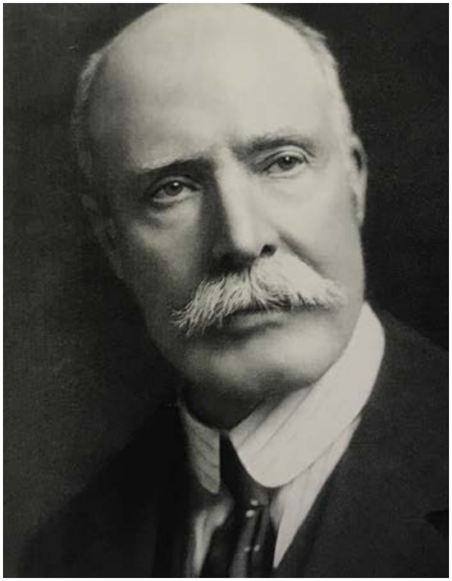
# The History of Dunedin Income Growth Investment Trust PLC

## The first investment trust launched in Scotland, 1873 – 2018



Front Cover
Clockwise from left: Robert Fleming, The V&A Dundee, The Cunard liner SS Abyssinia, The Queensferry Crossing.

# Foreword

This booklet, written for us by John Newlands, describes the history of Dunedin Income Growth Investment Trust PLC, from its formation in Dundee in February 1873 through to the present day. Launched as The Scottish American Investment Trust, "DIGIT", as the Company is often known, was the first investment trust formed in Scotland and has been operating continuously for the last 145 years.

Notwithstanding the Company's long life, and the way in which it has evolved over the decades, the same ethos of investing in a diversified portfolio of high quality income-producing securities has prevailed since the first day.

Today, while DIGIT invests predominantly in UK listed companies, we, its board and managers, maintain a keen global perspective, given that a significant proportion of the Company's revenues are generated from outside of the UK and that many of the companies in which we invest have very little exposure to the domestic economy. We see this as a fundamental strength of the UK market, which offers access to a wealth of global companies across a spectrum of industries with the benefit of a well-regulated and highly liquid market.

A further notable attribute of DIGIT is the way that it has withstood every economic setback, political crisis and global conflict since the later years of Queen Victoria's reign and grown away again thereafter.

It is a particular pleasure for me, as Chairman of DIGIT and as former employee of Robert Fleming & Co to be able to write a foreword to this history. It was Robert Fleming's vision that established the trust. The history of the trust and its role in making professional investment accessible is as relevant today as it was in the 1870s when the original prospectus was published. I hope you will find this story of Scottish enterprise, endeavour and vision, and of investment over the past 145 years interesting and informative. The Board of DIGIT today are delighted that the trust's history has been told as we approach the 150th anniversary of the trust's formation.

**David Barron, Chairman,**
**Dunedin Income Growth Investment Trust**
June 2018

# Introduction

**John Newlands – Author**

Of all the company histories I have written in recent years, this is the most special; the one I have most wanted to do. The fact that "The First Scottish" was created not within the thriving financial hubs of Edinburgh or London but in Dundee, on the seaboard of the primarily rural Scottish region of Tayside, makes its formation and success even more remarkable.

While Foreign & Colonial Investment Trust (F&C), launched in London in 1868, was the first and original investment trust, it was conceived and supported by two of the most powerful legal figures of their day, together with a railway tycoon. These men were Lord Westbury, Philip Rose and Samuel Laing, all by this stage leading professionals in their respective fields. By 1868, all three had amassed not just wealth but a network of powerful connections. The investment trust concept was brilliant and deserved every success, but it was also promoted by an array of City heavyweights who gave it the momentum to flourish.

The Scottish American Investment Trust, on the other hand, had fewer advantages to propel its entry into the financial marketplace. Dundee might have prospered on the back of its textile, fruit farming and whaling industries but few would have considered it as a possible launch pad for an innovative financial fund. A fund, moreover, designed to focus on the leading emerging market of the day, the United States – this at a time before the invention of electric light, the telephone or the motor car, never mind air travel.

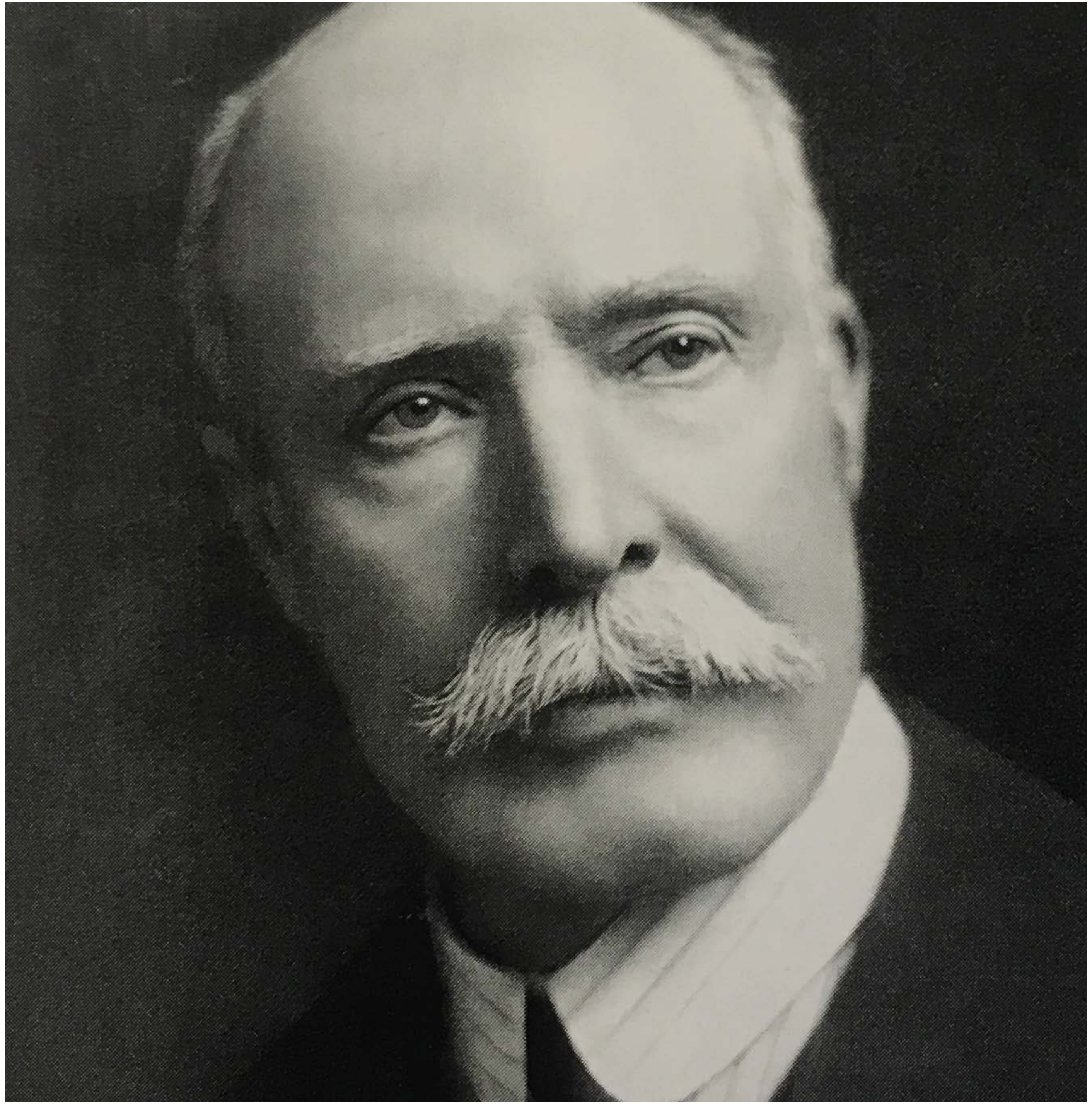
One young man had the vision to look beyond all potential obstacles, develop the dream and persuade enough local business people to invest to get his venture off the ground: Robert Fleming. This was a man who, before he was thirty, had attained a position of influence in Dundee's textile industry despite having left school at the age of 13 to work as an office boy on a starting salary of £5 per year.

By the age of 20, Fleming's annual salary had advanced to £100 – a substantial sum in those days. Soon, he had become not just a keen follower of stocks and bonds but was dealing in them, both on his own account and for some of his colleagues.

In a remarkable parallel with the harsh early financial lesson suffered by Foreign & Colonial co-founder Lord Westbury, or plain Richard Bethell as he was at the time, about which I have written elsewhere, Fleming received a short sharp shock in the form of an individual investment that went horribly wrong.

In his biography of Robert Fleming, 1845-1933, Bill Smith relates that Fleming lost the £40 he had invested in part-paid shares in a new share issue, Oriental Commercial Bank, which collapsed in 1866. Worse, he was forced to stump up another £160 to help meet the failed bank's liabilities.





Robert Fleming (1845-1933), early founder of the investment trust movement.

In total he had lost the equivalent of two years' salary at a stroke. There is little doubt that this episode led the young man, the fastest of learners, to investigate how best to create a diversified, risk-spread means of investment, in which smaller savers and investors could place their faith and their money and still sleep at night.

This quest led him to study the prospectus of The Foreign & Colonial Government Trust, which by the early 1870s was firmly established, trading well, meeting its income objectives and receiving a good press, including in Dundee, despite some of the dire predictions and cynicism that had surrounded its launch.

In the mould of other great Scottish entrepreneurs – Sir Tom Farmer, the founder of the Kwik-Fit car tyre and repair conglomerate, being a classic case in point – Robert Fleming took the best idea out there, introduced modifications and developed his own, arguably superior, product.

### Fleming's model

Since proving that Fleming modelled the prospectus of "The First Scottish" on that of F&C – and despite having acknowledged that he took that template and made improvements to it – I have harboured grave doubts about stepping out in Scotland's financial districts at night.

*His brainchild, The Scottish American Investment Trust was indeed the first investment trust launched in Scotland and one that has proved sufficiently robust to survive, trade and thrive for close on a century and a half.*

None of that matters. Fleming used immense initiative and flair to study the financial markets. He chose the best working example, added a focus upon the burgeoning US economy and, perhaps hardest of all, persuaded the notably cautious citizens of Dundee to invest.

Robert Fleming went on to launch the merchant bank which bore his name. By the early 1930s, he had become so well-known in financial circles that when he died, the New York Times of 2 August 1933 bore the headline, "ROBERT FLEMING, FINANCIER, DEAD". Yet he never forgot his roots. He made generous bequests to the city and its university over the years, one of which paid for the building of 500 homes to replace Dundee's slums. In addition, several of Robert's descendants have been involved with the Company over the years, in which the Fleming family maintains a keen interest today.

### Some notes on terminology

The original Dundee-launched trust that begins our story, namely The Scottish American Investment Trust, was confusingly similar in name to another fund launched in Edinburgh just a few weeks later – The Scottish American Investment Company Limited.

The latter vehicle, as its title suggests, adopted the limited company form from the start. The Dundee vehicle was structured as a legal trust until 1879, at which point it was incorporated as a limited company and its name amended accordingly. It then became The First Scottish American Trust Company Limited.

Returning to Dundee and Robert Fleming, a second issue was created in September 1873 and a third in January 1875. That was why the word "First" was added to the title of the original issue retrospectively, when the Second and Third Issues were made.

Although all three issues converted to the limited company form in 1879, they continued to trade separately until 1970, at which point the Second and Third Scottish American Trust merged, by a Scheme of Arrangement, into the First. The merged vehicle retained the title of The First Scottish American Trust Company until 1984, at which point the present title of Dundedin Income Growth Investment Trust was adopted.

Suffice it to say that the terms "the Company", "The First Scottish" and "DIGIT" all refer in this account to the same thing, i.e. The 1873-formed trust as it has evolved.







### Three stories in one

There are three stories in one here. The first is the prominence, industry and wealth of nineteenth century Dundee, despite the city's battle-ravaged and bloody past. For good measure – and just to show that even corporate histories can throw up some strange peripheral episodes – there is the tale of Jessie Jordan, a lady's hairdresser based within a mile of the Company's offices, who turned out to be operating as part of a Nazi spy ring before World War 2.

The second story is that of Robert Fleming, a man of vision and benevolence, whose name should rank with Scotland's greatest business names, alongside Andrew Carnegie and the rest of them, from Thomas Blake Glover to Stagecoach's Brian Souter to Ultimo and uTan founder, Baroness (Michelle) Mone.

The third and main subject of this account is of course the formation, incorporation and evolution of Dunedin Income Growth Investment Trust, managed today from Edinburgh and London by Aberdeen Standard Investments and overseen, as throughout its life, by that priceless if sometimes undervalued asset, its independent board of directors.

I hope you enjoy reading its history.

**John Newlands**
June 2018

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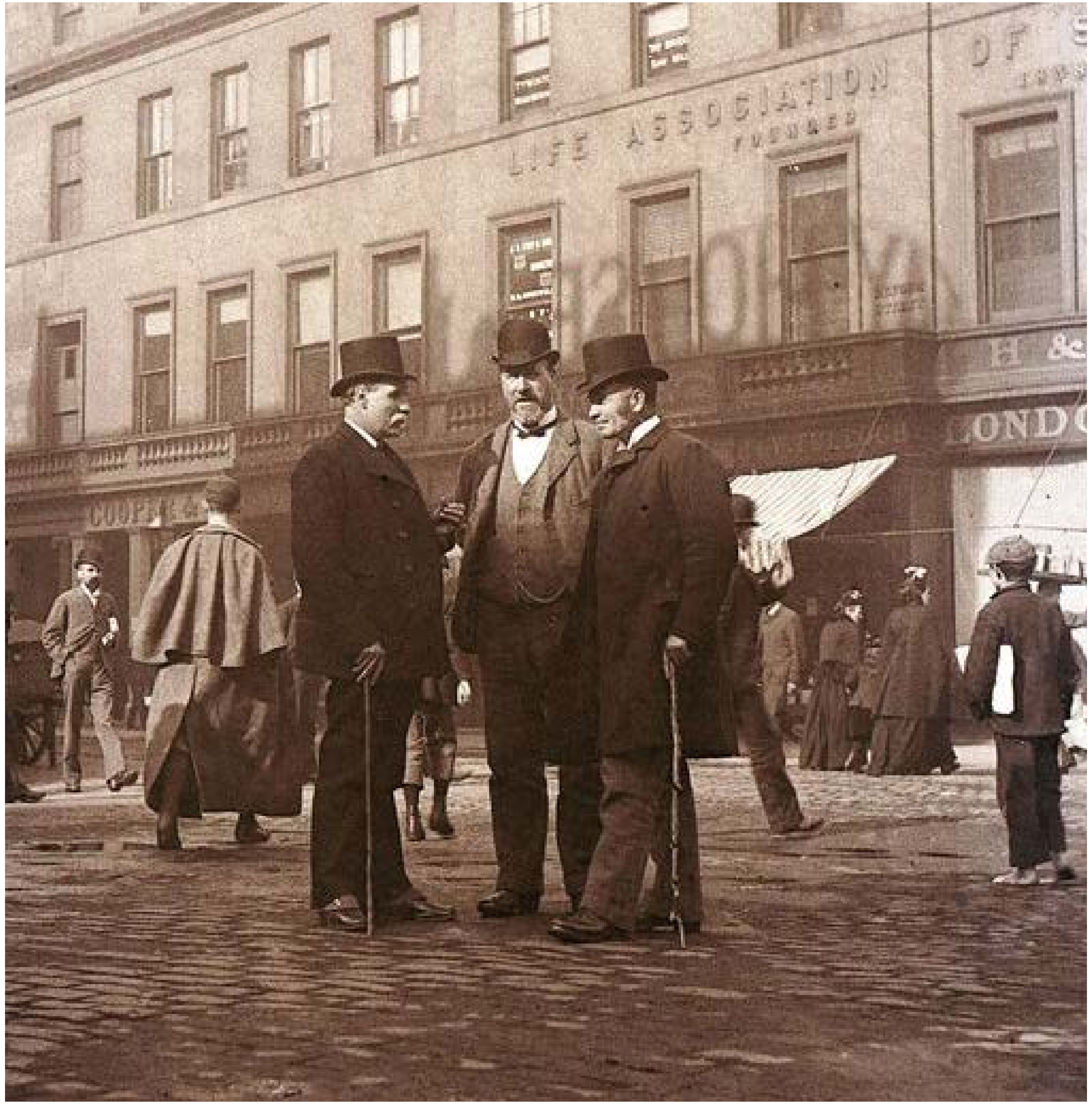
# The Company's formative years

Despite humble origins and limited education, Robert Fleming persuades Dundonian investors to back his idea of a locally-launched fund to invest in the great emerging market of the day, the United States.

Along the way, his character is moulded by some costly personal mistakes, which make him more determined than ever to make his great enterprise as robust and carefully constructed as possible. Having successfully launched, the Company encounters and survives a series of panics, crashes and crises but survives, pays dividends and grows, entering the 20th Century on a strong note. The San Francisco Earthquake of 1906 triggers a further financial crisis which the Company also takes in its stride, only to be confronted with the looming World War 1.

Dunedin Income Growth Investment Trust
1873 – 2018




# The Company's formative years



**Dundee, 1873**

Dundee today is a modern if small Scottish city, with a population of just short of 150,000. Its civic motto, "One city, many discoveries" is both a play on the name of the locally-built Royal Research Ship Discovery, which took Captain Scott to the Antarctic, and a reference to the city's remarkable record of scientific, medical and industrial innovation. The ship itself is in the process of becoming the centrepiece of a £1 billion waterfront regeneration scheme for Dundee, involving the Victoria & Albert Museum.

Dundee's history, on the other hand, might best be described as violent, chequered and bloody. Virtually every episode seems to have involved marauding forces from south of the English border.

A natural and relatively sheltered port, by the 12th century the city had become a centre for the import of wine, grain and timber. The main exports were hides and wool, the latter initially in the raw form but later being woven and dyed locally, marking the first steps towards a textile industry which became so dominant that the city gained the 19th century nickname of "Juteopolis".

**Dun Diagh**

Dundee's name is thought to be derived from the words Dun Diagh (Dun meaning fort), perhaps appropriately given that the area has endured so many conflicts, bombardments and occupations over the centuries.

In 1296, Edward I occupied the castle at Dundee during the First War of Scottish Independence, the city being retaken by siege by William Wallace the following year. The city was occupied by the English again in 1300, 1303 and 1310. Edward's removal resulted in the complete destruction of the castle by Robert the Bruce, who had been proclaimed King of Scots in 1306 at Scone Palace, 24 miles from Dundee.

In 1548, Dundee came under attack once more and was partially burnt to the ground, leading to the construction of a city wall finished in 1592. This fortification did not deter General Monck, Oliver Cromwell's Commander-in-Chief in Scotland, whose army stormed the walls in 1651. The troops ran out of control and embarked on a looting and killing frenzy, the placing of the Governor of Dundee's head on a spike and the commandeering of 60 ships to take the city's stolen treasures back to England. The fleet never reached its destination and was lost at sea, perhaps because of a freak storm. Its location has never been traced.

In 1658, Dundee harbour was damaged by another severe storm, marking the beginning of a decline both in the old wool industry and in the fortunes of the city and area. Dundee's economy began to recover in the

**Left**
Nineteenth century commercial Dundee. A young messenger, right, goes about his duties, as did Robert Fleming while working for his first employer, James Ramsay Jnr.

18th century, largely because of a new industry of making linen from flax, imported via the Baltic ports. This was just the start of the upturn.

By the mid-19th century, two developments had turbocharged Dundee's fortunes, turning the area into a trading and industrial powerhouse to rival any city in the British Empire at that time. The first step was the improvement and expansion of the city's docks; the second, plainly and simply, the Industrial Revolution, bringing with it inventions from the steam engine to John Kay's flying shuttle to Edmund Cartwright's power loom, transforming manufacture, travel and trade.

### Improving the docks

Dundee had always been superbly situated, in terms of maritime trading, with easy access to shipping routes to Scandinavia and the Baltic, Germany and the Low Countries, and northbound through the Pentland Firth and out into the Atlantic. There was one major snag. The harbour was too small for larger ships, on top of which it was prone to disruption as silt, carried down the River Tay, caused sandbanks to build up, reducing access to the port.

In 1770, the harbour was remodelled by John Smeaton, who introduced water tunnels to channel the silt away from the riverside and out to sea. In 1815, a special Board of Harbour Commissioners was appointed, after which the development of the port gathered speed. Several new wharves and docks were built from the 1820s onwards, not to mention a vast triumphal arch at the harbour entrance to mark the arrival, by sea, of Queen Victoria In 1844, on her way to her first holiday in Aberdeenshire.

The same route was used by the Royal family for years thereafter, before the arrival of the railways, as Dundee was on the way to Balmoral. The arch, initially of timber but later constructed in stone, was demolished in 1964.

Taking these developments in total, by the middle years of the 19th century, some of Scotland's most successful industries were shipbuilding, heavy engineering, fishing, whaling and textiles and Dundee benefited from them all.

**Left**
Victoria Arch, Dundee.
It was built between 1849 and 1853 to commemorate a visit to Dundee by Queen Victoria. It was demolished in 1964.

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## Linen and jute

By now, the linen industry had waned somewhat as the importation of flax from war-torn Europe became more difficult. Now, the most plentiful raw material was jute, its name derived from the Bengali word jhuto, or matted hair, and cheaply available from the Indian sub-continent.

By 1878, the Camperdown Works in Lochee, owned by Cox Brothers, had become the world's largest jute works, with a 22-acre site, its own railway branch line and employing 4,500 workers. The finished material was ideal for lower-cost products such as sacks and bagging and, by way of an aside, is undergoing a renaissance in the 21st century, as an ideal substitute for environmentally harmful plastic shopping bags.

Flax, though more expensive than jute, was still required for demanding applications such as warships' sails, most famously those of Nelson's flagship HMS Victory, manufactured at Baxter Brothers' Dens Works in Dundee.

Dundee also had a sizeable Arctic whaling fleet, many of the ships being built in local shipyards. Fishing was another important industry, the North Sea, though now sadly depleted, being abundantly stocked with herring, cod, haddock and even tuna of up to 360kg at the time.

Ships carried outbound cargoes such as jute sacking, machinery and sometimes emigrants on the first leg of their round-the-world voyage. The journeys were timed so that once some of the ships' holds had been emptied, in the West Indies or on America's eastern seaboard, another cargo, such as sugar cane, would be ready for shipment, perhaps to Australia.

The aim was to make money during every leg of the voyage, all the way westwards around the globe to India. The final cargo to be disembarked, often enough, would be the very looms and machinery which eventually caused the near-demise of the UK textile sector.

The ships' holds would then be filled with jute and sealed for the return passage to Scotland. On arrival at their home port, the vessels would need overhauling ready for the next trip, providing yet more employment for Scottish workers. One Dundee shipyard, the Stannergate, employed 2,200 people at its peak.

**Right**
A scene from the US Civil War of 1861-1865.

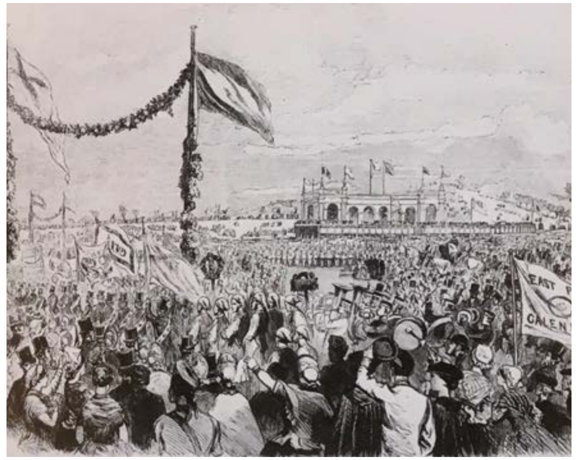


Meanwhile, the batching oil necessary to treat the raw jute was being landed by the Arctic whaling fleets. The Dundee-based trading cycle, in short, attained an efficiency that would have gladdened the heart of a management accountant.

