services	New Oriental Education & Technology	Education and training – China	**35,730**	**1.4**
Automobiles and parts	Astra International	Automotive conglomerate – Indonesia	18,149	
	Hero MotoCorp	Motorcycle and scooter manufacturer – India	18,481	
			36,630	**1.4**
Personal goods	Belle International	Footwear – China	**9,111**	**0.3**
Pharmaceuticals and biotechnology	Celltrion	Biopharmaceutical company – Korea	**10,660**	**0.4**
General retailers	Dangdang	E–Commerce – China	**4,053**	**0.2**
Travel and leisure	Ctrip.com	Travel agent – China	**8,179**	**0.3**
Financial services	Housing Development Finance Corporation	Mortgage bank – India	28,197	
	Innovation Works Development Fund*	Investment company – China	4,577	
	Singapore Exchange	Securities exchange owner/operator – Singapore	11,170	
			43,944	**1.7**
Software and computer services	Alibaba Group†	Online retail – China	38,064	
	Baidu	Online search engine – China	128,692	
	Pactera Technology International	Outsourcing – China	2,674	
	Rakuten	Online retailer – Japan	11,195	
	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	24,446	
	Tencent Holdings	Internet services – China	94,668	
			299,739	**11.6**
Total Asian Equities			**448,046**	**17.3**
Total Equity Investments			**2,514,992**	**97.0**
Fixed Interest				
Brazilian real denominated	Brazil CPI Linked 2045		**66,857**	**2.6**
Total Fixed Interest			**66,857**	**2.6**
Total Investments			**2,581,849**	**99.6**
Net Liquid Assets			**11,597**	**0.4**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**2,593,446**	**100.0**

* Denotes unlisted security.
† Denotes holding in unlisted convertible preference shares.