At this point I can do no better than to quote the late Professor George Stout, the keenest of Tayside local historians as well as being a past joint manager of the Dundee-launched Alliance Trust which, like DIGIT, still thrives today. It was through meeting George at his home in Monifieth, close by Dundee, twenty years ago that I first gained an interest in investment trusts and, as he has noted, about the origins of the Scottish city's wealth:

*"It is a sad reflection of industrial life in Dundee that prosperity, in the nineteenth and early twentieth centuries, depended on the outbreak of wars. Sailcloth, ropes and tarpaulins and, later, sandbags were the very stuff of war, and Dundee's fortunes swung upwards with the Napoleonic wars, the Crimea, the Egyptian campaign and the Boer War. None compared, however, with the fortunes generated by the war in which British forces were not engaged – the US Civil War.*

*Tarpaulin, tenting, wagon and gun covers were supplied to both sides of the war, although predominantly to the Union forces, as fast as the goods could be manufactured. The machines in Dundee's factories and mills ran to breaking point, and strands of jute fibre blew around the streets like tumbleweed."*



**The opening of Baxter Park, 1863**
In the mid-19th century, Baxter Brothers were proprietors of the world's largest linen works. The scene above shows the opening of Baxter Park in 1863, attended by an estimated 75,000 people. The 36 acres of ground for the park was donated by Sir David Baxter, of the textile dynasty. Mary Baxter, Sir David's sister also donated a large part of her fortune towards the development of what is now the University of Dundee, on condition that women were allowed to study as well as men. Similarly, Thomas Hunter Cox, of the eponymous jute dynasty, as well as a founding Trustee of The First Scottish, donated £12,000 in 1888 to the Council of University College Dundee, to establish and endow a Chair of Anatomy.

**Above**
Textile workers, Dundee, 19th Century.

The jute and linen industries, in short, were booming and, taking into account the local engineering, maritime and agricultural sectors, by the early 1870s a significant pool of investment capital was being generated and seeking a home for lucrative but safe investment. The question was, where best to find such enticing investment returns?

British government securities such as Consols, while utterly dependable, typically yielded 3% or less, with no prospects of longer-term capital growth or, though not the issue it is today, protection against inflation. Another popular option at the time, the purchase of railway or industrial fixed income securities, ran the risk of total loss if, as happened all too frequently, the company went down.

Investment in individual ordinary shares, on the other hand, was far too risky for ordinary savers and investors to contemplate in such barely regulated times and could even involve unlimited liability should the enterprise fail.

Only the very wealthiest could spread their risk by constructing diversified portfolios of their own, the constituents of which typically would be dominated by high-yielding mortgage and loan securities in the leading emerging market of the day – the United States. One or two of the railway or utility companies in the portfolio might fall by the wayside, but this was made up and more by the high average returns on the remainder.

Back in the Baltic Street offices of Edward Baxter & Son, one young man had worked out that if a pooled investment scheme could be devised that offered shares in such a spread of investments, ordinary investors could reap the same benefits of diversification despite their more modest outlay. His name was Robert Fleming.

## Fleming family roots

Andrew Lycett, the biographer of James Bond's creator Ian Fleming, who was Robert's grandson, has traced the Fleming family roots to fourteenth century immigrants from Flanders[1]. By the early nineteenth century there were several Fleming families based in Glenshee, Perthshire, and Robert Fleming's father John was born there.

John Fleming began his working life apprenticed to a relative who had a spinning mill in Mill Street, Perth. Within a few years Fleming had become an overseer of the mill and in due course decided to set up on his own. Borrowing money from friends and family, he established a lint mill, which carried out part of the process of converting flax into linen.

The venture proved ill-timed. Flax prices collapsed in the late 1830s and the business failed. John was forced to move to Lochee, at that time a separate town, two miles[2] by road north west of central Dundee, and resume work in the jute mills, being paid one pound per week.

It thus came about that Robert Fleming, who was born in 1845, began his life in Liff Road, Lochee, in living conditions that can only be described as cramped, unhealthy and harsh. Conditions were so poor that five of Robert's brothers and sisters died in childhood, from diphtheria – three in 1843, before he was born, and two in 1859.

Another brother, John, survived, and, like Robert, succeeded in later life, starting in the timber trade before becoming a Liberal MP, receiving a knighthood and being appointed as the first Lord Lieutenant of Aberdeen.

The fortunes of their father, John, also eventually recovered. An intelligent man, he joined Gilroy Brothers & Co., one of the largest jute companies in Dundee, where he worked as an overseer for the rest of career. He later wrote an industry text book, *The Warping Overseer's Assistant*.

[1] See Scotland and the Flemish People, St Andrews Institute of Scottish Historical Research.
[2] Although, the 1882 *Ordnance Gazetteer of Scotland* tells us, the same journey was six miles by rail, via the Newtyle branch of the Caledonian railway.



## The young Robert Fleming

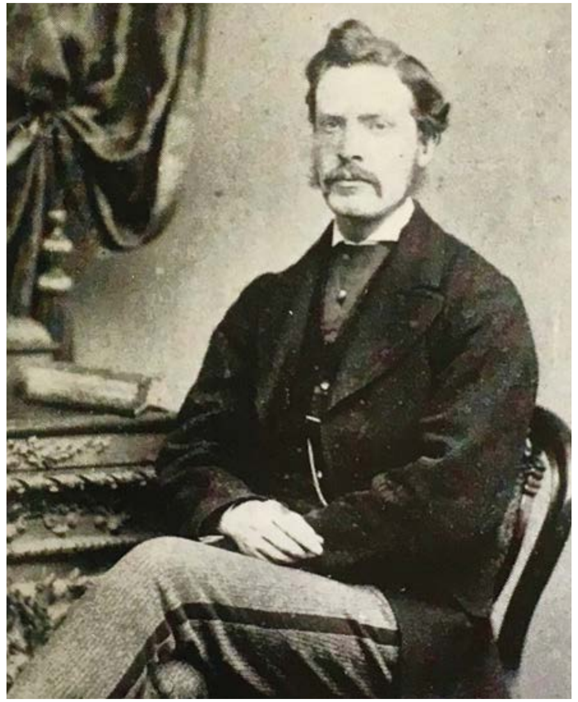
The family moved into Dundee itself in 1846, initially in Ramsay Street and then in 1853 to a tenement close to Brown Street School, where Robert and his brother John were pupils. The brothers' earliest recorded memories were of the latter house move, or "flitting", because the clothes basket containing their mother's best china, which had been placed in on top of the cart, fell off, smashing virtually all of it.

The journey to school simply meant crossing the road, where the brothers were given a basic education from Finlay Macdiarmid, referred to by Robert in later life as "a stalwart highlander from Killin", whom Robert remembered as a very good teacher.

During the summer holidays, the boys spent much of their time in the far fresher environment of Glen Shee, where they had the option of staying with "grandfather Fleming at Dalrulzion or grandfather McIntosh at Glenkilrie". Both grandmothers had died before the brothers were born.

The two boys loved their time at Glen Shee so much, the Fleming family archives reveal, that even after they had started working, in an era of the six-day week, the pair thought nothing of catching the train to Blairgowrie on late Saturday afternoon and then walking the last 11 miles to Dalrulzion, or 13 if they were going to Glenkilrie. On the Monday, they would have to be up early enough to make the same walk in reverse, in time to catch the dawn train back to Dundee.

The boys left Brown Street School when they reached the age of eleven. Both were awarded bursaries through the James Webster Bequest[3], which allowed them to study for two more years at Dundee High School. In Robert's case, this meant studying mathematics, in which he had shown a keen interest. Many years later, he recalled of Dundee High School that:



**Above**
Determination and ambition: Robert Fleming as a young man.

*"Mr Roy was a first-class mathematician but entirely useless as a disciplinarian … he taught us all sorts of things – Duncan's plain geometry, differential calculus, the binomial theorem, navigation, etc. …Mr Dott was a very different teacher and had his pupils under strict control. His subjects were rather mixed, being algebra, geography and book-keeping. …I learned far more from Mr Dott than from any other; he was a splendid teacher."*

[3] Initiated in 1789, the James Webster Bequest funded scholars who were born in the counties of Forfar, Perth, or Fife, in "mathematics, book-keeping, navigation, astronomy, mechanics, fortification, geometry, perspective, civil history or morality".



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## Solid grounding

Although Robert's formal education ended at the age of thirteen, he had acquired a solid grounding in mathematics and book-keeping, which served him well as his career developed.

On leaving school he began work as an office boy with James Ramsay Jnr, a Dundee merchant based in the Cowgate, which at that time was the commercial heart of the city. The area was described in the contemporary Dundee Year Book as "a confederacy of chiefs, of confidentials, of clerks and of juniors" – in short, an ideal place for the young and ambitious to pick up an understanding of the ways of the city and the business world. The potential financial rewards, on the other hand, were some way off. For his first year's work Robert was paid the princely sum of £5. His early duties included walking around the town with a packet of banknotes to pay accounts; "in those days", Fleming recalled, "cheques were issued only rarely".

## Entering a different world

Two years later, he joined Cox Brothers & Co., working in the mercantile office, where he first came to the notice of Thomas Hunter Cox, the partner response for financial matters, with whom he would later work closely in the management of the Scottish American Investment Trust and its successor issues. As Bill Smith has pointed out, "Fleming could not fail to appreciate the sheer wealth, power and influence of the partners … a revealing insight into a very different world".

Here the clerks maintained the firm's journals and ledgers, recording not just every aspect of the business but of the investment portfolios, kept in lockable files, which the partners administered for the firm and for themselves. It was during his time at Cox Brothers that Fleming began to take an interest in stock market matters and, his surviving notebooks reveal, to maintain a list of the new issues market, covering both British companies and the large number of issues in London of foreign corporations.

The timing of his first foray into the investment world could not have been better – or so it seemed at first. After the passing of the Companies Act of 1862, which greatly simplified the procedures for forming limited liability companies, there was a surge of new issuance, into what, to begin with, were buoyant market conditions.

The young Robert, meanwhile, had made rapid progress in his career to the extent that, as touched upon, he was earning £100 per year before he was 20 and, as he recalled in a letter years later, "seeing before me illimitable wealth", he began to subscribe for new issues against the encouraging backdrop of rising markets.

All appears to have gone well initially but everything changed with the collapse of a leading London bank, Overend, Gurney & Co., on "Black Friday" – 11th May 1866. The shock waves that followed took down many smaller firms, one of which was the Oriental Commercial Bank, in which Robert had invested the equivalent of several months' salary. The bank began to return its drafts unpaid and, within a few more weeks, had been placed in the hands of the liquidators.

Having bought the bank's shares part-paid, Fleming was placed in a deeply awkward situation. Not only did he have to sell all his other investments to meet the bank's calls, but it took him five more years to pay the remaining balance as and when he could. It was the toughest of early lessons and, he admitted many years later to an American banker, "one of these experiences that one never forgets."



## Edward Baxter & Son

Before the end of 1866, Fleming left Cox Brothers and joined the Dundee merchants, Edward Baxter & Son, as a clerk. Whether the move was linked to his ill-fated investment scheme is not known, though it seems likely that, having perhaps "blotted his copybook" in the eyes of senior management at Cox Brothers, he desired a clean break.

By the time Robert entered his service Edward Baxter was 75, and still running the firm which, in addition to its extensive lending and investment activities in the US, involved the direct exporting of textile products to Dundee's overseas markets, bypassing agents in Liverpool and London.

It was by gaining the confidence of Baxter, who was a wealthy and influential local figure, not to mention being the American Vice-Consul in Dundee, that Robert Fleming was able to get his "big break" and take his first steps towards success.

Edward Baxter died in July 1871 at the age of 80, leaving net assets of just over half a million pounds, equivalent to a multi-million sum in today's terms. He had retired from business four months earlier, at which stage he had appointed his solicitor, David Small, as Factor and Commissioner, "to act for me in the management of my Estates and generally to manage my affairs and conduct my business". In the same document, Baxter recommended that Small should continue to employ "Robert Fleming my present Clerk and Book-keeper at such salary as he should consider reasonable".

There is no evidence to suggest that Fleming, still only 26 at this stage, was responsible for choosing the investments in Edward Baxter's Trust. Overseas transactions were carried out largely on the recommendations of Baxter's investment bankers in America: Maitland, Phelps & Co. In New York or Falkner, Bell & Co. in San Francisco. Nor, as has sometimes been suggested, including in this author's early research, is there evidence that Fleming visited the US on Baxter's behalf in 1870. Online searches, using the latest databases of ships' passenger lists dating to the period, have failed to confirm any such trip, to which Fleming himself never alluded.

While this myth has been debunked, it is clear that Shiel & Small, the solicitors to the Trust, depended upon Fleming to a very great extent in its administration, a role he continued to carry out until 1875, by which point he was fully engaged with the Scottish American Investment Trusts.


NEWPORT AMATEUR ROWING CLUB DINNER.

DISTRIBUTION OF PRIZES.

The annual dinner of the members of the Newport Amateur Rowing Club and the distribution of prizes to the winners in the late Regatta took place on Wednesday night in the shed in connection with the Newport Hotel. Mr John Leng, the Commodore of the Club, presided, and Mr J. A. Mitchell, the Vice-Commodore, acted as croupier. After dinner the Chairman distributed the cups and prizes as follows:—

PAIR SCULLS—L.W.

Redgauntlet, ............... Gold Medal, .................. John Tosh.

FOUR OARS—CHAMPION PRIZE.

Gertrude, ............ St Fort Challenge Cup, .......... Jas. Marnie.
Rocket, ............ Whytock Challenge Cup, ........ C. Strachan.

TWO OARS—L.W.

Excelsior, ........ Broughty Ferry Challenge Cup, ...... J. Duncan.
Vulture, ................ The Silver Oar, ............... W. Walker.

PAIR SCULLS—CHAMPION BADGE.

Watersprite, ....... Champion Sculling Badge, .......... A. Norrie.

HEAVY TWO OARS.

Excelsior, ........... Kinnaird Challenge Cup, .......... A. Norrie.
Canny Scot, ...... Vine Silver Mounted Belts, .. W. F. Henderson.

FOUR OARS—L.W.

Dauntless ....... Four Silver Challenge Medals, ...... W. Edward.
Gertrude, ....... {Merchants' Silver Mounted Challenge Belts,} .......... R. Smith.

ALL COMERS.

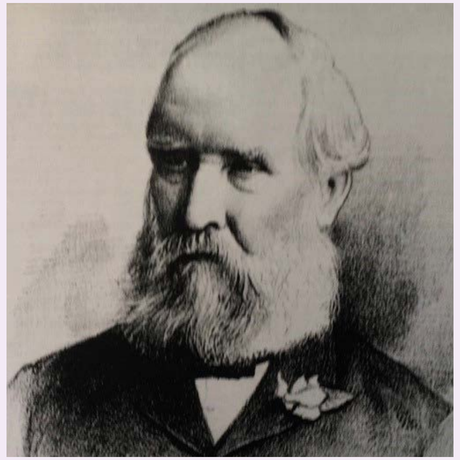
Gertrude, ........... Second Prize—Five Jugs, ......... Jas. Marnie.

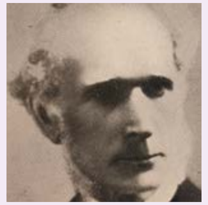
DUPLICATE PRIZES.

Medal to R. Smith, as the Champion Sculler for three years.

Medals to R. Osborne and R. Fleming as having won two oars, heavy weights, for three years.

The CHAIRMAN then gave the toasts of "The Queen," "The Prince and Princess of Wales," and "The Navy, Army, and Volunteers." In proposing the latter, he said he was glad they had a gallant representative of the







A third issue is announced of "The Foreign and Colonial Government Trust" to the extent of £1,000,000, in 6 per cent. Certificates of £100. The issue price is £92, thus giving £6 10s 5d interest. This Trust has met a want, by enabling investors, whether small or large, to apply the principle of average to investments in Foreign Securities. It is obviously more prudent, in placing money in Stocks which pay a high rate of interest, to divide the investments so as to make one insure the other. The object of the Foreign and Colonial Trust is to enable any one to do this with a minimum of trouble and expense, as for each £100 invested the subscriber virtually becomes a holder of *pro ratâ* investments, none exceeding £10, in some 15 or 20 of the Foreign Stocks most currently negotiated on the London market; and beyond this he receives a bonus when his Certificate is drawn for payment, and a share in the ultimate reversion, whatever it may be, when the Trust is wound up. The scheme has been so favourably received that two previous issues have been already absorbed.

**Top left**
The People's Journal of 10 August 1872 reports the success of Robert Osborne and Robert Fleming in the double sculls event for three years in a row.

**Top right**
John Guild, the first Chairman.

**Middle left to right**
The other three founding Trustees, John Sharp, Thomas Smith and Thomas Cox.

**Above**
US Railroad poster, 19th Century.

**Bottom left**
Extract from the Money and Share Markets column of the Dundee Advertiser of 2 May 1871.





## The Scottish American Investment Trust

*"Dundee had not, up to that time, been a financial centre, and we went to the printer in grave doubt of success with a proposed issue of £150,000. But such was the confidence in the Board, which consisted of four of the best men in the town - John Guild, John Sharp, Thomas Cox and Thomas Smith – that on the first day the British Linen Bank was flooded with applications, to such an extent that ... it was decided to withdraw the prospectus and print a new one, with a capital issue of £300,000. This was also largely oversubscribed... At the start, it took the form of a trust with a trust deed, the terms of which were printed on the back of bearer certificates of £100 each".*

Extract from Robert Fleming's 1923 speech commemorating the Company's 50th anniversary.

### Personal ambition

Robert Fleming's notebooks dating to the period suggest a continuous quest for self-improvement. He not only maintained his close study of the financial markets but read widely, attended as many talks and lectures as he could and even resolved in his notebook "to study the art of conversation", a skill in which he felt he fell short. During the winter, he frequently went to the theatre, and recorded attending two balls. His main sporting interest was rowing, in which he and a colleague, Robert Osborne, won the double sculls at the Newport Regatta three years in a row. He also enrolled in boxing classes in November 1870, for a fee of seven shillings and sixpence, though there is no record of him taking the sport further. Both he and his brother John served in the local Volunteer force, the (rather tongue-twisting) 4th Forfarshire Corps of the Forfarshire Artillery Brigade, formed in 1860 when fear of a French invasion was rife. John remained in the reserve forces for twenty years, attaining the rank of Captain, though Robert's business interests and constant travel from 1873 onwards prevented him from remaining active and he progressed no further than Lance Corporal.

By 1872, Fleming, his early misadventures in the new issues market well behind him, was once more active in the financial markets, dealing both on his personal account and behalf of a number of clients, including two of his fellow clerks at Edward Baxter & Co. The scale of his transactions grew larger, to the extent that his stockbrokers' commissions alone totalled £130 for the first ten months of 1872.

Meanwhile, his desire to improve and learn was undimmed. His continuing studies of financial markets and any news reports thereof soon led him to the formation and success of The Foreign & Colonial Government Trust, which was regularly reported upon in the Scottish financial press.

The clipping opposite, taken from the Dundee Advertiser of 2 May 1871, or one very similar to it, is likely to have triggered the "light bulb moment" which led Fleming to propose a similar investment trust launch in Dundee. Not for him, though, the government stocks that made up F&C's founding portfolio. Through his associations with Edward Baxter and his financial estate, he had gained both a close knowledge of US investments and built up a range of contacts on the other side of the Atlantic. Fleming's brainchild, The Scottish American Investment Trust, was the result.

Returning to the early weeks of 1873, Fleming knew that there was a great deal of money in Dundee looking for attractive investment returns. He also knew that the United States was not just the land of opportunity but desperately short of the capital to develop railroads, coal and iron companies and civic utilities. At the same time, his costly lessons following the collapse of Overend, Gurney seven years earlier had made him wary of incautious investment.

For the remainder of Fleming's working life, the safety of investors' money was always in the forefront of his mind. He believed that only investments secured on a railroad's land and equipment, i.e. mortgage bonds, should be acquired, and then only if that railroad was paying a dividend on its ordinary stock or if the bonds were guaranteed by another railroad.

Having developed his plan – and having studied the way that Foreign & Colonial had been promoted – Fleming knew he had to win the support of several respected and influential figures to get it off the ground. It says something about his personality and strength of character that he was able to persuade John Guild, a local merchant with interests in insurance and shipping, to become the Trust's first Chairman and his former employer, Thomas Hunter Cox, one of the most prominent local figures of all, to become a Trustee, along with two other leading businessmen, John Sharp and Thomas Smith.

**Left**
The Cunard liner SS Abyssinia, in which Robert Fleming made his first transatlantic crossing. His original booking had been made in the RMS Atlantic, which struck rocks and sank off the coast of Nova Scotia with a loss of 560 lives. Abyssinia herself was destroyed after a fire in a cargo of cotton mid-Atlantic in 1891.



The first formal meeting of the Trustees took place in Thomas Cox's offices on 1st February 1873. The minutes state that:

*It was proposed to consider the establishment of a Trust similar in principle to the Foreign & Colonial established in London by Lord Westbury ... Mr Fleming had previously brought the subject under consideration of the gentlemen present individually, giving them a sketch prospectus of the nature of the business, and the working of the proposed trust.*

The Trustees engaged Shiel & Small as their solicitors, where a further meeting took place on 5 February in Bank Street. Mr Shiel indicated that "The Trust Deed as it now stood "was a very perfect one, resembling very closely the Foreign & Colonial Trust Deed which no doubt Lord Westbury had considered very carefully." The British Linen Company's Bank was appointed as banker to the trust, while Robert Fleming himself became its secretary.

The Prospectus described the intended issue of £150,000, in Certificates of £100 each and paying interest of 6% per annum; any surplus income would be used either to redeem certificates or to purchase additional investments. The trust initially had a life of ten years. The new trust was to invest in: "The Bonds of States, cities, railroads and other corporations in the U.S., but chiefly in the mortgage bonds of railroads."

Among other requirements, the annual general meeting was to be advertised in at least two daily newspapers published in Dundee and one in Edinburgh. Entry to the Annual General Meeting was also to be strictly controlled: "no person shall be permitted to be present who does not produce his certificate ... and shall vote in proportion to the value of the certificates produce by them".

The launch of the trust was an immediate success, being oversubscribed by 60%. Rather than scaling down allotments, it was decided to increase the size of the issue and, those involved with investment company documentation in the 21st century might note with astonishment, a revised prospectus was issued the same day.

When applications closed five days later this, too, was oversubscribed, causing the Dundee Courier & Argus of 11 February 1873 to declare that "this splendid success is a remarkable indication of the estimation in which the Trustees are held ... as well as the soundness of the project itself".


## A transatlantic close call

With the successful launch in the bag – and on the admirable principle that the only reliable source of information is personal original research – plans were put straight into force for Robert Fleming to visit the US and gain first-hand knowledge of the investment opportunities on offer.

On 12 March 1873, Fleming left Dundee for London, where he spent a few days gathering information before heading back north to Liverpool, ready to make his first transatlantic crossing. He was armed with letters of introduction to key bankers in Boston, Philadelphia and New York. Thomas Cox had also written ahead to his New York advisers, the cumbersomely-titled Brown Brothers and Kidder, Peabody, saying that "A friend of ours is going to the U.S. in about 10 to 14 days... to look out for prime railway bonds, etc. Any service you can be to him in the way of leading him to information we shall be glad if you will furnish".

As it turned out, Fleming had not only been provided with excellent references but endowed with a goodly measure of luck. He had originally intended to sail in another vessel, RMS (Royal Mail Ship) Atlantic, which sank with huge loss of life on 1 April 1873, having struck rocks off the coast of Nova Scotia. "Had I sailed on the Thursday", Fleming recalled many years later, "it is not likely that I should have crossed the Atlantic 128 times".

**Left**
Early AGMs were held in Lamb's Temperance Hotel (later simply Lamb's Hotel) at 64, Reform Street, Dundee. The building was later used for many years as the head office of Alliance Trust. Since 2016 it has housed an upmarket coffee shop.

Image credit: National Library of Scotland



## The Trust's ten largest investments in July 1873

| No. | Ten largest portfolio holdings as at 2 July 1873 | Price | Valuation ($US) | % of total investments |
|---|---|---|---|---|
| 120,000 | Michigan Central Railroad 7% | 99¼ | 119,100 | 7.6 |
| 110,000 | St Louis & Iron Mountain Railroad 7% | 95 | 104,500 | 6.6 |
| 100,000 | New York & Harlem Railroad 7% | 100 | 100,000 | 6.3 |
| 105,000 | Phildelphia & Reading Coal & Iron Co. 7% | 90 | 94,500 | 6.0 |
| 100,000 | Pacific of Missouri Railroad 6% | 86¼ | 86,250 | 5.5 |
| 80,000 | Detroit & Bay City Railroad Co. 8% | 99½ | 79,600 | 5.0 |
| 83,000 | Cincinatti, Richmond & Fort Wayne Railroad 7% | 94 | 78,020 | 4.9 |
| 75,000 | Dunkirk, Warren & Pittsburg Railroad 7% | 103½ | 77,625 | 4.9 |
| 70,000 | St Louis City Bonds 6% | 97 | 67,900 | 4.3 |
| 70,000 | Cleveland & Pittsburg Railroad 7% | 93 | 65,100 | 4.1 |
| | | | Total percentage invested in "top ten": | 55.2 |

Source: Company Accounts and Minute Books, Dundee City Archives.

## Codewords

Fleming reached New York on 26 March after a voyage of ten days. Three days later, the first of his numerous cables and letters was sent back to Dundee. These frequent communications either confirmed purchases made, to what must have been a pre-arranged plan, or asked for approval to invest, using a series of codewords. For example, in one of his letters Fleming recommended five separate Railroad Mortgage Bonds, to which the Trustees replied by cable, "Letter 7 April [1873] received: Badajoz, Talavero, Inkerman, Balaclava".

Each of these four words (all names of European battles) was a code for approval to purchase, typically $60,000 of stock, in a certain railroad security. Interestingly on this occasion Fleming's fifth code word, Waterloo, was missing from the reply from Dundee. This meant that his proposal to invest in the Missouri, Toledo, Wabash & Western Railroad had, for whatever reason, been turned down by the Trustees.

## First investments

The first recorded investment made by the trust was $83,000 of First Mortgage Gold Bonds of the Cincinnati, Richmond & Fort Wayne Railroad, purchased through Maitland, Phelps & Co of New York. The price was 91, with a 7% coupon, giving a yield of 7.7%.

In the table above, which lists the ten largest investments which had been made as at 2 July 1873, the founding investment of Cincinnati, Richmond & Fort Wayne Railroad 7% Mortgage Bonds, which had been bought at 91, had advanced in price to 94. Eight of the ten holdings were railroad securities, one was a coal and iron company issue and one a civic bond. The total of $872,595 for the ten holdings represents some 55% of the total portfolio value of $1,577,495, the latter figure equating at the prevailing exchange rate to approximately £280,000.

### Turbulent times – the "Panic of 1873"

The timing of the launch proved testing, to say the least. Just as the investment of the £300,000 raised was almost complete, the so-called "Panic of 1873" developed in the US, heralding the start of a depression that lasted for six years. Railroad stocks were badly hit, to the extent that several thousand miles of US railroad went into receivership in the next four years.

It was fortunate that the Trust's founding investments had been chosen with care. The bonds of new construction railroad branch lines were yielding between 9% and 11%, offering a risk premium that Fleming and the Trustees had chosen to ignore. Instead, they had gone for the older, dividend-paying railroads running on established trunk lines. These safer bonds typically paid 7% – still a handsome premium on the returns available from domestic investment.

Looking back at the events of the previous year at the trust's 1874 Annual General Meeting, held in Lamb's Hotel, Reform Street, the Trustees noted that:

*In its origin the "Panic of 1873" was largely due to an excessive construction of new railroads ... with the collapse of the Houses engaged in financing these operations, Railroad Securities of all classes were subjected to a test unprecedentedly severe. Under such circumstances, the Trustees have gratification in being able to report that in no case has there been the slightest irregularity or delay in payment ... the market value of the Securities forming the Trust Fund has been more than maintained.*

### Follow-on issues

The First Issue, as it retrospectively became known, not only survived its difficult early years but led to a Second Issue in September 1873 and a Third in January 1875. Each of the follow-on issues was for £400,000. Robert Fleming remained as Secretary to all three trusts for fifteen years, before turning his attention to London, where he formed the Investment Trust Corporation Ltd in 1888. He remained active in an advisory capacity to all three until shortly before his death in 1933.

### Scottish approach to income tax

It is topical, noting the implementation of the separate Scottish Income Tax arrangements that came into being from 6 April 2017, that the Scottish American Investment Trusts seem to have been ahead of their English peers from the outset when it came to the tax treatment of dividends.

The Minutes of the Trustees' Meeting of 28 October 1873 reported that "the first coupon of 3% for the half year ending 1st November 1873 will be paid, less Income Tax, on or after that date, on presentation at the offices of the British Linen Bank in Scotland or Messrs Smith, Payne & Smiths, London ... holders claiming exemption from Income Tax can obtain the necessary certificate of deduction on application to Robert Fleming, Secretary".

The early London-incorporated trusts, on the other hand, were generally slower to act. The various Foreign & Colonial trusts, for instance, only began paying dividends "net of tax" following legal advice in 1885. Before that date it has been assumed that investors would take the necessary steps to declare the dividend income themselves, for tax purposes. In any event the rates levied were far from penal.



Between 1868 and 1899 UK income tax varied from 2d to 8d (old pence) in the pound, equivalent to a range of 0.8% to 3.3%. Nevertheless, it appears that in this instance, unlike their English counterparts, the Scottish trust sector established best practice from the start.

### 1879 – a legal challenge

Despite US market turbulence for much of the decade, The "First Scottish" paid 6% annually on the certificates of all three issues with monotonous but, for investors, perfect regularity until 1879. Each issue also accumulated reserve funds of £26,000, £37,000 and £16,000 respectively, while the investments of the first issue had become worth £350,000 over and above their £1,000,000 book value, despite the general economic depression of the time. This was a creditable achievement, although, Robert Fleming later admitted, some of the railroad bonds purchased in the early years had given him sleepless nights.

On one occasion, when all the US coupon payments had been made on time, a transatlantic cable was sent carrying the single codeword "miraculous". The historian J.C.Gilbert was to describe the First Scottish's overall performance in its early years as "a brilliant achievement...an example of the advantages to be derived from investment by experts".

In 1879, the first major change in the trust's history took place, not through voluntary action but because of a ruling in the English courts. In the case of Sykes v. Beacon (1878), Sir George Jessel, Master of the Rolls, ruled that investment trusts formed under trust deeds were "associations of more than twenty persons for the acquisition of gain". They were therefore not legal, unless registered under the Joint Stock Companies Acts of 1862 and 1867.

Although the ruling applied solely to trusts registered in England, the advice of eminent counsel in Edinburgh was that it was only a matter of time before the issue was tested in the Scottish courts. While not earth-shattering in the wider-sense, this was probably the nearest to a bombshell that the nineteenth century investment trust sector had to face.

Urgent action was required. Fleming and the Trustees put in motion the process of converting the trust issues to the limited company form forthwith.

There was no time to amalgamate the three issues, which had different valuations that would have had to be reconciled into a single vehicle, with the strong possibility of dissent and delay. A further complication was that, as the certificates were bearer instruments, the names and addresses of many of their owners was not known. The only way to proceed was to advertise widely in the local area, inviting the holders all three issues to attend a meeting in Dundee, as ever at Lamb's Hotel, and hope for a majority vote.

As it turned out, the development was not the worst thing in the world to have happened because, as the Trustees explained in their advisory note to certificate holders.

*The doubtful legality of the Trusts will at once be settled; the Share Certificates will be registered, instead of the present insecure form; the Companies will be placed on a permanent basis, instead of terminable in from four to sixteen years as at present, and the inelastic conditions of the present Trust Deeds are got rid of, and the semi-annual dividends will be considerably increased.*

Whether, as seems likely, the proposed dividend increase was the clincher, the proposals were safely passed, the only counter-suggestion of any kind coming from a Mr John Borrie of Carnoustie, who asked for a vote on the amalgamation of the three trusts. He was asked to accept a postponement of the matter, to which he agreed, though had he known it would not be resolved for another 90 years, he might not have been quite so cooperative.

Dunedin Income Growth Investment Trust

1873 – 2018

The results of the proposed conversion were reported to shareholders on Wednesday 18 June 1879, when they were informed that:

"In consequence of litigation in the English Courts, the result of which seemed to point to the illegality of the present constitution of the Trust, the Trustees summoned an aggregated meeting of the holders of Certificates of all the Trusts, to consider the steps necessary to be taken toward the protection of their interests.

...A numerously attended meeting had been held on 11th March, when it was unanimously resolved to convert the Trust into a Joint Stock Company – the conversion has proceeded so far as to leave its completion no longer doubtful. Out of 2,967 Certificates outstanding, 2,907 have already been surrendered in exchange for shares in the First Scottish American Trust Company Limited and the outstanding 60 Certificates are expected to be converted at an early day."

## Moving forward as limited companies

The three trust issues were duly and separately registered as the First, Second and Third Scottish American Trust Companies Limited. The new Articles of Association described the process of the acquisition of the original trust certificates and the formation of the new company, the capital of which comprised three thousand shares of one hundred pounds each. The Articles also gave the Directors powers to authorise borrowing by the Company, for the purposes of investment, not exceeding ten per cent of the Capital of the Company. No preference stocks or debentures were issued for over thirty years, unlike, for example, the Dundee land trust companies which eventually formed the Alliance group.

Robert Fleming remained as Secretary to all three companies, the offices of which stayed at 1, Royal Exchange Place, while the four founding Trustees, all still going strong, became directors. The investment remit was still confined to the bonds or other obligations of the railroads, other corporations, States or municipalities, and of the US government itself. It was further specified that:

"The office of Director shall be vacated if he ceases to hold the qualification of not less than Thirty Shares; if he holds any other office or place of profit which the Company have not in General Meeting sanctioned; and if he becomes lunatic or of unsound mind, or bankrupt, or compounds with his creditors, or is convicted of any crime".

Not only did the directors have to be assessed as being of sound mind, therefore, but each was required to hold not less than thirty shares. As the four men were also directors of the Second and Third issues, each had to allocate a total of at least £9,000 each to meet the requirements of his triple roles. This was a substantial commitment at a time when the Dundee Advertiser was offering "two self-contained dwelling houses of six apartments each" in Broughty Ferry, near Dundee and standing in substantial grounds, priced at £1,000 for the entire site.

## Resumption of business

The day-to-day process of managing the investment portfolio, by now totalling approximately 50 holdings, quickly resumed. As before, any adjustments were invariably either confirmed by, or made on the advice of, Fleming himself, who continued to visit the US at least once per year and sometimes more often.

At the 1882 AGM, held at Lamb's Hotel and reported in detail in the Dundee Advertiser of 26 May 1882, the Chairman reported that things were going well:

"The market value of the investments does not show as well as it did – it is down about 2¾% since last year... [however] the income is sufficient to pay the usual dividend of 8¼%... and beyond that provides £1,000 to add to the Reserve fund.

...Amidst the general disturbance of prices and insecurity in values, I think the shareholders of this Company need not distress themselves about the state of the share market, but quietly hold to a good investment which yields them a steady income with ample security (Applause)."

We are able to continue the rate of 8% to which the dividend was raised last year ... we are also able to add £2,000 to the Reserve Fund. (Applause); that we have again lengthened the average date to which the bond run, to 23 years; (Applause) and that "Mr Fleming sailed for New York six weeks ago ... to investigate the merits of a number of profitable exchanges in our investments, with the view of improving the position of the Company ... these exchanges have now been carried out. (Applause)."

## Investment backdrop in the US

In the 1880s, the US was very much a mixture of the modern and the "wild frontier". The major cities were booming and yet, further out, it was literally still the era of the Wild West. Take 1881. On the one hand, The Standard Oil Company was being set up to host the fortunes of John D. Rockefeller. On the other, Wyatt Earp and Doc Holliday were shooting it out in the OK Corral.

Just a few weeks before the said gunfight, Sioux Chief Sitting Bull had finally surrendered to US troops at Fort Buford, North Dakota, after months of fighting, some taking place close, rather worryingly, it might be surmised, to the construction site of the Great Northern Railway that eventually ran from St Paul, Minnesota to Seattle. This sort of tale gives credence to the story that an early representative of the other pioneering Dundee-based financial enterprise, Alliance Trust, came under bow and arrow attack while riding out on the Omaha Trail.

It was against this (to say the least) unsettled backdrop that the Company's portfolio had been created and against which it clearly needed the most careful and regular monitoring. An examination of the meticulously-maintained contemporary accounts, still accessible today in bound ledgers stored in the archives of Dundee City Council, strongly suggests that, in Robert Fleming, the directors had found the right man for the job.

A glance at these archived documents gives a clue to Fleming's methodical approach. The impeccably presented annual reports, for instance, always included that rarity among 19th century accounts, a narrative, written not by the Chairman but by Robert Fleming himself and signed off "By Order, Robert Fleming, Secretary". The Chairman's commentaries were published too, via the placing in the Dundee Advertiser of a verbatim transcript of every Annual General Meeting, including all the questions raised and a summary of their answers, these articles also being copied and retained in the relevant ledgers.

By 1886, the Company held 55 different investments, the identity of which, as was normal at the time, was not revealed in the annual accounts.

On this occasion, unusually, an indication of the true asset value thereof was revealed. At that year's AGM at Lamb's Hotel, it was reported that "a careful calculation of the present market price (after providing for the dividend now recommended) is equal to £169 5s 10d per fully paid Share of One Hundred Pounds".

One director, Thomas Smith, had died earlier that year, being replaced in 1887 by William Ogilvy Dalgleish, who was the Chairman of Baxter Brothers, marking the first boardroom change since the Company's formation.

Dunedin Income Growth Investment Trust
1873 – 2018

THE

# FIRST SCOTTISH AMERICAN TRUST COMPANY, LIMITED.

*From* "THE DUNDEE ADVERTISER," *28th May 1886.*

Yesterday the seventh annual meeting of the First Scottish American Trust Company, Limited, was held in Lamb's Hotel—Mr John Guild, the Chairman, presiding.

The Directors' report, which had been circulated among the shareholders, was held as read.

The CHAIRMAN, in moving the adoption of the report, said—I am glad to be able to meet you again with a report showing progressive improvement in the position of the Company. The state of the revenue account enables us to pay the usual dividend of 8 per cent. for the year, to transfer £4000 to the reserve fund—bringing up that fund to £49,000—and to carry forward a balance of £2414 11s 7d to next account. The valuation of the securities as at the 1st May comes out remarkably well, and shows the market price of our assets to be much larger than ever before. In place of the £300,000, with which we commenced, we have now (after providing for the dividend) mortgages for £446,788 11s 5d, worth at a very moderate computation £507,888 11s, or £207,888 11s beyond the amount of the share capital. We have every reason to be satisfied with this showing. The tendency seems still to be for well-secured mortgage bonds to rise in price, and now they begin to assimilate more and more to the price of English railway debentures. Of course mortgages on American railroads differ from English railway debentures in this, that the latter are a perpetual obligation, whereas the mortgages are only for a specified number of years, when they become due and are payable at par. We have ever kept in view the importance of having bonds of a long currency, and where they have got to a considerable premium in consequence of having a high rate of interest fixed for a number of years, we have, when satisfactory exchanges could be made, realised the high-priced bonds and taken at a smaller price others of a long date and bearing a lower rate of interest, thus capitalising the premium and increasing the par amount of the securities. Many of the older American Railroad Companies will effect a considerable saving on their fixed charges when their present mortgage bonds fall due, as they will be able to substitute 4 or 5 per cent. bonds for 6's or 7's. To meet the gradual reduction that may be expected in the rate of interest on new securities, we have always, as you are aware, laid aside part of the annual revenue, the dividends declared not being the full amount of the income for the year, but a rate that leaves over a sum which we think ought to be set aside to accumulate, so as to secure the continuance of the fixed rate of dividend. Every penny of the £49,000 of reserve fund has been made up of surplus revenue. The average date at which our present investments become payable is June 1913—27 years hence—to which date the present rate of interest is fixed. The sums laid aside year by year, accumulating at compound interest, will in 27 years amount to a large sum, and, even at a much reduced rate of interest on the larger amount of funds should be sufficient to continue the present rate of dividend. I advert to these facts again thus fully, and bring them clearly before you at this time, in consequence of reading an article lately in the London *Economist* on American railway investments, calling attention to the steady appreciable increase in the market value of the bonds for some years, and to the fact that many buyers of these bonds appear to forget that in the fulness of time, instead of the money which they lay out on bonds at a high premium, they will receive back their face value only, and that in strictness they ought to lay by a certain proportion of the interest each half-year to meet the shrinkage of the principal—a thing that very few people ever think of doing, though it is a vital point when the yield from investments are in question. This is just what we have all along recognised and acted upon, and it would not do to compare the rate of interest divided on our shares, after making the provisions referred to, with the annual return on a high-priced 6 or 7 per cent. bond, with probably only ten or twelve years to run till it is paid off. Considering how the investments are spread and looked after, I think the return yielded on our shares a well-secured income. The name of shares deters some people and makes them overlook the fact that the shares represent a proportion of well-secured mortage bonds and have no latent liability—quite a different thing from the shares of a trading company. In fact our shareholders are associated investors in mortgage bonds. The report notices the loss which since last meeting we have sustained in the death of Mr Thomas Smith, who was from the commencement a Director of the Company and in which he was much interested. In him the Directors as well as many of the shareholders mourn the loss of a personal friend whom they greatly respected. It would have fallen to Mr Smith to retire at this time. We are not yet prepared to suggest a successor, but the subject is not lost sight of, and I hope the meeting will approve of leaving the matter with the Directors. I beg to move that the report and accounts now submitted be approved and adopted by the meeting, and that a dividend be now paid to the shareholders as therein recommended. (Applause.)

Mr T. W. THOMS said—I rise to second the motion which you have submitted to the meeting. You have before concluding referred to the loss of our friend Mr Thomas Smith in terms of great propriety, and you have given expression to the feeling which is common to us all. The report which the Directors have submitted is both a brief and a clear statement of affairs, and it is accompanied by a balance sheet which is also clear and satisfactory. You have in your remarks referred to the improvement which has taken place in your own special concerns, and which has more generally taken place in American securities. Many, I daresay, will hope that that is an earnest of still greater improvement, both in American affairs and elsewhere. (Hear, hear.) The result of the year's business is that you have been able to propose a very good dividend to the shareholders, which will be entirely satisfactory to them all. You have also been able to lay by £4000 additional to the reserve fund. In doing this the Directors have followed a course which will ensure the prosperity of the Company, and which at the same time will ensure the entire confidence of your shareholders. The affairs of our Company are in the hands of an admirable and trusted Board of Directors. (Hear, hear.) I have much pleasure in seconding the Chairman's motion.

The motion was unanimously agreed to.

On the motion of Mr Andrew Ogilvie, seconded by Mr David Bannerman, Mr R. B. Ritchie was reappointed Auditor of the Company.

A vote of thanks to the Chairman concluded the business.

**Right**
A detailed account of proceedings was placed in the Dundee Advertiser after each Annual General Meeting.



**Opposite Right**
Sir William Ogilvy Dalgleish of Errol Park (1832–1913) was appointed to the Board in 1887. His portrait by Walter William Ouless (1848–1933) is reproduced courtesy of the University of Dundee, Tayside Medical History Museum Art Collection.

## Improving market conditions

Market conditions in the US had begun to improve to the extent that some of the higher quality railroad bonds were beginning to look, to use a current phrase, fully priced. As John Guild noted in his 1886 Chairman's Remarks, this very point had been picked up in a recent *Economist* article, which suggested that the owners of railroad mortgage bonds were in danger of forgetting that in the fullness of time, repayment would be made at face value only.

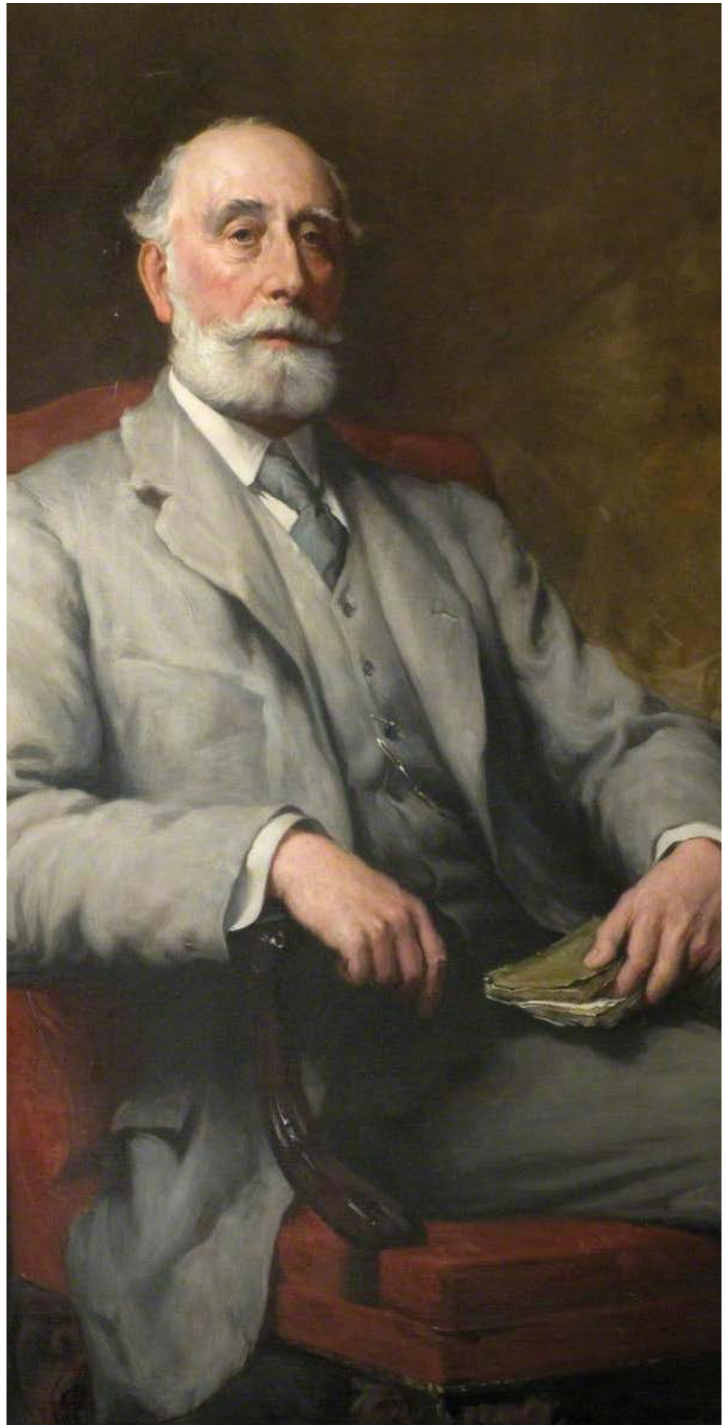
"In strictness", Guild noted, "they ought to lay a certain proportion of interest aside each year to meet the shrinkage of the principal – this is just what we have all along recognised and acted upon… every penny of the £49,000 of reserve fund has been made up of surplus revenue." As well as keeping back a proportion of interest received for a rainy day, the Chairman also reported, the average date at which investments became repayable had been extended to 27 years, effectively locking in returns, on the assumption of no defaults, until June 1913.

## Negligible impact of the 1890 Barings Crisis

This prudent policy plus, of course, the focus upon US bond investment, goes some way to explaining the way that the effects of the 1890 Barings Crisis, often described as the most serious financial event, for UK investors at any rate, of the 19th century, seem to have caused barely a ripple of concern when described to shareholders at that year's gathering in the back room of Lamb's Hotel.

Whereas other investment trusts, particularly those formed in London during the late 1880s' "trust mania", suffered significant losses and in some cases went to the wall, up in Reform Street, Dundee, investors at the 1891 AGM were politely being told that:

"The market value of the investments does not show as well as it did – it is down about 2¾% since last year … [however] the income is sufficient to pay the usual dividend of 8¼% … and beyond that provides £1,000 to add to the Reserve fund.



…Amidst the general disturbance of prices and insecurity in values, I think the shareholders of this Company need not distress themselves about the state of the share market, but quietly hold to a good investment which yields them a steady income with ample security (Applause)."

So much, then, for the effects of a liquidity crisis that had brought London's banking system to the brink of collapse. Back at the Company's AGM, the debate had moved on to another topic, the last of the day. Mr David Bannerman, City Chamberlain, having congratulated the Company on its 18-year record of success, was happy to propose that the Auditor, Mr R.B.Ritchie, "should have his remuneration increased to £30, and to that extent participate in the prosperity of the Company."

In the Boardroom, meanwhile, two of the founding Trustees, Thomas Cox and John Guild, the Company's first Chairman, died in 1891 and 1892 respectively, being replaced by Thomas's son, Edward Cox and by Alexander Gilroy, each as usual being described simply as "Merchant" in the accounts. John Sharp died in 1894 and was replaced as Chairman by Edward Cox, who paid tribute to his predecessor as "the last survivor of the four gentlemen who accepted office as Trustees in the Company's original form … and during the last 22 years has ever manifested a keen interest in the management of its affairs".

### Adam Hunter

Robert Fleming was listed as Company Secretary for the last time in the 1890 accounts, after which he was described as Advising Secretary and then from 1897, simply as London Correspondent. Fleming's trusted but hitherto unmentioned clerk, Adam Hunter, became Company Secretary in his place. Hunter, though a low-profile figure in the Company's history, assisted Fleming from the very start, succeeded him as Company Secretary in 1890 and later became a director, serving until 1936, a mind-boggling 63 years after joining the Company, presumably, as a very young man.

### US depression – the "Panic of 1893"

The Company might have been insulated from the main effects of the Barings crisis but the depression that affected the US economy in the 1890s was a different matter. The first sign of major trouble came with the collapse of the Philadelphia and Reading Railroad in February 1893, leading to a run on the banks. This in turn caused a loss of confidence among European investors in US stocks, causing prices to fall. In the fallout, 500 American banks and 15,000 businesses closed, in addition to which the Northern Pacific Railway, the Union Pacific Railroad and the Atchison, Topeka & Santa Fe Railroad failed.

The Company's conservative borrowing policy meant that it did not suffer to the same extent as other, more highly geared trusts in this period. The investment portfolio had also been diversified further to 80 holdings, a figure which had reached 99 by the turn of the 20th century. The 1893 accounts merely make mention of "three defaults this year, of small amounts, but which we feel will ultimately be paid … we have been able to continue the 8¼% dividend and propose, with your consent, to add £1,000 to the Reserve fund." The following year, under the sub-header "A SINGULARLY FORTUNATE COMPANY" it was revealed that the total income received over the past year had fallen by "£1,171, or 7s 10d on each share of £100".

By 1895, the Dundee Advertiser's sub-heading had become a positively upbeat "A SUBJECT OF CONGRATULATION". Although some of the effects of the depression had worked through, causing the dividend to have to be reduced to 7¾%, the worst was over and US stock prices were on the turn. In an era when the disclosure of true net asset values was an infrequent event, the Chairman, Edward Cox, declared that "compared with the high water mark of 1892, there was a depreciation [by mid-1895] of 10% of the Capital", a more than decent outcome following one of the worst economic crises in US history.



### US visitor to Dundee

The mood of optimism, albeit always phrased in cautious terms, was maintained as the new century approached. The recovery was slower to come than had been hoped, judging by the 1897 accounts, which talked in terms of "as yet, few signs of visible improvement" in the US. The dividend, on the other hand, had been restored to 8¼% and now £1,000 was to be committed to reserves, after a gap in such payments of two years.

On this occasion a special visitor, Mr George Coppell, senior partner of Maitland, Coppell & Co., the Company's New York bankers, was invited to Dundee to address the 1897 AGM, saying:

*My firm, as your bankers and agents in New York, has been connected with The Scottish American Investment Trust Companies from the very origin of their business … I wish the condition of [these companies] were at all symbolic of the actual conditions in the United States; but there must be something peculiar to the management of this Company which makes it able to present so favourable a statement and declare so handsome a dividend, both which are almost exceptional in these days.*

*… [as to the US economy] you must bear with us for a little while – our present low prices will make us very strong competitors with every other nation in the world.*

### Unexpected question

The three investment companies, in short, had withstood the US recession years remarkably well – so well, in fact, that the following year a shareholder, Mr A.M.Guild, found cause to take exception to the annual "indulging of blowing trumpets over the success of the Company" which, he said, had an unwieldy shape and suffered from a difficulty in marketing which, he felt, was depressing the price. It might have been wise 25 years ago to denominate the shares at £100, he suggested, but these now stood at £176 and the units had outgrown themselves. Perhaps, he argued, it was time either to divide each £100 share into ten shares of £10 or, alternatively, to convert each share into £100 of Stock, which would be tradeable in smaller amounts.

Judging by the tone of the minutes, the reaction of the Board was akin to one of stunned silence, followed by a polite reply from Edward Cox, the Chairman, thanking Mr Guild for his speech and his question which, he said, "the Directors had not at all broached … it would require very careful discussion … they should know the feelings of shareholders on the matter."

While the Company continued to thrive, with the valuation of the shares reaching £192 at the turn of the 20th century and passing the £200 barrier in early 1901, no such changes were rushed through. Mr Guild got there in the end, though. A conversion of capital was approved in 1905 that converted the original 3,000 shares of £100 each into £300,000 of Stock. No other significant changes were made to the capital structure until the Boards of all three of the Scottish American Investment Trust Companies undertook a review of their investment and borrowing policies in 1910.

### Taking stock

Taking stock of the 27-year-old Company's position in early 1900, the investment portfolio of 99 fixed interest securities by now had a remarkable average duration of 33 years.

Total assets, as recorded on the Balance Sheet, were some £389,386, of which £387,938 was accounted for by the "Investments in Railroad and other Bonds, & c." The covering text on the other hand referred to the par value of the securities being £561,055, "which is equal to £196 4s 6d per fully paid share of one hundred pounds", which tends to bear out a comment made in the smallest of print in the Dundee press at much the same time, alluding to the directors' known tendency to apply "ultra conservative valuations". These sound results were a fitting tribute to Robert Bower Ritchie, C.A., who had died that February having been the Company's auditor since day one in 1873, and "the Directors desire to bear their testimony to the strict and able manner in which he at all times discharged his duties."

A total dividend of 8¼% was paid for the year, and another £1,000 placed into Revenue Reserves, which now totalled £67,000. The Company was in robust shape, therefore, as the new century moved ahead – starting off, not for the first or last time in history, with a series of booms, busts, leading into war – plus, on this occasion, one of Donald Rumsfeld's unknown unknowns", in the form of the San Francisco earthquake of 1906, which ruptured 296 miles of the San Andreas fault, destroyed 80% of the city, took more than 3,000 lives and led to the "Panic of 1907".

**The Company's ten largest investments in May 1900.**

| No. | Ten largest portfolio holdings as at 1 May 1900 | Valuation ($US) | % of total investments |
|---|---|---|---|
| 1 | Duluth South Shore & Atlantic 5%, 1937 | 91,840 | 3.1 |
| 2 | St Paul Minn & Alban (Montana) 4%, 1937 | 83,430 | 2.8 |
| 3 | Toledo & Ohio Central Western Division 5%, 1935 | 78,750 | 2.6 |
| 4 | Flint & Peremarquette (Port Huron Division) 5%, 1939 | 73,500 | 2.5 |
| 5 | East Tennessee Virginia & Georgia 5%, 1930 | 69,600 | 2.4 |
| 6 | Burlington Cedar Rapids & Co. 5%, 1936 | 69,000 | 2.3 |
| 7 | International & Great Northern 6%, 1919 | 58,310 | 2.0 |
| 8 | Chicago & Erie 5%, 1932 | 50,160 | 1.7 |
| 9 | St Paul & Northern Pacific 6%, 1923 | 45,500 | 1.5 |
| 10 | Union Elevated of Chicago 5%, 1945 | 43,200 | 1.4 |
| | Total percentage invested in "top ten": | | 22.3 |

Source: Company Accounts and Minute Books, Dundee City Archives.



The Company was in robust shape, therefore, as the new century moved ahead – starting off, not for the first or last time in history, with a series of booms, busts, leading into war – plus, on this occasion, one of Donald Rumsfeld's "unknown unknowns", in the form of the San Francisco earthquake of 1906, which ruptured 296 miles of the San Andreas fault, destroyed 80% of the city, took more than 3,000 lives and led to the "Panic of 1907".

## The "Panic of 1907"

For most early investment trusts, by far the worst crisis they had to face before World War 1 was the 1890 Barings crisis already described. "The First Scottish", on the other hand, its investment focused entirely upon US railroad bonds and municipal securities, sailed through the Barings debacle before being confronted by two US crises of its own, each serious enough to merit the title of "Panic" at the time.

The "Panic of 1893", focused as it was upon railroad formations and investments that went horribly wrong, had been close to home. It was only the extreme care which Robert Fleming and his colleagues had put into their portfolio selections which had seen them through.

The "Panic of 1907" was different in that unforeseen events, the first being the earthquake itself, turned into a market-wide sell-off in US investments, not to mention a currency crisis so serious it led to the creation of the Federal Reserve.

**Left**
The San Francisco earthquake of 1906 triggered the US "Panic of 1907".

Dunedin Income Growth Investment Trust

1873 – 2018

## Chain reaction

In the early years of the 20th century, San Francisco was the largest city and the most important financial centre on the US West Coast, as well as operating the busiest port. When the earthquake struck, followed by five days of raging fires, a wave of insurance claims rippled back to the insurance underwriters' floors in London totalling an estimated $235 million, equivalent to approximately $6.5 billion today. In time, this money re-crossed the Atlantic in the form of international gold flows, destabilising the exchange rate. This in turn caused the Bank of England to take defensive measures, including raising interest rates and, to quote the Economist of 20 October 1906, "pressuring British joint-stock companies to stop discounting American finance bills for the next year."

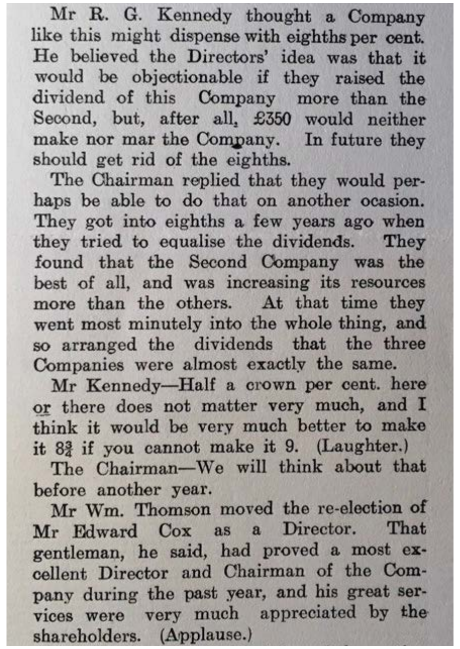
The ensuing US market fragility was pushed over the edge when a stock manipulation scheme involving the United Copper Company failed. Market fear set in and within three weeks the New York Stock Exchange had fallen 50% from its peak the previous year.

Back in the infinitely calmer surroundings of Lamb's Hotel, Dundee, Edward Cox was able to tell shareholders in 1906 that "none of their Company's investments were interested in any San Francisco undertaking, and in spite of the heavy falls in prices which followed that terrible disaster … the valuations of their securities showed a nominal fall of less than £4,000 from the record valuations last year". The following year, a depreciation of 3¾% was reported … "investors must be content with a dividend of 8 and three-eights per cent and the placing of £2,000 in the Reserve fund".

In 1908, after the Panic had taken real hold, Robert Fleming re-enters the story having just returned from a trip to the US, presumably to make a first-hand analysis of how bad things really were. In a recent speech to the Investment Trust Corporation, Edward Cox told the Dundee AGM, Fleming had described America as "still as safe as a field for investment as any". Mr Cox continued, "of course it is disappointing that the value of the Company's securities has depreciated to the extent of 6.8% … but it is fully expected this depreciation will disappear before long." (Applause).

For long-term holders, another major US financial crisis had come and gone, with no immediate impact beyond the temporary cessation of dividend increases. Investment valuations had fallen, certainly, but by far less than wider US equity markets and with every prospect of longer-term recovery. Moreover, not a single portfolio default had occurred.





Mr R. G. Kennedy thought a Company like this might dispense with eighths per cent. He believed the Directors' idea was that it would be objectionable if they raised the dividend of this Company more than the Second, but, after all, £350 would neither make nor mar the Company. In future they should get rid of the eighths.

The Chairman replied that they would perhaps be able to do that on another ocasion. They got into eighths a few years ago when they tried to equalise the dividends. They found that the Second Company was the best of all, and was increasing its resources more than the others. At that time they went most minutely into the whole thing, and so arranged the dividends that the three Companies were almost exactly the same.

Mr Kennedy—Half a crown per cent. here or there does not matter very much, and I think it would be very much better to make it 8¾ if you cannot make it 9. (Laughter.)

The Chairman—We will think about that before another year.

Mr Wm. Thomson moved the re-election of Mr Edward Cox as a Director. That gentleman, he said, had proved a most excellent Director and Chairman of the Company during the past year, and his great services were very much appreciated by the shareholders. (Applause.)

**Above**
The Dundee Advertiser of 9 June 1911 reports a shareholder asking for eighths of 1% not to be used in dividend declarations. That year's figure was to be 8 and seven eighths per cent, he observed, but in his view, "if it can't be 9, let's settle for 8 and three quarters" (laughter). The Board was less convinced and nothing changed in the short term.

## Investment and borrowing powers

By 1910, it had become clear that the Company's very narrow investment remit was beginning to hold it back. It was beyond its powers, it was put to investors, even "to step across the border and place any money in the neighbouring territory of Canada, or under the guarantee of so powerful a company as Canadian Pacific". It was time to move on.

After an extended meeting of the shareholders of the three Scottish American Trust Companies, held at the usual venue on 14 January 1910 and attended by Robert Fleming, Special Resolutions were passed with the effect of permitting investment in "the bonds and stocks of Companies or Corporations in the Western Hemisphere, in our own country and its dependencies and in the dependencies of the United States of America – a sphere wide enough for many years to come". Anything east of the Greenwich Meridian bar the "old Empire", on the other hand, including the whole of continental Europe, Asia and the Middle East, was still out.

As Donald Marr noted in his 1983 centenary booklet on the Company, "these new [1910] powers were relatively substantial, no less than £250,000 of 4% Debenture Stock being issued in one year, at a time when the valuation of investments was only £620,000". Jumping ahead in our story a little, Donald went on to observe that these measures, together with subsequent issues of Debenture Stocks, "created very high gearing, which caused considerable concern during the difficult years of the thirties but also made possible the very rapid increase in the net asset value per ordinary share which took place after the Second World War."

Dunedin Income Growth Investment Trust 1873 – 2018

## Titanic claims made good

The Company's investment remit, though now widened, still involved a substantial North American investment portfolio. Long before the era of paperless transactions, this meant bond and share certificates, and even dividend payment coupons, being physically conveyed across the Atlantic on a regular basis. After RMS (Royal Mail Ship) Titanic sank with heavy loss of life in the North Atlantic on 15 April 1912, Acting Chairman Mr R.B. Don told shareholders at that year's AGM:

*"In the mailbags of the Titanic were a large number of coupons, the property of the Company, and due for payment on 1st May. These were, of course, fully insured … eleven days later, the underwriters paid out the full amount... The Company's officers, its friends and correspondents were constantly on these great ships … and while they expressed their thankfulness that there was no loss to mourn, they desired also to convey their sympathy with the many who had been less fortunate."*

## The approaching War

Aided by its new borrowing powers in improving markets, the Company made a strong recovery in the years leading up to the First World War. By 1913, the investment portfolio, now comprising 190 securities, had advanced in value to £872,762, while the dividend had advanced to a healthy 9 and three-eighths per cent. This robust position was no small tribute to Edward Cox, who died that year having been Chairman for 21 years and who had seen the Company through some of its most testing times. He was succeeded on the Board by his son, James Ernest Cox, in May 1913, while Alexander Gilroy became the new Chairman.

On the political stage, meanwhile, tensions were rising across Europe as rearmament gathered pace. The Triple Entente of Britain, France and Russia lined up against the Triple Alliance of Germany, Austro-Hungary and Italy, despite The Hague Disarmament Conference which had proved to be "as so often since, all conference and no disarmament". In late June 1914, the assassination of Archduke Franz Ferdinand triggered a series of reactions that snowballed into the First World War.

As tensions had mounted that year, back at the Company, revenue receipts had remained flat, allowing a dividend of 9 and three eighths per cent to be maintained. There was insufficient surplus for any transfer to the Reserve fund which, however, now stood at a healthy £113,000. Market prices had been marked down, Mr Gilroy noted on 6 June, leading to a depreciation of perhaps 10% across the portfolio, but "we don't require to sell our securities and we don't intend to do so until the end of the depression".

The term "depression" did not really cover what happened next. Within a month, war between the United Kingdom and the German Empire had been declared. The London Stock Exchange closed on 31 July and did not reopen until 4 January 1915.

**Right**
Sinking of the ocean liner the Titanic witnessed by survivors in lifeboats. April 15, 1912.

2

# War, Peace and Depression

The Company relinquishes dollar securities and subscribes for government loan issues to raise vital funds for the War effort. The effects of World War 1 are felt by every level of society as the casualties rise.

Tragedy strikes close to home when Robert Fleming's eldest son, Valentine, is killed while fighting in the Somme, the three sons of one of the directors are reported respectively killed, missing and a prisoner of war and a young member of staff loses his life at the Front. Robert Fleming's death in 1931 makes headline news. The 1930s Depression eventually ends. The Company rebuilds its fortunes and braces itself for the next great challenge in the form of another World War.

# War, Peace and Depression

## World War 1

The only indication, to begin with, that hostilities had been declared on 4 August 1914 was a passing reference in the Minutes dated 17 August that year noting that "in view of the almost prohibitive premium asked for insurance of bearer bond securities between the United Kingdom and the United States to cover War risks, it was agreed to defer sending out Currency Coupons to New York for collection meantime". A month later, it was reported that a solution had been found; Messrs Maitland, Coppell & Co. had agreed "to collect these coupons and, in consequence of the rate of exchange still being unfavourable, to place the proceeds to the credit of our current account with them".

The conflict came closer to home four months later, with news that on 16 December 1914, the German Navy had bombarded Hartlepool, killing 130 people and injuring hundreds more. Scarborough and Whitby had also been hit. Eastern Scotland would come under attack too, from the air. Just before midnight on 2 April 1916, two German Zeppelins carrying 27 high explosive bombs and 14 incendiaries headed towards the British mainland with the intention of bombing the docks at Rosyth and the Royal Naval fleet in the River Forth. Instead, Zeppelin L14 was attracted by the faint light emanating from the port of Leith, close to Edinburgh.

Having begun to drop their bombs, as the Chief Constable of Leith noted later in his report, "those in charge of the Zeppelin were following the course of the Water of Leith from Leith Docks to Edinburgh, as all the bombs dropped were not more than 100 yards from said Waters of Leith". One bomb made a direct hit on a bonded warehouse full of whisky in Commercial Street, Leith, the resulting inferno creating "a beacon for the Zeppelin to advance", not to mention a £44,000 uninsured loss for the spirit merchants, Innes & Grieve. Other bombs fell near George Watson's School and St George's School for Girls, smashing many windows but without loss of life. Over the next 35 minutes, 24 bombs were dropped on the capital killing 13 and injuring 24.

### Relinquishing of dollar securities

The UK investment trust sector, and trusts with high exposure to the US and Canada in particular, made valuable contributions to the war effort in both World Wars via both the subscription to War Loan issues and the relinquishing of dollar securities.



Initially, British companies and individuals were merely requested to lend or sell their dollar securities to the British government to release currency to purchase vital supplies and munitions. By the dark days of early 1917, the Treasury had been given legal powers to requisition any securities which remained.

An extract taken from the Dundee Advertiser of 10 June 1916, reports the outcome of the Company's 37th Annual General Meeting, held once again in Lamb's Hotel, Dundee. The Board had not waited to be forced to act, having already deposited US dollar securities with the Treasury to the tune of "fully £119,000". In addition, though not shown in the clipping, £92,000 of US dollar securities had been sold, while "the total amount invested in British Government securities is £105,683 15s". By way of context, the total value of the investment portfolio, now down from 202 to 172 holdings, was some £757,000 at the time.

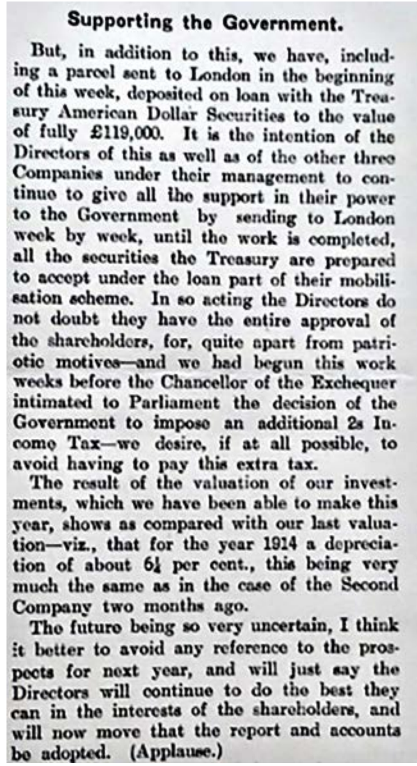
While the exact contribution made by the trust sector to the dollar mobilisation schemes is not known, the overall WW1 campaign resulted in £620 million of securities being either sold or lent to the Treasury plus private dollar sales of approximately £500 million all of which helped to speed the conclusion of the war.

### Tough times close to home

Dundee, on the face of it, was many miles from the consequences of enemy action in World War One. Nothing could be further from the truth. The City Archives show that 30,490 men, or 63% of all eligible males, left Dundee to fight for their country and that 4,213 did not return. The appalling level of casualties suffered in France, Belgium and elsewhere meant that practically every home suffered the loss or injury of at least one relative and sometimes more.

That reality could not have been conveyed more vividly or tragically than by the events that the incoming Chairman, J. Ernest Cox, had to recount at the Company's 1917 AGM. After paying tribute to his retiring predecessor, Alexander Gilroy, he went on to express sadness and appreciation following the recent death of his fellow director, Mr Robert Don, who had served the Board for 22 years.

A glimpse of the scale of the suffering of some families in the Great War became apparent when Ernest Cox went on to convey every sympathy to Mr Don's widow, "one of whose sons had died on active service, another was among the missing, while news had been received that a third had been taken prisoner"



**Supporting the Government.**

But, in addition to this, we have, including a parcel sent to London in the beginning of this week, deposited on loan with the Treasury American Dollar Securities to the value of fully £119,000. It is the intention of the Directors of this as well as of the other three Companies under their management to continue to give all the support in their power to the Government by sending to London week by week, until the work is completed, all the securities the Treasury are prepared to accept under the loan part of their mobilisation scheme. In so acting the Directors do not doubt they have the entire approval of the shareholders, for, quite apart from patriotic motives—and we had begun this work weeks before the Chancellor of the Exchequer intimated to Parliament the decision of the Government to impose an additional 2s Income Tax—we desire, if at all possible, to avoid having to pay this extra tax.

The result of the valuation of our investments, which we have been able to make this year, shows as compared with our last valuation—viz., that for the year 1914 a depreciation of about 6¼ per cent., this being very much the same as in the case of the Second Company two months ago.

The future being so very uncertain, I think it better to avoid any reference to the prospects for next year, and will just say the Directors will continue to do the best they can in the interests of the shareholders, and will now move that the report and accounts be adopted. (Applause.)


**Left**
Extract from the Dundee Advertiser of 10 June 1916.

**Bottom Left**
Plaque in Edinburgh's Grassmarket marking where a Zeppelin bomb struck the ground in 1916.

## Valentine Fleming

Valentine Fleming, the elder of Robert's two sons, was born in Newport-on-Tay, Fife, the town where Robert had rowed and won a Regatta event as a young man. He married Evelyn Rose, by coincidence the granddaughter of Sir Philip Rose, the co-founder of Foreign & Colonial Investment Trust, in 1906. Together they had four sons; adventurer and travel writer Peter, novelist Ian, Richard (the father of Adam, the present head of Fleming Family & Partners) and Michael.

Ernest Cox's next unenviable duty was to inform those in attendance that the Board was:

*...sending from this meeting an expression of the unutterable sorrow which had befallen their esteemed friend and adviser, Mr Robert Fleming.*

*Major Valentine Fleming, who had lain down his life on the field of honour, was connected with this Company through his partnership in his father's firm ... To Mr Fleming and his family and to the widow of his soldier son they tendered their deepest sympathy in this terrible bereavement.*

Valentine became Member of Parliament for Henley from 1910 and served until his death in 1917. He was also a Captain in The Queen's Own Oxfordshire Hussars, at that time a Territorial (reserve) unit, as was his younger brother, Philip. At the outbreak of war, many members, including both brothers, volunteered for active service. Few can have imagined what would happen next. In the opening weeks of the war in 1914 the regiment received a telegram from the First Lord of the Admiralty, Winston Churchill, instructing his former unit to prepare for embarkation for France. They were given a mere one month's training before setting off for front line service. Three years later, they were still there, by now serving in the Somme, close to the Hindenburg line.

Fleming was killed by German shellfire at Gillemont Farm, near Épehy on 20 May 1917.

He was posthumously awarded the Distinguished Service Order, having twice previously been Mentioned in Dispatches. Churchill himself wrote in Valentine's obituary, "as the war lengthens ...it seems as if one watched at night a well-loved city whose lights, which burn so bright, which burn so true, are extinguished in the distance in the darkness one by one".

Every level of society had been grievously affected by the conflict and Ernest Cox had one more casualty to report to the 1917 meeting. Another member of staff, John Hutton, the office junior, had died on the Western Front, "a lad of great promise, he had always exhibited a keen and careful interest in the work allotted to him".

## The Hundred Days Offensive

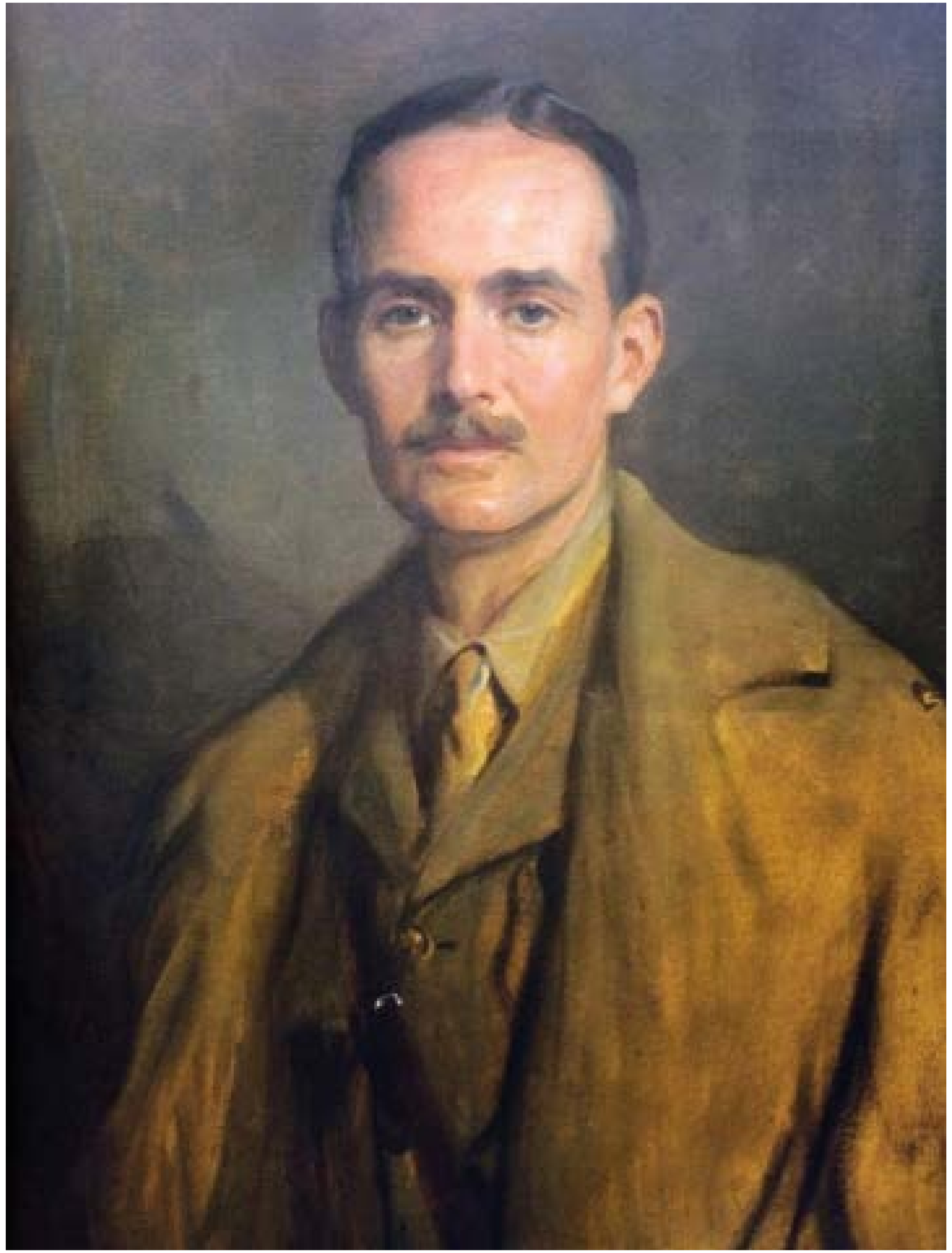
By mid-1918, the tide of war had turned and the allied initiative, later known as the Hundred Days Offensive, that led to German surrender on 11 November, had begun. Back at the Company, "the valuation of the investments discloses, as was only to be expected, a further shrinkage ... [but] we have maintained the dividend at 9 and three eights per cent for the last four years in a row and our Reserve fund is still intact".

By the time of the 1919 AGM, held on 27th June that year, Ernest Cox was at last able to report that "after four years and eleven months of war, the Treaty of Peace with Germany is surely within measurable distance of being signed". In the event, the Treaty of Versailles was signed the next day.

Following a recovery in capital values once the War ended, Mr Cox reported, the book value of the portfolio was only £250 less than it had been in May 1914, whereas "in 1914, Consols were selling at about 75; today, they may be bought for 53". The percentage of US investments in the portfolio had fallen from 75% to 49%, he noted, over the same period. He ended:

"The outlook is still far from clear. The struggle now happily ended, while not of such long duration as several previous wars, has been on a scale so far surpassing anything recorded in history that we have no exact parallel to guide us."





**Right**
Major Valentine Fleming, M.P., the son of Robert Fleming and the father of the author, Ian Fleming, was killed in action in France on 20 May 1917. His portrait by the Hungarian society portrait painter Philip de Laszlo is reproduced here, courtesy of Fleming Family & Partners.

Perhaps fortunately, no one realised that a series of further severe tests, for the Company and the country, lay ahead. The fluctuating fortunes of the 1920s would be followed by the 1930s Great Depression and, a decade later, by World War 2.

### 50th Anniversary AGM

On 22 June 1923, Ernest Cox reminded shareholders that while the calling notice described the event as the 44th Annual General Meeting, it was "actually 50 years since The Scottish American Investment Trust, by which this Company was originally known, was formed. We are therefore celebrating our Jubilee and so this meeting has an interest somewhat above the ordinary".

By way of an illustration that robustly-constructed investment trusts have a habit of lasting longer than individual businesses or enterprises, Lamb's Hotel, the AGM venue since the very first year, was no more. The building had just been converted into offices, the largest of which became Meadow House, the home of Alliance Trust for the next 93 years. The AGM was instead held in the Company's own offices at 22, Meadowside, just around the corner from the erstwhile hotel.

Robert Fleming, still described as London Correspondent, attended the 1923 event in person. In his speech, he recalled the worrying times, already described, surrounding the formation of the trust amidst the "Panic of 1873" and the very different status of the paper dollar, or Greenback, which was not backed by gold or silver at the time. He also referred to the endless criss-crossing of the Atlantic, not just by himself but by "many millions of bearer certificates to and from New York, during this half-century, without the slightest loss".

He ended by saying that "I am the sole remaining link between the original body and the men who now direct the affair of the Company ... men who stand as high as their predecessors, so that the Company's future should be at least as good as its past".

### Taking stock

Taking stock at the 50-year point, the ten largest holdings opposite. The full portfolio was made up of 331 investments, with a balance sheet valuation of £892,521. Of this total, a relatively lowly 27% was now invested in the US, sub-divided into bonds (22%), preference and guaranteed shares (3%) and common shares (2%). The remaining and indeed majority 73% of the portfolio was listed under "Other countries, including Great Britain", subdivided into British government securities (4%), bonds, debenture stocks and loans (41%), preference and guaranteed shares (17%) and ordinary shares and stocks (11%).

Among the earliest ordinary shares purchased were Anglo Persian Oil Co., Babcock & Wilcox, Guest, Keen & Nettlefolds, Western Union Telegraph Company, Common Stock and, somewhat curiously given the Company's name, the Calcutta Electric Supply Corporation Limited.

The significantly lower US weighting than in earlier years was maintained throughout the 1920s, partly driven by the strength of the dollar after the war and partly by the introduction of a Federal Income Tax payable by US and foreign investors alike. The overall effect, Ernest Cox had noted the previous year, and emphasised with capitals, was that "a considerable Field of Investment is shorn of the attractiveness it once offered." This change of strategic direction came into its own when the Wall Street Crash struck in September 1929.



### The Company's ten largest investments in May 1923

| No. | Ten largest portfolio holdings as at 1 May 1923 | Valuation ($US) | % of total investments |
|---|---|---|---|
| 1 | Hudson & Manhattan RR, 1st Leinster Pref Bonds | 83,875 | 2.1 |
| 2 | Brooklyn Manhattan Transit Corp., "A" Bonds | 78,702 | 2.0 |
| 3 | Puget Sound Electric Railway Company, 1st Cons. Mortgage Bonds | 52,290 | 1.3 |
| 4 | Chicago Great Western Railway, 1st Mortgage Bonds | 51,410 | 1.3 |
| 5 | Cuba Company Debenture Gold Bonds | 48,400 | 1.2 |
| 6 | Colorado Fuel & Iron Co., General Mortgage Bonds | 46,800 | 1.2 |
| 7 | Seaboard Air Line Railway, Mortgage Bonds (see below). | 39,440 | 1.0 |
| 8 | Pere Marquette Railway Company, Preference Stock | 32,574 | 0.8 |
| 9 | Union Elevated Railway of Chicago | 29,600 | 0.7 |
| 10 | Rhodesia Railway Co., Company, 1st Issue Secured Notes | 20,900 | 0.5 |
| | | Total invested in the "top ten": | 12.1 |

Source: Company Accounts and Minute Books, Dundee City Archives.

### Recovery and reconstruction

The fortunes of the Company moved ahead once more, as the UK and global economies gathered momentum during the decade. Though unremarked in the accounts, total assets exceeded £1 million in early 1926, while total dividends of 11% were declared for the year.

The Company was in even stronger shape in 1927, with asset values, income receipts and the Reserve fund all at record levels. The time had come to increase the Capital Stock of the Company and at the same time to subdivide the capital structure, so as to offer 4% preference shares for the more risk-averse seekers of income and ordinary shares that would "take the risk as to dividend and offer greater possibilities of appreciation in market value". Consequently, on 1st July 1927, the £300,000 capital stock was split 60:40 to become 180,000 4% preference and 120,000 ordinary shares. The capital was then increased to £240,000 and £160,000 respectively, amounting to a rights issue.

Following the move, the total dividend of 12% declared in 1928 was in effect an amalgam of the 4% payable on the preference shares and a doubling to no less than 24% on the ordinaries. Despite upcoming global events, the overall dividend would then rise to 12.5% in 1929, 13% in 1930 and 13.5% in 1931.

### Fleming Trust Housing Scheme

In 1928, Robert Fleming consulted his friend and "First Scottish" board member George Bonar about how he could help the poorer citizens of Dundee. Over the next two years Fleming donated £155,000, equivalent to hundreds of millions in today's terms, personally meeting the cost of building almost 500 units of what would now be called social housing, primarily for textile workers.

Some 200 of these units were built as one-bedroomed flats to meet, as Bill Smith points out, "a pressing need for accommodation for the large number of single women working in the mills, a reflection of the serious losses suffered by the Dundee battalions during the war".

Fleming Gardens North and South are close by as are the football grounds Dens Park and Tannadice, the respective homes of Dundee United and Dundee F.C., almost side by side and less than 300 yards away.

The foundation stone of the Fleming Trust Housing Scheme was laid by the Duchess of York on 19 September 1929 in front of a large crowd. A silent film clip of the event can still be found via the usual internet search facilities. Later the same day, Fleming was made a Freeman of the City of Dundee, at the Caird Hall, "in recognition of his generous benefactions to the Community".

Despite his service on various public bodies, including financial committees during the war, Bill Smith has noted, this would be Fleming's highest civil honour apart from an Honorary Doctorate from the University of St Andrews, awarded in 1928. It is believed within his family that he was offered a knighthood or peerage but refused on the basis that he was born plain Robert Fleming and wanted to stay that way. It is not possible to know whether this was true, but one thing is sure: he never forgot where he started out in life.


**Left**
Though not in the finest state of repair the plaque, above, still stands, on the corner or Clepington Road and Hindmarsh Avenue.

**Right**
HRH Duchess of York (later Queen Elizabeth the Queen Mother) laid the foundation stone for the Fleming Trust Housing Scheme in Dundee on 19 September 1929. Also shown: Miss Winifred High, Lady Provost, Robert Fleming, Sir William High, Lord Provost.

Later the same day, Fleming was made a Freeman of the City of Dundee, at the Caird Hall, "in recognition of his generous benefactions to the Community".

## Problems building on Wall Street

On the other side of the Atlantic meanwhile, trouble was brewing in the financial markets. By mid-1929, Ernest Cox was reporting that notwithstanding a small increase in capital over the twelve-month reporting period, "the past year has not been entirely free from anxieties … those of you who follow the course of the Stock Markets must have noticed a downward trend in prices".

The signs had been spotted by some, therefore, before the Wall Street Crash arrived on 19 September 1929 caused, ironically, by the soaring success of US investment trusts, albeit highly leveraged ones that bore more resemblance to a pyramid scheme than to the cautiously constructed UK vehicles that carried the same name.

The Dow Jones Industrial Average, which had touched 386 in the summer of 1929, had fallen to 41 by 1932, leading into a global depression so severe, the historian George Glasgow has pointed out, that it "temporarily defeated … the distribution of risk principle … the whole world went wrong at the same time". Notwithstanding this observation, it certainly helped that by the time of the Crash, the Company's portfolio was diversified across 554 separate investments, a figure which had increased to 722 by 1934. US exposure in mid-1929 had been a mere 17% of the total assets of £1.32 million, whereas ex-US bonds, debentures, loans and stocks made up almost 48% of the whole. Ordinary shares still amounted to no more than 18% of the total.

The 1930s Great Depression was nevertheless a difficult time for all investment trusts and some, especially those launched in the late 1920s "trust boom" and with minimal reserves to fall back on, went to the wall. The practice, still prevalent at this time, of not revealing either the exact list of investments nor their true asset value, makes it hard to gauge just how much trusts like the First Scottish dipped in value during these years. The cited Balance Sheet valuation of securities was invariably based upon book value, rather than actual value and sometimes holdings were written right down to zero.

An examination of the accounts reveals that the total asset figure that had reached £1.32 million in 1929 had declined to £948,000 by 1932, a fall of 28%, excluding any unseen depreciation in what was called the "hidden reserve" created by written down assets. The same total figure had recovered to £1.21 million by 1934. Dividend payments, heavily underpinned by the Company's substantial reserves and cautious borrowing policies, not only maintained pre-Crash levels but eased upwards in 1930, 1931 and 1932 to a new peak of 27% for the ordinary stock.

By 1933, the Chairman was reporting "rather less revenue but a rather better showing in the value of investments held". A similar picture emerged the following year, suggesting not only that certain coupon payments had defaulted, reducing income, but that the many new investments made at this time had reduced the average portfolio yield. Either way, the annual dividend, still being expressed as a percentage or par value at this time, was reduced to 21% in 1932, to 19% in 1934 and to 18% in 1935.

**Left**
The Wall Street Crash of 1929 triggered the 1930s Great Depression.

*His firm was interested in many important industrial developments, including the formation of the Anglo-Persian Oil Company. A man of vision in regard to methods of finance, Fleming was pertinacious when once he had taken a matter in hand and was thus able to carry through many schemes that would otherwise have failed if they had been in the hands of a less capable or less tenacious financier.*

*During the War period he served on the Financial Facilities Committee, and privately he was active with his benefactions. No deserving case was laid before him without result, and he was also a great supporter of the hospitals.*

Extract from Robert Fleming's Times' obituary dated 3 August 1933.

**Death of Robert Fleming**

As late as 1931, Ernest Cox was still telling investors in Dundee how reassuring it was to the Board that "Mr Fleming, sitting in London, was advising them about new issues and about some of the holdings they had." (Hear, Hear).

Although by now 86 years old, Fleming would arrive at the office at about 10.30 am, where his trusted senior clerk Edgar Ramsay would read out his letters, plus leading articles from the financial press, including the Stock Exchange Weekly Gazette. Sometimes, thinking Fleming had fallen asleep, Ramsay would try to sneak back to his desk, only to be sharply recalled and told to keep on reading.

Over the next two years, as his health declined, Fleming spent more time at his home at Nettlebed in Oxfordshire where, if on his own, he would play draughts with his factor, Alexander Johnstone.

Robert Fleming died at the age of 88 on 31 July 1933, shortly after reaching Black Mount, in Argyllshire, the estate to which the family decamped most summers. His funeral service, at the local parish church back in Oxfordshire, was, as he had wished, "of the most simple and unostentatious description". Watched by his family, his coffin was carried by six of his employees to a simple grave lined with moss, flowers and heather.

A much larger memorial service took place in St Michael's, Cornhill the same day, attended by numerous leading City of London and US figures, including the son of John Pierpoint Morgan. When once asked about the secret of his success, one of the congregation recalled, Fleming had merely answered "learn to say no". He was too self-effacing to add that it had taken great skill and a lot of hard work.

Watched by his family, his coffin was carried by six of his employees to a simple grave lined with moss, flowers and heather.

## Appointment of manager

"The office of Manager", Ernest Cox told the 1934 AGM, "is a new one in the annals of these Companies ... I have pleasure in introducing Mr R.S.L.Macpherson, a Chartered Accountant and with wide experience of business and business problems, to carry out the duties of Manager and Chief Executive Officer".

With Robert Fleming no more and with a portfolio of 722 investments for the First Scottish alone, never mind the other two issues, it was time to formalise the managerial role. Robert Macpherson would go on to become a key figure in the Company's history, joining the board in 1936 and serving as Chairman from 1947 until 1969.

The age of the equity had now dawned, partially because of the onset of inflation and partly because of taxation changes which increased the attractions of franked income obtainable from company dividends, as opposed to the unfranked (i.e. not yet taxed) income from bonds and other fixed income investments. The percentage of total assets allocated to ordinary stocks, which had been less that 20% at the start of the decade, grew during the second half of the 1930s to 37.6% by 1937 and to 46.1% by the start of World War 2 in 1939.

Capital values, though not directly comparable because of the expiry and restructuring of company borrowings in 1935, not to mention the aforesaid practice of concealing the net asset value per share at this time, had recovered too, as the Depression years were left behind. By 1938, total assets had reached £1.32 million while annual dividends of 20% had also been paid in each of the previous two years. The Company's fortunes were on the up, therefore, only to be stopped in their tracks by the next great challenge, in the form of World War 2.

Before hostilities had broken out, bizarrely, a lady's hairdressers' in central Dundee, no distance from the Company's offices, was identified as a key hub in a Nazi spy ring.

Jessie Jordan, the Dundee hairdresser turned Nazi spy.

## Dark deeds in Jolly's Saloon

Research into projects of this type occasionally reveals unusual minor episodes that are worth reporting, if only to add background colour. Jessie Jordan, originally from Glasgow, settled in Dundee in 1937 having returned from Hamburg, where she had worked as a hairdresser for some years until the break-up of her marriage to a German. As it turned out, she had also been recruited by the Abwehr, or German military intelligence.

Jessie, aged 50 and described in local news reports as "a solidly built, blonde woman, capable of great kindness but who wanted excitement and esteem", bought Jolly's Saloon, a hairdressing saloon with a tobacconist's shop attached, in Kinloch Street, less than a mile to the north of the First Scottish's offices. The purchase of the business is very likely to have been funded by the German secret services, who wanted a forwarding address for classified information gained from agents in the US.







Jessie does not seem to have been the most meticulous of spies. Whether the ladies having their hair done – her speciality, apparently, was the "Viennese Wave" – noticed maps of dockyards and airfields sticking out beneath the reservations book is not reported, but her assistant and shop manager, Mary Curran, certainly did. When bundles of post started to arrive from Germany, she reported the matter to the local police.

Maps of British military installations, including Rosyth dockyard and Leuchars Airfield, were found in her shop and she was convicted of being a spy. She was sent to Perth and then Holloway prison, before being interned for the remainder of the war. In 1945 she was shipped back to Germany, where she died in 1954. Had she been caught spying during World War 2 itself, her fate might have been very different.

In a final twist, newly-released government papers reveal first, that Jordan was being threatened by the Germans that she and her daughter, still in Germany, might be reclassified as Jewish and, secondly, that her arrest led Edward G. Hoover's G-men to smash an 18-strong Nazi spy ring in the US.

Returning to the progress of the First Scottish, in June 1939 the Company moved its offices from 22, Meadowfield to Friarfield House, Dundee. This was only its third move in the Company's 60-year life, Ernest Cox noted, as well as saying that "in spite of war scares, and somewhat less profitable times, we are recommending the same [20%] dividend as last year and are still able to transfer £5,000 to the Contingent Fund". The fall in value of the total holdings, he continued, amounted to only 2.04%, "but markets are still in a nervous state and are likely to remain so until the international situation clarifies."

3

# World War 2 and 'fifties growth

Dundee is very much a city at war, its harbour hosting a submarine base and ship repair facility and with numerous RAF stations operating in the area. After initial sharp falls after 1939, financial markets first of all stagnate on low trading volumes, drift further as liquidity evaporates, then enter a sharp recovery as the prospects of victory seem assured.

The 1948 Companies Act introduces compulsory disclosure of investment companies' true net asset value per share for the first time - to howls of protest from many boards and managers. Soon, the great Post-World War 2 growth phase is underway. Testing times are ahead, in the form of the 1973/74 "oil shocks", only to be followed by one of the sharpest market rebounds in history.

Dunedin Income Growth Investment Trust
1873 – 2018


# World War 2 and 'fifties growth

**The War years**

Unlike in World War 1, where most of the actions took place many hundreds of miles away, between 1939 and 1945, Dundee was very much a city at war.

As Polish troops manned gun batteries all along the coast, an active submarine base, HMS Ambrose, sheltered not just British boats but, later, submarines from Poland, Norway, France and Holland, in between their vital patrols in the North Sea and Arctic waters. The city's dockyards, protected by minefields to avoid enemy attack, found themselves working around the clock on warships up to and including aircraft carriers in size and Spitfires and other aircraft from nearby RAF Montrose were a frequent sight overhead. Meanwhile, the civil population was issued with gas masks and required to carry out air raid precautions, operate a blackout and take part in numerous drills.

Angus, Fife and Perthshire were dotted with RAF stations – supported, it was revealed after the war, by a secret radar installation at Douglas Wood, north east of the city.

It was the presence of such air cover – and not, as rumours circulated locally, the fact that "Hitler's granny came from Dundee" – which meant that the city was not under constant attack from the air.

In the early stages of the war, before air defences had been strengthened, some bombing raids did get through. The most serious, originally targeting the Tay Bridge, took place on 5 November 1940, in which eight bombs were dropped on Dundee, one landing in Brook Street, perhaps half a mile from the Company's offices. The attack caused three deaths and destroyed many buildings.

In a notable example of adherence to the wartime slogan "Keep Calm and Carry on", when one of the bombs landed close to a Dundee cinema, causing a huge bang, plaster falls from the ceiling and the loss of lighting and power, 12-year old Lily Cox recalled:

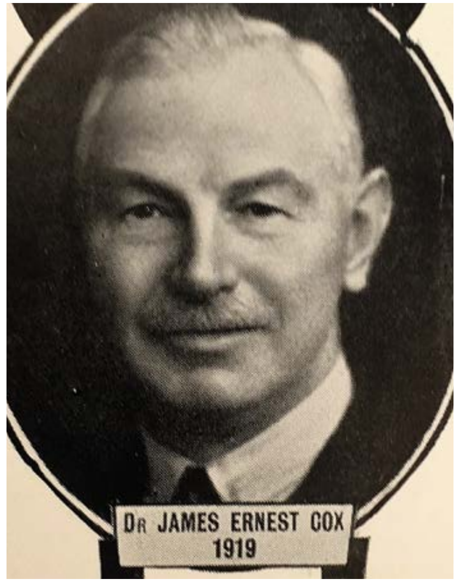
*"The emergency generator came on, and we had lights again. The manager asked if we wanted to see the rest of the show. Of course, we said we wanted to stay... we sat down again and the picture came back on. When we came outside, slates, stones, bricks, wood, chimneys, walls and glass covered the roads and pavements. There was not a clear space to put your feet down. Everything was covered with muck and all the shop windows were blown in."*

Small wonder, perhaps, that Ernest Cox found reason to vent his anger, during one of the Company's wartime AGMs, at the onset of another global conflict.

Lily Cox, then aged 12, was in a Dundee cinema during World War 2 when a bomb landed nearby.

**Top**
The devastation caused by bombing during World War 2.

**Bottom left**
General De Gaulle visits the Free French submarine Rubis at its Dundee base during World War 2. From there, Rubis made 22 operational patrols, laid 680 mines, dropped agents on the Norwegian coast and sank 21,000 tonnes of enemy shipping.




**Bottom right**
James Ernest Cox, Chairman from 1917 until 1947, spanning both World Wars. The date of 1919 refers to his Presidency of the Dundee Chamber of Commerce.





## James Ernest Cox

Ernest Cox, having been Chairman since 1917 and a director since 1913, had what must be the unique distinction of being a board member of an investment trust before World War 1, its Chairman at the end of World War 1 and still its Chairman at the end of World War 2.

Before the board meeting of 18 May 1942, Robert Macpherson, in his role as what would now be called senior independent director, paid tribute to Mr Cox, who that day would complete exactly 25 years as Chairman, and who had "won the admiration and esteem of his colleagues on the Board … who asked him to accept a gold cigarette case as a token of the very high regard in which he is held by them".

It is doubtful whether the corporate governance diktats of the 21st century would ever again permit such an extended tenure as a company Chairman. Yet, on this occasion, Ernest Cox's long experience proved invaluable as various measures, such as the dollar requisition schemes and government war loan issues which had applied in World War 1, were dusted off and used again in World War 2.

The receipt of a gold cigarette case a few weeks earlier, on the other hand, does not seem to have lightened Cox's mood as, at the 1942 annual general meeting, he made his feelings known about the United Kingdom having been thrown into another war:

*"When I addressed the Stock-holders for the first time as Chairman in 1917, Great Britain and her Allies were in the third year of a war ruthlessly forced upon them by Germany, and by a strange coincidence twenty-five years later, the United Nations find themselves participants in the third year of a life and death struggle with the same arrogant foe, supported by his two arch conspirators."*

While the Chairman's observation is, perhaps, not a model for students of political correctness, the frustration of a generation that had already witnessed the futility, not to mention the vast cost, in lives and money, of a major conflict can be keenly felt.

By 1943 it was being reported that, "in spite of the many difficulties which arise in a world almost wholly given over to military effort, your Company has been able to preserve its stability". Although a lower yield was now obtainable on new investments, as capital values had started to rise, the dividend was being maintained at 20% for the sixth year in a row. It was hoped to hold this level, Ernest Cox reported, "until this orgy of destruction of life and property is ended". What few US holdings remained were gradually being liquidated and, as in the previous conflict, substantial investments were made in war loan issues.

As it became clear that an Allied victory was becoming more assured, both market values and the mood of the Company's long-serving Chairman began to lift. By 1945, with the war in Europe at an end, though with Japan still to fall, an increase in the excess of true market value (net asset value or NAV in today's terms) over book value had advanced from "satisfactory" to "considerable".

Ernest Cox, with reason, was still advocating caution with regard to the country's longer-term economic and political prospects when, as the war really did start to disappear into the rear-view mirror, the results for 1946 showed "an appreciation of 51.27% in the valuation of investments – the highest recorded in the history of the Company".

This uplift took total assets through the £2 million barrier for the first time. It was hoped that satisfactory results could be presented the following year, he went on, "although the continued threat to nationalise certain important industries is not helpful to investors".

Before the great post-war rally and equities took hold, there were some testing years ahead, during which share prices remained depressed. The mood eventually began to lift as the 1950s approached.

## End of an era; pre-dawn of the management company

The Scotsman of 14 June 1947 announced that J. Ernest Cox was to retire at last, having been simultaneously Chairman of not just The First, Second and Third Scottish American Trust Companies, but of The North American Trust Company and his family's investment vehicle, The Camperdown Trust Company, as well. His place on the various boards was filled by the Earl of Airlie[1], while R.S.L. Macpherson became Chairman as well as retaining his role of investment manager.

In paying tribute to Mr Cox's long tenure at the helm, the new Chairman said his predecessor "had ensured they had bought nothing but first-grade stocks, and the fixed interest portfolio was in first class condition … we shall miss his wise counsel and kindly personality".

The same press notice, above, referred almost for the first time to the "Friarfield House Group of investment trust companies." Although this was merely a loose grouping of companies that wished to pool the costs of basic office overheads, it marked an early step towards the emergence of the investment management company as the term would be recognised today.

## 1948 Companies Act

After the 1948 Companies Act, it became compulsory for the market value of investments to be revealed in the Annual Report & Accounts. Some trust companies' managers and boards were most unhappy about this unwelcome move towards transparency, including, it would appear, those running what we might now refer to as the Friarfield House Group.

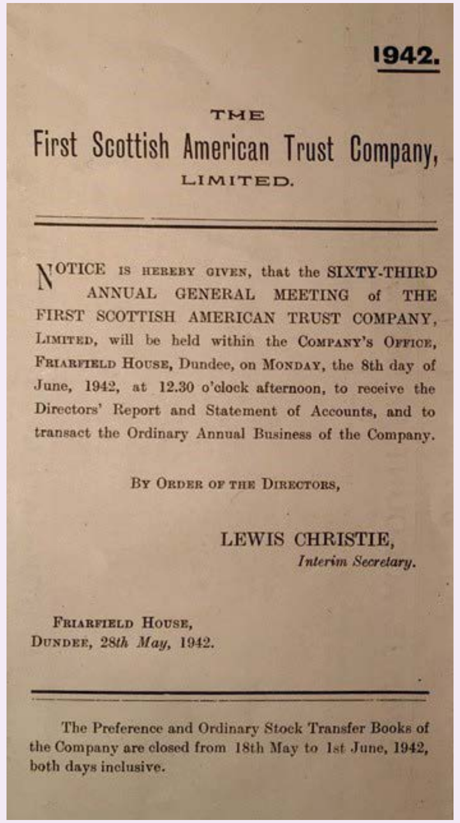
The old system of an inner or hidden reserve, it was argued, meant that investors did not fret unduly in the event of a bad year, because the reserves could be deployed, while in a good year, the reserves could be topped up and investors could still have a positive return. In short, the true net asset value or NAV should remain confidential and certainly not be released to the shareholders. The matter was taken so seriously that, after much petitioning by its members, the industry's trade body, then known as the Association of Investment Trusts (now The Association of Investment Companies (AIC)), managed to negotiate with the Board of Trade that the valuation of an investment trust's portfolio could be shown on the balance sheet by way of a footnote.

The modern-day practice of showing the net asset value per share in the main body of the accounts eventually prevailed but for a few years the First Scottish's accounts remained distinctly coy on the matter. The 1949 accounts for example stated in the covering remarks, though not in the numerical tables, that "the valuation of our investments shows an appreciation of 46.47% on the balance sheet figure of £1,442,486, which is about 5% lower than last year". The dividend on the ordinary stock was held at the same 22% figure as had been maintained during the years of gradual recovery since the end of the war.

It helped that interest rates were still extremely low. In the late 1940s, trust companies found that they could borrow money at lower rates than the yields on some leading industrial companies, as Donald Marr, of whom more later, fondly remembers: "The equities yielded more than the interest cost (which was fixed), and you actually gained a growth in income from investing in equities."

[1] Born in 1893, the Earl of Airlie was a trainbearer to Queen Mary at the 1911 Coronation. During WW1, he was awarded the Military Cross while serving in the 11th Hussars. In 1937, he became Lord Lieutenant of Angus and was appointed Lord Chamberlain to Queen Elizabeth (the Queen Mother) the same year.




1942.

THE
First Scottish American Trust Company,
LIMITED.

NOTICE IS HEREBY GIVEN, that the SIXTY-THIRD ANNUAL GENERAL MEETING of THE FIRST SCOTTISH AMERICAN TRUST COMPANY, LIMITED, will be held within the COMPANY'S OFFICE, FRIARFIELD HOUSE, Dundee, on MONDAY, the 8th day of June, 1942, at 12.30 o'clock afternoon, to receive the Directors' Report and Statement of Accounts, and to transact the Ordinary Annual Business of the Company.

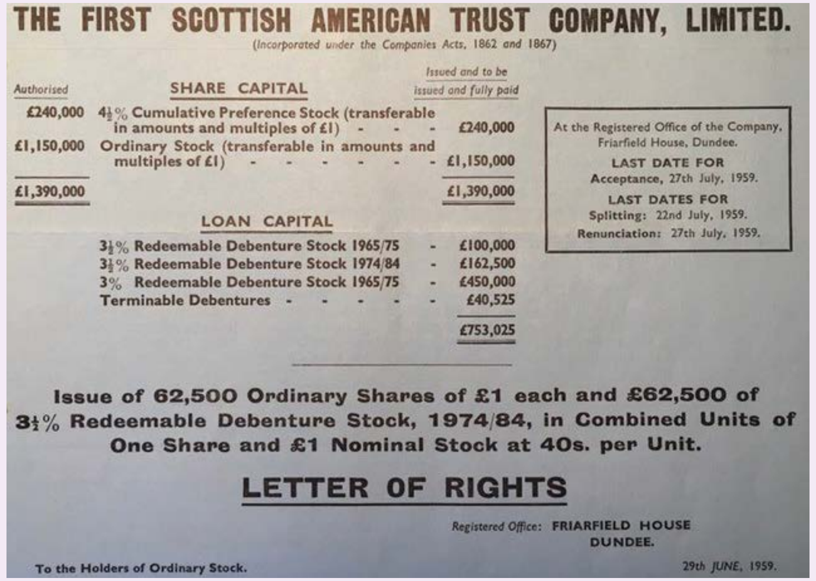
BY ORDER OF THE DIRECTORS,

LEWIS CHRISTIE,
*Interim Secretary.*

FRIARFIELD HOUSE,
DUNDEE, *28th May*, 1942.

The Preference and Ordinary Stock Transfer Books of the Company are closed from 18th May to 1st June, 1942, both days inclusive.


FRIARFIELD HOUSE GROUP OF INVESTMENT TRUST COMPANIES.—Directors of the First, Second, and Third Scottish American Trust Companies, Limited, The Northern American Trust Company, Limited, and The Camperdown Trust Company, Limited, report with much regret that the chairman, Mr J. Ernest Cox, LL.D., has resigned from the Boards of Directors. To fill the vacancies the Right Hon. The Earl of Airlie, K.T., G.C.V.O., M.C., has been appointed to a seat on the Boards. Mr R. S. L. Macpherson C.A., has been appointed chairman of the companies.


THE FIRST SCOTTISH AMERICAN TRUST COMPANY, LIMITED.
(Incorporated under the Companies Acts, 1862 and 1867)

| Authorised | SHARE CAPITAL | Issued and to be issued and fully paid |
|---|---|---|
| £240,000 | 4½% Cumulative Preference Stock (transferable in amounts and multiples of £1) - - - | £240,000 |
| £1,150,000 | Ordinary Stock (transferable in amounts and multiples of £1) - - - - - - | £1,150,000 |
| £1,390,000 | | £1,390,000 |
| | LOAN CAPITAL | |
| | 3½% Redeemable Debenture Stock 1965/75 - | £100,000 |
| | 3½% Redeemable Debenture Stock 1974/84 - | £162,500 |
| | 3% Redeemable Debenture Stock 1965/75 - | £450,000 |
| | Terminable Debentures - - - - - | £40,525 |
| | | £753,025 |

At the Registered Office of the Company, Friarfield House, Dundee.
LAST DATE FOR
Acceptance, 27th July, 1959.
LAST DATES FOR
Splitting: 22nd July, 1959.
Renunciation: 27th July, 1959.

Issue of 62,500 Ordinary Shares of £1 each and £62,500 of 3½% Redeemable Debenture Stock, 1974/84, in Combined Units of One Share and £1 Nominal Stock at 40s. per Unit.

LETTER OF RIGHTS

Registered Office: FRIARFIELD HOUSE DUNDEE.

To the Holders of Ordinary Stock.

29th JUNE, 1959.

**Top**
The cover of the 1942 Annual Report.

**Top right**
The Scotsman of 14 June 1947 reports the resignation of Ernest Cox after 30 years as Chairman.

**Right**
1959 proposals to issue new ordinary shares and debenture stock. The existing capital structure is also shown.

## 1950s growth

Several changes were made to the capital structure as the Company expanded during these heady years. These included an increase in the yield on the preference shares from 4% to 4.5% in 1949, in exchange for slightly altered rights with regard to new share issues and the distribution of reserves. At the same time, £160,000 of reserves were capitalised, creating a bonus issue of 160,000 ordinary shares of £1 each. A further bonus issue of the same amount was made in 1952. 100,000 ordinary shares were issued at £1 per share in 1955 and a scrip issue of one ordinary share for every £2 of stock held was made in 1957.

Meanwhile, a vast expansion of the investment portfolio was taking place, mainly into ordinary shares in the UK, US and Canada, ranging from 18,000 Anglo Asian Rubber Plantations, units of 1/ – (one shilling; 5 pence today) through 26,826 Boots Pure Drug Company, ordinary share of 5/-, to 200 F.W.Woolworth Company, Common Stock, share of $10 each. Numerous but individually small holdings of US, UK and Canadian fixed interest securities were also held. By 1956, the list of more than 500 holdings filled a 30-page booklet. Of these, 18% by value were fixed income securities, with the balance of 82% in equities. By 1958, exposure to equities had increased further, to 87% and to 90% at the end of the decade.

## Belsize House

In September 1959, the Company's Registered Office moved from Friarfield House to Belsize House in West Ferry, Dundee, a venture jointly funded with the other companies in the group. The Chairman told the 1960 AGM that "we own our new Registered Office, Belsize House, equally with the other four Companies managed from this office. A caretaker's house has been incorporated in the Building and the Office has been brought up to a high standard conducive to efficiency by the purchase of up-to-date office equipment". What this meant in practice, given that this was still firmly in the pre-computer age, was modernity in the form of electric typewriters, fluorescent lights and mechanically operated adding machines.

**Right**
A typical British office interior in the 1950s.

## The 1960s

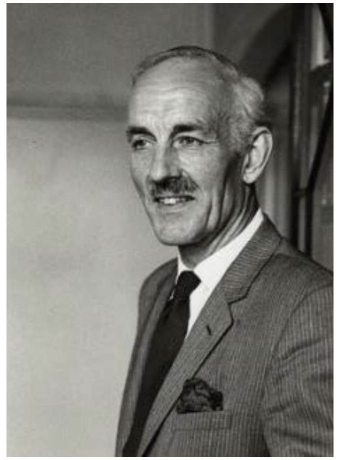
At the beginning of the 1960s, the Company's total assets were approximately £4.8 million, including, by way of an indication of house prices at the time, the sum of £3,000 representing a one fifth share of Belsize House. Both this figure and the Company's book value, of £2,337,183, covering "investments at or under cost" were now being shown on the balance sheet, hence the Chairman's observation that "the value of the Investments shows an appreciation of 104.51% over the Book Cost, compared with the previous year's adjusted percentage of 84.53%. The yield on the ordinary shares was also expressed two ways, first as would be normal today, at 4.01% at the market value and as 8.2% on the book value.

The portfolio was geographically invested 61% in the UK, 29% in the US, 6% in Canada, 2% in the remainder of the British Commonwealth and 1% elsewhere of which a minuscule 0.1% was in continental Europe.

R.S.L. Macpherson was still both Chairman and Manager at this time, assisted in the latter role by Alex Aitkenhead. The other board members were Lord Airlie, Sir William Walker and Andrew Philip Anderson, General Manager of British Linen Bank, the latter succeeding Sir George Williamson who had stepped down the previous year.

Another important figure in the Company's history, future director and then Chairman Donald Marr, was Company Secretary. Lord Airlie retired from the Board in July 1963, of which he had been a member since 1947. The vacancy was filled by Lord Inchyra, former Permanent Secretary at the Foreign Office, who joined the Board the same month.

Future Chairman Ivor Guild, a partner in the legal firm of Shepherd & Wedderburn, W.S., not to mention being a descendant of the very first Chairman in 1873, John Guild, joined the Board in January 1964, succeeding A. P. Anderson who had stepped down the previous November. Lastly, in January 1968 another descendant of one of the Company's founders, in the



**Left**
Richard Evelyn Fleming, grandson of Robert Fleming, joined the board in 1968. Courtesy National Portrait Gallery.

form of Richard Evelyn Fleming M.C., the Chairman of Robert Fleming & Co., and a grandson of Robert, was appointed a director following the resignation of Lord Inchyra the same month.

By the early 1960s, the long post-war equity boom was slowing down, marking a relatively sober time for the Company. As Robert Macpherson noted in his 1961 Chairman's remarks, nevertheless, taking into account the various stock issues since 1949 and including a valuable Rights Issue made in 1959, "the Stock issued free of payment is fully 81% of the total and the £162,500 issued for cash also constituted a considerable bonus to the Ordinary Stockholders … we are very hopeful that in spite of all the uncertainties we shall be able to present satisfactory Accounts to you again next year".

### Cuban missile crisis; industrial unrest

The "uncertainties" referred to above probably alluded to a deteriorating economic situation in which the Chancellor, Selwyn Lloyd, introduced spending cuts, increases in indirect taxation and an increase in the bank rate. These moves were followed by a seven-month wage freeze, leading into industrial unrest. On the wider front, a further example of an "unknown unknown" on the political stage, the Cuban missile crisis of October 1962, brought the two major superpowers to the verge of nuclear war.



Small wonder, then, that markets became unsettled, such that the leading London Stock Exchange indicator at the time, the FT-30 Index, declined by 15.7% between May 1961 and May 1962.

By comparison, the Company's 1962 accounts reveal, albeit still using the arcane terminology of the time, the appreciation of the valuation of investments over their book value fell from 102.87% to 97.96%, in other words by just a few percentage points.

The following year, the break-up value per share was quoted in the accounts at long last, allowing much more ready reckoning of longer-term asset performance to be made. As at 4 June 1963, it was reported, the break-up value of the Ordinary Stock was 56/3d (281.25 pence today), or 59/ – (295p) if the US and Canadian dollar premiums, which had always been ignored, were factored in.

While space only permits a brief explanation, the exchange controls left in place after WW2 meant there was only a fixed amount of investment currency with which to invest in dollar securities. This caused the said investment currency effectively to trade at a premium which, for reasons of prudence, many investment trust boards chose to ignore, as was the case here.

Extract from the 1965 Report and Accounts, showing ten-year figures to 1 May 1965. Break-up values exclude the dollar premium then applicable to US and Canadian securities.

A rebased (i.e. properly comparable) ten-year performance table was published for the first time in May 1965. This showed that between 1955 and 1965, the break-up or net asset value per share increased, in pre-decimal currency, from 25/7 to 61/3 – a useful increase in its own right, even ignoring the various stock issues and rights issue that had taken place in the meantime. The adjusted annual dividend meanwhile had risen from 5.21% (of nominal value) to 13.0%.

One person could look back significantly further. It was time for R.S.L. Macpherson, now aged 73, to step aside as investment manager, a post which he had held since June 1934. As he recalled:

*"When I joined the Company, the Ordinary Capital was £160,000; today, it is £1,725,000, of which £1,402,500 is made up by free scrip issues. The ordinary dividend was £28,000 gross; today it is £224,250 gross. I now feel that I should lighten my daily work. I am continuing as Chairman in an executive capacity. Mr A. K. Aitkenhead CA and Mr W. D. Marr CA are being appointed as Joint Managers and Joint Secretaries as from 1 July 1965.*

*[And as to the recent Budget], Companies such as ours have been harshly dealt with, in regard to Double Tax Relief, the taxation of capital gains and the dollar tax of 25% on the premium on switching or sale of dollar securities – the Budget is really an attack on all investors."*

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Mr Macpherson stayed on as Chairman until February 1969, at which point he was succeeded by Sir John Ure Primrose, who pays tribute to his predecessor's "outstanding record with the Company which extends over 35 years".

### 1965 Finance Act

The latter part of the previous page's inset quote refers to the knock-on effects of the incoming Labour government's 1965 Finance Act which, to quote A.A. Arnaud, a leading industry expert at the time, "plunged a three-pronged fork into the anatomy of the investment trust movement". Interesting times, in short, were ahead.

Strangely enough, the immediate impact was a positive one. In 1966, revenues went up because many portfolio companies paid their dividends early, before the new Act cut in. Secondly, now that dollar premium transactions were to be taxed, it was as well to write the previously ignored value of the premium into the net asset value, minus the potential 25% tax slice, that is. The mind-boggling extra paperwork involved in logging every single portfolio transaction as a Capital Gains Tax (CGT) "event", on the other hand, was a nightmare for years, while the removal of double taxation relief on overseas dividends was simply inequitable. These impositions would in time be modified so that their impact was reduced, while all exchange control restrictions were swept away by the Conservative government under Margaret Thatcher after 1979.

The 1966 Budget went further and imposed restrictions on wages, salaries, prices and dividends. Any dividends which were now paid above a defined "standard amount", linked to 7.5% of the Company's share capital in the financial year 1965, plus predefined permitted increases, were even more heavily penalised. In 1967, the Wilson government devalued the Pound from \$2.80 to \$2.40 as a counter to what economists described at the time as a trade deficit, a weak domestic economy and external pressures from creditors.

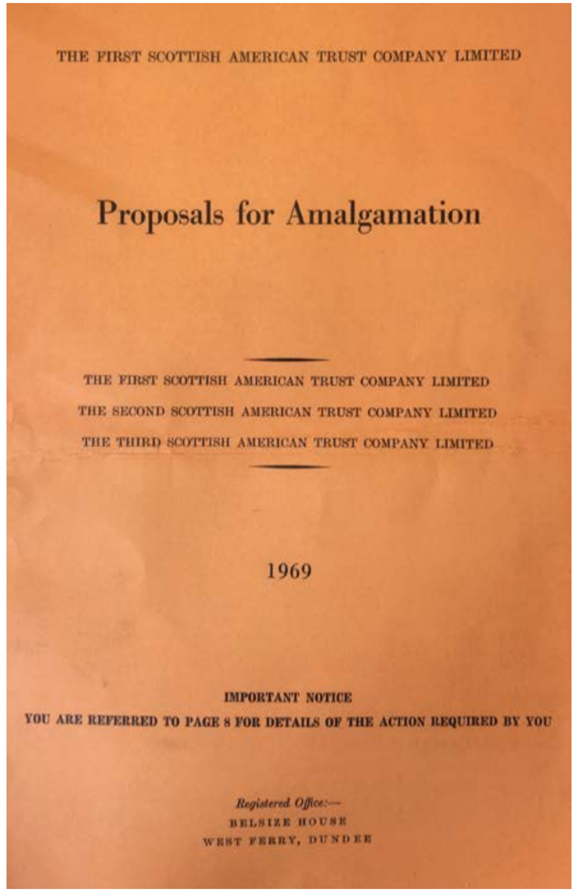
The dollar premium taxation scheme was still in place, leading to the Company adopting an ingenious "workaround" in 1968 in the form of a \$1,000,000 US loan, permitting the purchase and sale of further US securities without incurring the cost of the premium, or indeed of the 25% surrender thereof when holdings were sold. A further US dollar facility of the same amount was arranged through Bank of Montreal the following year.

### Bear market ahead

UK markets were still advancing at this stage but, the Chairman warned in June 1968, although the measures taken to restrain both public and private spending following devaluation had not yet had much apparent effect, "the magnitude of the increase in British equity prices compels me to sound a cautionary note".

These fears proved correct when the 1969/1970 bear market struck. The FT-30 Index dropped from 520 in January 1969 to 357 within four months, a fall of 31%. There was a market rally in the second half of 1970, following the return of a Conservative government under Edward Heath, then a slump in the FT-30 Index to 305 during a period of industrial unrest. This trend was reversed once more with a sharp market upturn, aided by a series of tax cuts, to a new index peak of 543 in May 1972. As with so many market setbacks before and since, therefore, the falls that had felt painful at the time had been recouped, and a little more. Typically, the next phase would have involved advancing once more, to new heights. On this occasion the next phase was not better, in market terms, but much, much worse. The 1973/1974 "oil shocks", the three-day week and the worst bear market since the 1929 Wall Street Crash were on their way.

Before moving on to face these latest challenges, it was time, after 90 years of periodic proposal and debate, to turn the three Company issues into one.



THE FIRST SCOTTISH AMERICAN TRUST COMPANY LIMITED

Proposals for Amalgamation

THE FIRST SCOTTISH AMERICAN TRUST COMPANY LIMITED
THE SECOND SCOTTISH AMERICAN TRUST COMPANY LIMITED
THE THIRD SCOTTISH AMERICAN TRUST COMPANY LIMITED

1969

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*Registered Office:—*
BELSIZE HOUSE
WEST FERRY, DUNDEE

**Above**
The 1969
Amalgamation proposals

### Amalgamation at last

The wishes of shareholder John Borrie of Carnoustie, who stood up at the end of the 1879 incorporation meeting, only to be asked if he would give the Board more time to consider his idea of a merger of the three issues, was about to come true at last.

It helped that boards of the three Companies were identical, comprising Sir John Ure Primrose in the Chair plus directors Richard Fleming, Ivor Guild and Sir Herbert Bonar. Every other aspect was far from straightforward. The First, Second and Third Scottish American Trust Companies all had their own ordinary shares, preference stocks and debenture stocks, each with its own stock exchange quotation; dollar borrowings had to be reconciled and dividend payments had to be unified. Suffice it to say that the Amalgamation Proposals, which were sanctioned by Edinburgh's Court of Session and became operative on 20 January 1970, were presented to investors in a document which ran to 24 pages of closely-spaced text.

An array of advisers had been involved, including Robert Fleming & Co. and Messrs McAnally, Montgomery & Co. in London and Shepherd & Wedderburn, W.S. in Edinburgh. In such a light the total cost of fees and expenses of the triple amalgamation, of £20,000, seem modest set against today's values.

### Moving forward

When the dust had settled, the newly expanded First Scottish American Trust Company moved ahead with total assets, as at 2 February 1970, of a fraction under £30 million, this figure including £840,000 of 5½% Preference Stock, various issues of Debenture Debt totalling £2.2 million and US bank loans totalling \$6 million. This was quite a geared capital structure, on the face of it, in the run up, little though it was known at the time, to the vicious bear market in the years ahead. At this stage the portfolio comprised equities, split UK (50%), US (33%), Canada (8%) and "other" (<1%). The balance of c. 10% was made up primarily of UK fixed interest securities of various kinds. The Second and Third issues had been wound up.

Turning to the new composite net asset value, this was shown as "16/9½ (c. 84p) per share, ex-dividend per ordinary 5/ – (five shillings or 25p) share", the NAV having been 20/2 (c. 101p) twelve months earlier. By February 1971 – the month in which, incidentally, the UK adopted decimal currency – the FT-30 Index had declined by a further 15.5%, against which the Company's NAV fell by a more modest 5.7%, to 79 new pence.

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The top ten holdings, a year after the amalgamation, are shown below:

**The Company's ten largest investments in February 1971**

| No. | Ten largest portfolio holdings as at 1 February 1971 | % of total investments |
|---|---|---|
| 1 | Marks & Spencer | 2.7 |
| 2 | Bristol-Myers | 1.7 |
| 3 | Shell Transport & Trading | 1.5 |
| 4 | Bank of Nova Scotia | 1.5 |
| 5 | GEC | 1.3 |
| 6 | Toronto-Dominion Bank | 1.2 |
| 7 | Royal Bank of Canada | 1.2 |
| 8 | Distillers | 1.2 |
| 9 | Boots Pure Drug | 1.0 |
| 10 | Rank Organisation | 1.0 |
| Total percentage invested in "top ten": | | 14.3 |

Source: Company Annual Report & Accounts.

## Formation of Tay & Thames

In the late 1940s, the small group of investment trusts being run from under the same roof to share administrative costs became known as the Friarfield House Group. By the late 1960s the same basic arrangement remained in place, now termed the Belsize House Group, within which Donald Marr and Alex Aitkenhead held the roles of Joint Managers and Joint Secretaries. Another figure in the Company's history, Brian Tait, C.A., was appointed Investment Secretary in 1975.

The decision was now taken to formalise the set-up via the creation of an investment management company, Tay and Thames Investment Services, while retaining Robert Fleming & Co. as investment advisers, in which the First Scottish took a founding stake. "This Company", Sir John Ure Primrose told shareholders at the 1971 AGM, "has made a good start and already has considerable funds under its care".

There was a market rebound in 1972, following an expansionary budget and the introduction of stimulatory measures by the Heath government, before the rally was derailed by two miners' strikes, power cuts and the need to move to a three-day working week in late 1973. Adding in global issues in the form of the Arab-Israeli war and a major oil embargo, the FT-A All-Share Index was about to undergo some of its sharpest ever falls.

Shockingly, to those who were there at the time, the said index fell by more than two-thirds from its May 1972 peak within two years – only to rebound at an even sharper pace in early 1975, catching out those who had not remained fully invested or who had moved into less volatile asset classes.

Translating these events into what happened at the Company, a surge in the net asset value from 79.1p to 113p over the twelve months to February 1972 was followed by two successive sharp falls, to 82.1p in 1973 and 62.1p in 1974. Despite gearing having been reduced slightly as £1.9 million of Debenture Stocks matured in 1975, and not been replaced, the net asset value surged once more, by 68%, over the year to February 1976. There was still no mention at this time, anywhere in the Company accounts, of the discount or premium at which the Company's shares were trading to NAV but it is without doubt that the share price movements between 1971 and 1976 would have been even more pronounced, as discounts widened during the crisis before narrowing in once more.

As to dividends, the picture is slightly distorted by tax changes made in 1973, in which income tax already effectively paid on "franked" investment income could no longer be offset against dividend distributions. This necessitated a write-down of £91,500 on the 1973 revenue account – meaning, Sir John Ure Primrose reported with regret in his final Chairman's Remarks, that any plans to declare an especially generous dividend in the Company's centenary year had to be shelved. Nevertheless, the squirrelling away of reserves for decades had allowed a modest 0.25p "Centenary Dividend" to be declared in addition to total dividends of 2.75p for the year.



## The Dow Jones passes 1,000

Next, Sir John noted in passing that in the US, the Dow Jones Index had passed "the magic one thousand figure" during the year, the same index standing, at the time of completing this account in June 2018, of not far short of 24,750. He ended by saying that he was retiring at the end of the AGM, "glad to think that the Company has prospered during my time as Chairman. My colleagues have unanimously elected Mr Ivor R. Guild, W.S., to succeed me".

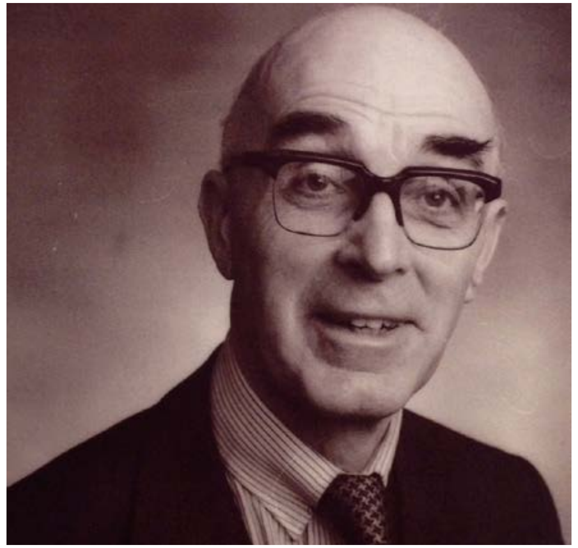
Ivor Guild's early Chairmanship proved to be a baptism of fire, with the oil crisis in full swing. In February 1974, he was forced to report "falling share prices and high interest rates ... our portfolio has suffered severely". A year later, there was worse news: "a precipitous decline in the UK stock market... [only slightly offset by] a considerable increase in the level of the dollar premium, which rose from 25.64% to 64.75%".

Then, at last, in 1976, the enormous rebound already described, in which "net assets have risen by more than 40% and, as a result of the gearing effect of the Company's Preference Stock and fixed interest borrowings, the net asset value of each Ordinary Share has risen by just over 68%".

## Ivor Guild on "whizz kids"

The same year, Guild chose to end his 1976 Chairman's Statement in reflective tones, on a subject that was clearly exercising him, namely "whizz kids".

Whatever external political, economic or market event triggered such thoughts has been lost in the mists of time but, long before the 1980s era of flash City of London boys wielding phones the size of house bricks, he made his feelings clear in saying:



**Above**
Ivor Guild, W.S. became Chairman in 1973.

By 1978, the net asset value had increased to 106.9p per share, a significant recovery from the 61.2p at the worst point of the oil embargo years but not yet exceeding the all-time high of 113.8p touched before the bear market starting in 1973 struck. Dividend distributions, having dipped to 2.1p following the above tax changes, had also improved, to 2.85p per annum.

The investment currency premium in 1978 accounted for the not insubstantial proportion of 9p per share, a figure, Ivor Guild pointed out, that would disappear "in the unlikely event that the government will allow unrestricted overseas investment in the near future ... although it is committed under its E.E.C. undertakings to move towards that end".

*"In a world where there are such diverse views on economic trends and future political movements and where the whizz kid enthroned yesterday is today exposed as being clothed in illusory garments, we are grateful for the balanced outlook of our managers, and their unwillingness to be tempted by the fashions of the moment."*

4

# All change – and “Tell Sid”

A change of government in 1979 leads to the sweeping away of exchange controls and a series of tax reforms. Soon, the heady ‘eighties boom years are in full swing, accompanied by soaring markets, temporarily arrested by the “Great Storm” of October 1987 and the subsequent stock market crash.

At the Company, December 1984 brings a major change in investment policy, after which the growth of income becomes the principal objective but without neglecting capital performance. The time has come to adopt a more relevant company name and, with effect from 27 April 1990, the “DIGIT” era begins.

Dunedin Income Growth Investment Trust
1873 – 2018

# All change – and "Tell Sid"

**1979 – all change**

The playing field did indeed change after the 1979 General Election in which the Conservatives returned to power with a parliamentary majority of 43 seats. As well as the removal of exchange controls, dramatically described in the news report, opposite, the top rate of income tax was reduced from 83% to 60% and the basic rate from 33% to 30%. Personal tax allowances were also increased. For many investment trusts, including the First Scottish, even though some dollar holdings had been sold in anticipation of a legislative change, this meant accepting a one-off hit as the investment currency premium lost its value. As one investment trust Chairman put it at the time, "we shall waste no tears on this in view of the complete freedom of geographical manoeuvre we now enjoy".

A further welcome development followed the Finance Act, 1980, with the removal of CGT from transactions made within an investment fund. As well as saving endless nugatory paperwork, the move allowed pension funds and insurance companies to invest in the shares of investment trusts without a tax disadvantage.

**1980s boom years; birth of Dunedin**

As the decade began, the world had moved on, not least with the onset of explosive growth in the Japanese stock market. By now the portfolio was invested 98% in equities, split between the UK (57%), the US (20%), Canada (7%) and a sizeable newcomer in the form of Japan (13%). A mere 2% was invested in fixed income securities.

The Board consisted of Chairman Ivor Guild plus directors Alex Aitkenhead, who retired from his dual role as Joint Manager and Secretary at the end of 1980, Donald Marr and George Simpson, the Chairman of General Accident Fire and Life Assurance Corporation, who had been appointed in 1975. The Fleming family was once more present and correct in the form of Valentine Fleming, Executive Director of Robert Fleming Holdings, who became a director in 1979, taking up the mantle of Richard, who had died suddenly in 1977 and, said Ivor Guild that year, whose "great charm and his advice, based upon wide experience, will be sadly missed".

Lastly, the Earl of Eglinton and Winton, the Deputy Chairman of Gerrard & National plc joined the board in 1986 upon the retirement of Alex Aitkenhead. Donald Marr was by now Manager and Secretary, assisted by Brian Tait, while Thomas McLintock & Co. were the appointed Auditors following the retirement after 30 years of George Watson, C.A.

For the Company, the period from 1980 to 1987 – or to mid-1987, at any rate, given the October stock market "crash" ahead – were notable for two things. First, powerful and continuous growth in both asset and dividends as the eighties boom gathered pace.

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## Foreign exchange controls are axed

**Freedom follows 40 years' constraint**

By BILL JAMIESON and JOHN DEANS

## Stock Exchange to go on trial . . .

**Restrictive Practices Court to judge rules**

**Sedco berths at Peterhead**

**Beatrice hook-up contract goes to Aberdeen firm**

By DICK MUTCH

The Aberdeen Press & Journal of 24 October 1979 reports the removal of exchange restrictions at last.

Secondly, the move, after 114 years of self-management, to the formation and retention of a newly-created investment management company, Dunedin Fund Managers, in which the Company would hold a valuable stake.

### Expansion and evolution

This was the era of the denationalisation of numerous state-owned entities from British Gas and the "Tell Sid" TV campaign to Rolls-Royce to British Airways, accompanied by heady optimism and rising markets. For those, including your author, who remember what it was like when it took six months and a hefty fee to put a telephone line in your house and when Kings Cross Station was a dirty portacabin-strewn bomb site, such moves could not come quickly enough. More than fifty other countries have since pursued the privatisation route.

Hastily descending from the soapbox, the table opposite shows that the Company's net assets of less than £30 million in 1987 had become £148 million a decade later, accompanied by a five-fold share price multiple, not to mention dividend increases from 2.55p to 12p per year.

### Change of investment policy

In December 1984, shareholders approved a change in investment policy, such that from now on the growth of income would become the principal objective but without neglecting capital performance. The portfolio would still have an international element "although it is likely that at least 75% of the assets will be in the United Kingdom". By the second half of the 1980s, therefore, the Company's name, still at this time First Scottish American Trust, began to look misaligned with its revised aims.

The era of the investment management company had also begun to change the way that most investment companies conducted their affairs. The financial sector had become more complex, not to mentioned being vastly better furnished with background information and technical data than before. This required research resources that few individual companies could afford to retain. The way ahead, in short, was to dispense with virtually all directly-employed staff and instead to retain a professional investment management company. In the First Scottish's case, this dilemma was solved when the Belsize House group evolved, via a merger with the managers of The Edinburgh Investment Trust into Dunedin Fund Managers in 1985.

### Dunedin Fund Managers

The formation of Dunedin Fund Managers stemmed from a conversation held in the Plaza Hotel, New York between Donald Marr and Grant Cochrane, who managed the Edinburgh Investment Trust, of which Ivor Guild was also the Chairman. It quickly became clear that a merging of investment management expertise would be beneficial both for the respective investment companies and for other clients. Donald Marr explains how it all happened:

The three "Lilies" were merged into one in 1970 to become the First Scottish American ... and The Northern American amalgamated with The Camperdown Trust (a much smaller trust which was originally the Cox family's private trust). The two resultant trusts (First Scottish American and Northern American) were managed in Belsize House (which was jointly owned by them) by a small group of managers directly employed by the trusts. After R S L Macpherson there were Alec Aitkenhead and myself jointly and Brian Tait as assistant manager. We also began to take private clients whose affairs were managed by Tay & Thames Investment Services (wholly owned by the two trusts and Robert Flemings) and its nominee company was Taytems Nominees. Belsize was simply the address and not a management company – that only came with the formation of Dunedin in 1985.

"Dunedin" started simply as a code word for the project, being an amalgam of Dundee and Edinburgh but soon became adopted as the name of the merged company. Dunedin is also the ancient name for Edinburgh, tracing to the 5th century Celtic title Din Eidyn, a dun or hill fort associated with the kingdom of the Gododdin.



**The Company's record, 1977 to 1987.**

| Year to 2 February (to 31 January from 1981) | Earnings per share (p) | Ordinary Dividend per share (p) | Net assets (£,000) | Net asset value per share (p) | Share Price (p) |
|---|---|---|---|---|---|
| 1977 | 2.60 | 2.55 | 29,005 | 100.0 | 75.0 |
| 1978 | 2.96 | 2.85 | 31,015 | 106.9 | 80.0 |
| 1979 | 3.32 | 3.15 | 38,318 | 132.1 | 92.0 |
| 1980 | 4.53 | 4.20 | 35,281 | 121.4 | 85.0 |
| 1981 | 4.57 | 4.55 | 45,450 | 147.2 | 103.0 |
| 1982 | 4.91 | 4.85 | 52,893 | 168.8 | 130.0 |
| 1983 | 5.22 | 5.15 | 69,564 | 220.7 | 180.0 |
| 1984 | 5.03 | 5.15 | 87,783 | 277.2 | 213.0 |
| 1985 | 7.09 | 6.75 | 107,653 | 339.9 | 255.0 |
| 1986 | 10.42 | 10.00 | 116,096 | 366.5 | 293.0 |
| 1987 | 12.40 | 12.00 | 148,455 | 468.7 | 378.0 |

Source: Company Annual Report & Accounts.

The outsourcing of the First Scottish's management to Dunedin, in which the Company also took an equity stake, took effect from 1 February 1985. The aim, Ivor Guild noted, "is to obtain a greater depth of management and a larger research base than at present, so that the Company might have the best possible sources of information".

Henceforth the management of the investment portfolio was conducted not in Dundee but in the Scottish capital, initially from what had been The Edinburgh Investment Trust's offices at 3, Charlotte Square. One link to Tayside remained, courtesy of the onset of the technological age. Client administration was, to begin with, still carried out 60 miles away in Dundee, via a computer link to Belsize House.

The new investment management company soon grew away to the point where the Charlotte Square offices were simply not big enough. Suitable premises were identified in Ravelston Terrace, on the western edge of Edinburgh's city centre, refurbished, modernised and renamed Dunedin House. In the autumn of 1987, Donald Marr, Grant Cochrane and their colleagues were just getting settled in when that year's Great Storm turned into the 1987 stock market crash.

### The 1987 stock market crash

Those who were there at the time find it difficult to reconcile one of the most volatile years in living memory with the fact that the FT-Actuaries All-Share Index, as it was then known, rose by 1.4% over the year to 31 January 1988.

At the beginning of the Company's financial year in early February 1987, the index stood at 903. By 16 July it had risen by 37%, to 1238. The Great Storm of Thursday 15 October – so serious, by way of example, that Sevenoaks in Kent lost six of its ancient seven oaks – took down transport links and telephone lines across southern England, stopping thousands of City workers from reaching their desks, or even of calling in, before the era of mobile phones.

The leading indices fell sharply and dropped even more three days later, on "Black Monday".


**Right**
A typical scene after the Great Storm of 15th October 1987.



The subsequent decline took the FT-A All-Share Index down to 784 by 10 November, or 37% from its peak level, followed by a hesitant recovery to 915 by the end of January 1988.

On the other side of the Atlantic, though different factors were at work, such as US oil tankers being under attack from Iranian Silkworm missiles in the Gulf, the same “Black Monday”, 19 October 1987, was even worse, with the Dow Jones Industrial Average dropping 22.6%, the worst one-day fall in the index’s history. Unlike what happened in the UK, there was no sustained recovery over the coming weeks. It would be several years before the leading US indicators had made up the lost ground.

Back at the Company, the strategic changes implemented from 1985, combined with asset sales made in the middle months of 1987 when prices really did look stretched, paid off. Going into the autumn crisis, portfolio exposure to the UK was more than 96%, almost totally moderating the effects of the US market falls. In the end, over the financial year to 31 January 1988, the Company’s net asset value per share fell by less than 1%, while the share price actually rose from 378p to 382p, as the discount to NAV narrowed slightly from c.19% to 18%.It also proved possible to increase the dividend by 16.7%, from 12p to 14p as well as putting £362,000 to revenue reserves. Brian Tait became lead investment manager of the Company in 1989.

Both 1988 and 1989 were further good years as markets moved forward once more, in which the net asset value per share increased by 12.1% and 11.7% respectively. Taken with increased borrowings, in the form of debenture issues totalling £40 million at what now looks an eye-watering effective rate of interest of 10.65%, total assets exceeded £200 million for the first time as the 1990s approached. The revenue account also received a boost from a special dividend received on the merger of Dunedin, of which the Company owned some 8.5%, with British Linen Fund Managers.

This in turn permitted a hefty increase of 25% in the dividends payable for the year, to the shareholders of what we shall refer to for the final time as the First Scottish American Trust.

### Change of company name

By the spring of 1990 Chairman Ivor Guild was putting it to shareholders that:

“The inappropriateness of the name of your company, now that it holds no quoted shares in America, is self-evident, and indeed for a company with a policy of income growth which is substantially invested in the United Kingdom it is positively misleading. We are doing all we can to attract new shareholders ... a Special Resolution will therefore be put before you at the Annual General Meeting to change the name to Dunedin Income Growth Investment Trust PLC, which will reflect more accurately the Company’s aims and its relationship with Dunedin Fund Managers.”

The name change was duly approved at the AGM held in Dunedin House on 27 April 1990.

# 5



Dunedin Income Growth Investment Trust
1873 – 2018

## DIGIT in the 1990s

During the 1990s, the technology boom gathers speed. Traditional metrics such as cash flow, profits and sustainable dividends start to be discarded in favour of internet start-ups, a minority of which eventually produce stellar returns while countless others fall by the wayside. By 1996, the next major step for the Company is afoot, in the form of the acquisition of Dunedin Fund Managers by Edinburgh Fund Managers in early 1996. The move, though profitable, severs the direct link between DIGIT and its management company, in which it no longer holds a stake. The Company, now with total assets of £317 million, moves forward once more, under the management of EFM and with a slightly different line-up in terms of board and managers.

DIGIT receives a series of awards in the years leading up to the Millennium, including best performing trust in the AITC's (now AIC's) UK Income Growths sector over 1,3 and 5 years.

# DIGIT in the 1990s

During 1990, UK equities fell for the first year in a decade, triggered not just by slowing economic growth but by Iraq's invasion of Kuwait that August, leading to the first Gulf War in early 1991. In October 1990, Chancellor of the Exchequer John Major simultaneously raised base rates to 14% and took Sterling into Europe's Exchange Rate Mechanism. Though less severe than some financial crises, the early 1990s downturn was later recognised as having been the longest technical recession since the Great Depression in the 1930s.

At the Company, henceforth referred to as DIGIT, the £40 million debenture was not fully invested at the time of the fall in equities and, Ivor Guild reported, "your manager is already investing the present liquidity in long-term growth equities". A fall in net asset value per share of 16% in 1990 was followed by increases of 11% and 10% over the next two years, taking total net assets to a new peak of £188 million, or £310 million in gross asset terms. Dividends had also risen in the interim to a new high of 25.7p per share, though earnings had slowed somewhat, requiring the use of revenue reserves to make up the shortfall.

Notwithstanding the recessionary backdrop, 1993 proved to another excellent year, in which the share price and net asset value per share rose by 31% and 31.5% respectively. Earnings also rose substantially, from 21.75p to 27.39p per share. This sharp rise in income, astonishingly from today's low interest perspective, was possible partly because in 1992 the Company added £80 million of short-term borrowings to its existing debentures and placed both in UK government gilts yielding even more. There was then an uplift in capital values as gilt yields plunged towards the 7% level – again, a figure barely comprehensible today – during 1993.

### Donald Marr

It was therefore on an upbeat note that Ivor Guild retired as Chairman after the 1994 AGM, being succeeded by Donald Marr, who had stepped down as Chairman of Dunedin Fund Managers the previous year.

The new Chairman had served quite an apprenticeship. He had been involved with the Company since the late 1950s, variously as Company Secretary, Joint Manager and Secretary, Manager and Secretary and he had been a director since 1970. Donald Marr was appointed Chairman in 1994.

**Right**
The August 1990 invasion of Kuwait by Saddam Hussein's forces led to the first Gulf War.

## Farewell to Ivor Guild

Ivor Guild, a director since 1964 and a legal adviser to the Company before that, signed off by thanking the staff of Dunedin Managers "for their assistance so readily given ... and my colleagues for their good humoured and congenial company". Donald Marr in turn thanked his predecessor for his leadership and his stewardship of the Company.

Ivor Guild remained an active member of the Edinburgh investment trust community and a keen participant in Annual General Meetings until shortly before his death at the age of 90 in 2015. Ivor lived at Edinburgh's New Club, on Princes Street, for the last 57 years of his life. A bachelor, he had few possessions, did not drive and rarely bought new clothes. When once asked why he had lived in the club for so long, he pointed out that during his working career, he could walk to work in seven minutes, while in later years, "at my age, any change is undesirable".

Moving into the mid-1990s, the board now comprised Donald Marr as Chairman plus directors Val Fleming, The Earl of Eglington and Winton, Robert A.G. Douglas Miller, who was Chairman and Managing Director of Jenners, Princes Street, and David Coltman, past Managing Director of British Caledonian Airways, who served from 1993 to 1996. They would be joined by Ewan Brown CBE, Executive Director of Noble Grossart Limited, in 1995. On the investment management front, Brian Tait remained the Dunedin director responsible for portfolio oversight, but with his colleague Allan Clark as named fund manager from 1992.

Soon, the next major step for the Company was afoot in the form of the acquisition of Dunedin Fund Managers by Edinburgh Fund Managers (EFM) in early 1996.

## Acquisition of Dunedin Fund Managers by EFM

On 16 February 1996, it was announced that negotiations were under way to sell Dunedin Fund Managers (DFM) to EFM. When the dust had settled on the deal, DIGIT, which owned 8.5% of DFM, not only received a healthy £7.1 million for its shares, against a balance sheet valuation of £5.5 million, but a special dividend of some £700,000 declared by DFM Holdings. The move, though profitable, severed the direct links between DIGIT and its management company, in which it no longer held a stake. It also necessitated the negotiation of a new management contract with EFM, which was duly agreed, with a two-year notice period and provisions for termination in the event of a change of ownership of the manager.

By 1997, after a good deal of hard work, the Company, now with total assets of £317 million, was moving forward once more, under the management of EFM and with a slightly different line-up in terms of board and managers. Donald Marr, who had reached the age of 65, had retired from the board the previous year, having seen the Company through countless crises and conflicts from the late 1950s, when it was a £2 million vehicle, to the approach of the Millennium. "His wise counsel through a period of rapid change", incoming Chairman Ewan Brown said, "greatly benefited the Company".

Another director, David Coltman, had stepped down owing to his overseas commitments in the airline industry. In addition, Graham Campbell, head of UK equities at EFM, had been appointed to run the Company's investment portfolio. Last but not least, at the April 1997 AGM, the Company was re-capitalised via the issue of four new shares of 25p each for every existing share, achieved by capitalising £32 million of capital reserves.



**Above**
Jean Matterson, the first woman to join the DIGIT board, was appointed in 1997.

| No. | Ten largest portfolio holdings as at 30 January 1999 | % of total investments |
|---|---|---|
| 1 | British Telecom | 5.4 |
| 2 | Glaxo Wellcome | 5.2 |
| 3 | Lloyds TSB | 5.0 |
| 4 | BP Amoco | 4.2 |
| 5 | Bank of Scotland | 4.0 |
| 6 | Smithkline Beecham | 3.4 |
| 7 | Vodafone | 3.3 |
| 8 | British Energy | 2.5 |
| 9 | Boots | 2.4 |
| 10 | Shell Transport & Trading | 2.2 |
| | Total percentage invested in "top ten": | 37.5 |

Source: Company Annual Report & Accounts.

The last boardroom change of the 20th century, but a "first" in terms of gender diversity, was the appointment of Jean Matterson, of Rossie House Investment Management, as a director of DIGIT in 1997. This led to a restored link, if a slightly arcane one, between DIGIT and Dundee, because Rossie House's founding partner, Charles Cox, is a direct descendant of Ernest, Edward and Thomas Hunter Cox, all key figures in the Company's early years.

Meanwhile, Robert Fleming Holdings, parent company of the eponymous merchant bank, though an unlisted company, had become one of the largest holdings in DIGIT's portfolio, valued at £8.8 million and accounting for 2.1% of the total.

Another link with Tayside was restored the following year when the AGM was held in Dundee to commemorate the Company's 125th anniversary. While announcing the change of venue, Ewan Brown stated in his first Chairman's remarks that "I hope to welcome the Guilds, Sharps, Coxs, Smiths and others whose families have held the shares continuously over that period". Lamb's Temperance Hotel was of course long gone but the 1998 AGM was held in equally evocative venue in the form of Discovery Point, Dundee – now, as touched upon, the centrepiece of an ambitious £1 billion restoration of the City's historical waterfront. The Company has periodically held its AGM in the city of its formation since.

In the wider world, the internet and technology boom was fuelling a raging bull market. The result: a mix, not for the first or last time in history, of a short-term bonanza for a few but of dire consequences for the headstrong. The worst hit, once again following what might be described as the unlearnt lessons of history, were those who chased market momentum long after fundamentals such as earnings and profits had been thrown out of the window.

Back at DIGIT, Graham Campbell and his team had avoided such excesses and instead reduced exposure to gilt-edged stocks, as interest rates began to fall, while increasing exposure to companies such as British Aerospace, Imperial Group, Vodafone and Weir Group. The Company performed strongly throughout the second half of the 1990s, with shareholders' funds and annual dividends growing each year, respectively from £249 million to £434 million and from 5.5p to 6.35p between 1996 and 2000 (source: company accounts).

> The excellent investment performance from the manager, led by Graham Campbell, has been recognised in the Standard & Poor's Micropal awards for 1998 where the company has been awarded first prize in its sector. The company was also voted the best UK Trust for 1998 by the Money Observer Investment Trust Awards and the best Income Growth Trust for 1998 by Investment Trust Magazine. In addition, and based on the net asset value total return, Dunedin Income Growth Investment Trust is the best performing trust in the Association of Investment Trust Companies' UK Income Growth sector over one year, and three years, to 31 January 1999.

**Above**
Extract from Ewan Brown's Chairman's Remarks, 1999 Annual Report.

## Performance Awards

DIGIT received a series of awards for its performance in the years leading up to the Millennium, including best performing trust in the AITC's (now AIC's) UK Income Growth sector over 1,3 and 5 years, as shown in the above extract from the 1999 Annual Report.

As the millennium turned, total assets reached a new peak of £460 million and the net asset value per share had increased by 5.7% over the previous year to 243.4p. The discount to net asset value had widened to approximately 11%, having been close to par a year earlier, commensurate with the wider move by investors away into new technology stocks. The dividend, on the other hand – virtually an unknown concept to most internet companies – was increased by 2.8% to a total of 6.35p for the year.

Markets do not progress in a straight line indefinitely and, as Ewan Brown noted in early 2001 in his final Chairman's remarks, "the technology bubble burst shortly after our [2000/2001] financial year began ... fundamentals reasserted themselves ... enthusiasm for blue sky projects has waned to the point of extinction." Equities continue to rise for a little longer, pushing the FTSE-100 Index to a new high of 6,932 achieved, rather extraordinarily, within 36 hours of the end of the Millennium, though the All-Share Index took a few more months to peak.

DIGIT received a series of awards for its performance in the years leading up to the Millennium, including best performing trust in the AITC's (now AIC's) UK Income Growth sector over 1, 3 and 5 years, as shown in the above extract from the 1999 Annual Report.

6

# DIGIT in the 21st century

In early 2000, as UK markets traverse a peak that will not be breached for another 15 years, the Fleming family negotiates the sale of Robert Fleming, the merchant bank, to Chase Manhattan Corporation. DIGIT's initial investment of £269,201 has turned into net proceeds of £25.5 million, adding 3.7% to the net asset value at a stroke. Difficult times are ahead, with sharp market falls marking the end of the "tech" boom, followed by the appalling terrorist events of 9/11. The banking crisis of 2008/2009 depresses market liquidity and asset prices across the board.

Despite this backdrop, DIGIT's annual dividends continue to rise each year over the decade. Markets resume their upward path as the "Credit Crunch" fades. In 2012, John Scott steps down after five years. He is succeeded as Chairman by Rory Macnamara. David Barron, the present Chairman, is appointed at the 2017 AGM.



Dunedin Income Growth Investment Trust
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# DIGIT in the 21st century

Despite the collapse of the internet bubble in the spring of 2000, DIGIT turned in another set of positive results for the year to 31 January 2001, including a net asset value total return of 14.1%, compared with 4.1% on the same basis for the FTSE All-Share Index. A major contributory factor in a difficult year were the Company's proceeds following the purchase of Robert Fleming Holdings, by Chase Manhattan Bank, in April 2000.

### Acquisition of Flemings by Chase

It seems curiously appropriate that, as the Company approached its darkest hours for decades, it received a morale-enhancing boost from the sale of its stake in the very company formed by its founder, Robert Fleming himself. The owners of the merchant bank, including members of the Fleming family, negotiated a sale to Chase Manhattan Corporation that turned out to be virtually at the top of the market and thus a masterpiece of timing.

Following the deal, DIGIT's initial investment of £269,201, made between 1974 and 1982 had turned into net proceeds of £25.5 million, adding 3.7% to the net asset value at a stroke. The remainder of the portfolio had also done well, with UK listed equities contributing a positive return of 6.6%, mainly generated, as traditional valuations reasserted themselves, in the latter part of a "year of two halves".

The news, therefore, that after five years of running DIGIT's portfolio, Graham Campbell had tendered his resignation from Edinburgh Fund Managers in 2001 to co-found his own company, Edinburgh Partners, with Dr Sandy Nairn, must have come as an unwelcome surprise. As it turned out, such considerations would be dwarfed by the seriousness of the market downturn ahead, coincident with the worst market falls since 1973 and 1974 and with the appalling terrorist events of 11 September 2001 in New York.

Before turning to such events, in 2000, Ewan Brown had paid tribute to the departing Earl of Eglington and Winton, who, he noted "contributed greatly to the Company and was especially helpful to me when I took over the Chairmanship in 1996". Appointed the same year were Ruaridh Budge, deputy Group CEO of Scottish Life and Max Ward, a retiring partner of Baillie Gifford and past manager of Scottish Mortgage and Trust.



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**Above**
The Queensferry Crossing, a three-tower, 2.7-kilo-metre, cable-stayed bridge linking Edinburgh with Fife, Dundee and the north, was opened to traffic on 30 August 2017. The official opening was carried out on 4 September 2017 by Queen Elizabeth II, 53 years to the day after she opened the adjacent Forth Road Bridge.

**Following page**
The V&A Dundee.

The following year, Ewan Brown himself stepped down because of his other business commitments and was succeeded as Chairman by Max Ward. Also in 2001, Val Fleming retired from the board after 22 years as what the outgoing Chairman described as "a wonderful servant to the Company". His place in the boardroom was taken up by John Scott, an executive director of Lazard Brothers since 1988 and with extensive experience of financial structuring and markets.

## Aftermath of the boom

Difficult times were ahead as the stretched valuations of the technology boom, which had distorted the headline indices, started to be recognised. In 2001, stock prices took a sharp downturn across the UK, North America, Europe and Asia. The shocking news of attacks on New York and Washington on 11 September 2001 led to further market falls. In the 2001-2003 bear market, the FTSE-100 Index fell 18% and by another 31% the following year before, following the pattern of history, resuming the recovery trail once more.

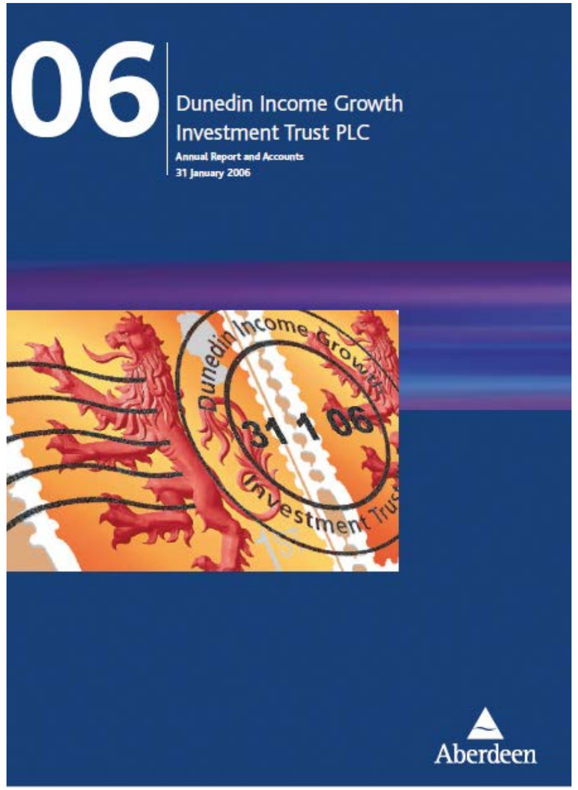
In such circumstances, DIGIT's net asset value total return of – 12.2% for 2001/2, set against a 15.6% fall in the total return on the same basis was, Max Ward suggested, "given the presence of a significant level of gearing, which has the effect of exacerbating gains or losses … a fair result". Dividend seekers, on the other hand, should they have chosen to stay away from press headlines and market news, could have been forgiven for not knowing a crisis was in progress. Total annual dividends for the year were increased to 6.75p, having been 6.55p a year earlier, while still being covered by income receipts.

The following year was a good deal more painful. DIGIT's NAV total return of – 30.8% was slightly worse than the – 28.9% figure for the benchmark FTSE All-Share Index. The fact that stripping out the effects of gearing, David Binnie, the incoming portfolio manager, had actually outperformed the benchmark was probably of scant consolation to shareholders, even though, the Chairman noted, a good job had been done in very difficult circumstances. "We have no way of knowing", Max continued, "how close we are to market bottom … but the UK economy is relatively well-placed. We suspect that when we look back … we shall think of [this] time as a period of opportunity for stock market investors".

## Market rebound

And so it proved. Markets staged a sharp recovery during 2003 and 2004 – a run, by way of aside, which was missed by those who had given up on equity investment and switched to other, "safer" asset classes such as protected products and fixed income funds.

This time, DIGIT's gearing came to its aid and led to a 34% positive NAV total return for the year to 31 January 2004, and to a further gain of 18.3% in NAV total return the following year. Each of these figures was some 3% better than the FTSE All-Share Index on the same basis and accompanied by annual dividend increases to 7p and 7.25p respectively.




**Right**
A fresh new look for the Annual Report from 2006.



**Left**
Max Ward was appointed Chairman in 2001.

**Right**
John Scott, Chairman of DIGIT from 2006 until 2012.

## Acquisition of EFM by Aberdeen Asset Management

While these events were being played out, Edinburgh Fund Managers became the subject of an agreed takeover by Aberdeen Asset Management in October 2003. To begin with, there was little visible change, with the company's portfolio still being managed by EFM, as a subsidiary of Aberdeen, and with staff still being based at Donaldson House in Edinburgh's West End. The first tangible sign for private shareholders was the adoption in 2006 of Aberdeen's branding for the Annual Report cover, replacing the former rather drab monotones. The fund managerial operations would move to Aberdeen's current offices at 40, Princes Street in 2008.

Following the retirement of fund manager David Binnie in 2005, who was replaced by Aberdeen's Head of the Pan European equity team, Chou Chong, the Company adopted a revised strategy aimed, as Max Ward put it, "to release us from the tyranny of our benchmark … and attach more importance to the investment attractions of individual companies than to their weightings in the FTSE All-Share Index." Both David Binnie and Chou Chong were supported by Stewart Methven, who would take over as lead manager when Chou Chong moved to Singapore in 2008.

In addition, the initially costly but beneficial long-term decision was made in August 2005 to redeem, more than a decade early, the entire £40 million issue of 11½% Debenture Stock 2016 at a total cost of £62,638,800. Instead, a flexible drawdown facility was agreed with ING Bank N.V. to provide a loan facility for up to £40 million but at the reduced interest cost, moreover only levied on drawings, of 4.95%.

These changes contributed to two more years of positive performance from the Company, with a NAV total return of 18.4% to 31 January 2006, albeit behind the benchmark return of 24.0%, and then of a healthy 21.8% the year after, this time trouncing the 13.1% attributable to the FTSE All-Share Index. "I am pleased to report", said John Scott, who had succeeded Max Ward as Chairman after the 2006 AGM "that the manager has once again succeeded in growing the income available to shareholders at a rate which comfortably exceeds inflation".

## Industry award

These achievements were recognised when DIGIT won, for its "outstanding performance in 2006", an award from Investment Trusts magazine for Best Growth & Income Trust, among a sector of 31 trusts.

2007 would be more difficult, as financial markets became more volatile and as investor sentiment turned bearish in the second half of the year. The financial crisis that hit the markets in the middle of the year stemmed from the sub-prime mortgage sector in the US, where, Chou Chong noted, in what turned out to be a significant understatement, "impairments were already well over $100 billion and there is speculation that there will be further casualties". A commodities bubble was also in full swing, leading the Company to maintain an underweight position in mining and oil and gas stocks, contributing to a fall in NAV total return of 11.2%, as opposed to a fall of 3.6% in the FTSE All-Share Index. By the end of the year, the "credit crunch" of 2007-2009 was in full swing.

## VAT refund

While this turmoil was gathering pace, some good news, at least, was to be had in the form of a refund of Value Added Tax "VAT" repayments on the Company's annual management fees. JPM Claverhouse had achieved a major victory for the UK investment company sector by challenging HMRC on this matter, all the way to the European Court of Justice – and won.

When the dust had settled, DIGIT received a repayment from Aberdeen of some £573,000 for the years 2001-2003, £1,020,000 for VAT paid in the years 2004-2007 and other smaller amounts for earlier years.

**Above**
In November 2007, The European Court of Justice accepted the UK investment company sector's case that VAT should not be liable on their management fees.
Image: Shutterstock.com

When this outcome is extrapolated across the entire investment company sector, the total sum recovered must be enough to cover members' annual subscriptions for years to come.

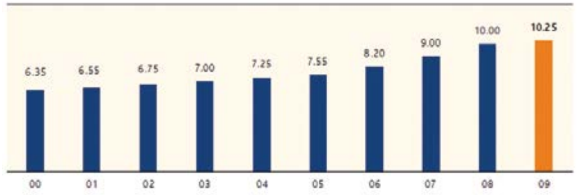
## Board

Two new board members had been appointed in the interim. Rory Macnamara, formerly vice-chairman of Morgan Grenfell & Co Limited and a managing director of Lehman Brothers became a director in 2005. He was joined in 2006, upon the retirement of Robert Douglas Miller, by Peter Wolton, who was a former chief executive of Baring Asset Management and a member of the Group Management Committee of Schroder Investment Management.

Ruaridh Budge, a director since 2000, sadly died in 2007. "He had", John Scott said, "contributed enormously with his understanding, experience and investment knowledge. He will be greatly missed." He continued, "On a brighter note, we are delighted to welcome John Carson to the Board. John is a chartered accountant and former partner of Baillie Gifford, where he headed the department responsible for client servicing and marketing".

## The banking crisis

By now the liquidity crisis had tipped economies into the severest recession for many years, deepened further by the collapse of Lehman Brothers in September 2008. Over the year to 31 January 2009 the Company, still quite geared at this stage, both by its 7.875% Debenture Stock and its bank loan facility, suffered one of its worst years, falling by 27.8% in net asset value total return terms, exactly matching the FTSE All-Share Index on the same basis. The share price total return, on the other hand, was worse, at – 38.6%.




Total annual dividends (pence per share), 2000 to 2009
Source: 2010 Annual Report





These were some of the Company's toughest times yet, for income seekers, the technical advantages of investment trusts, which can set aside revenue reserves every year, came to the fore yet again. During a range of market conditions, total annual dividends had risen every year, from 6.35p in 2000 to 10.25p in 2009, as shown in the bar chart above. Now, with the credit crunch passing its zenith, the resulting depleted earnings figure of 8.0p per share could be topped up from the reserves squirrelled away for decades, to permit an unchanged total distribution of 10.25p to be made. This proved to be a wise move only two years later. DIGIT had such reserves ready to deploy when BP had to forgo its dividend for a time after the 2010 Deepwater Horizon oil disaster in the Gulf of Mexico.

On the managerial front, Stewart Methven stepped down from DIGIT in 2009 to take up a senior position within Aberdeen's Global Equities team. He was succeeded by Jeremy Whitley, the Head of UK and European Equities at Aberdeen, who had also held senior roles in Aberdeen's Asian and Global Equities teams as well, along with his classmate, your author, as having attended the full-time MBA course at the University of Edinburgh, graduating in 1995.

*"To have suggested that, over the next nine months, the FTSE All-Share Index would rally from its nadir by nearly 50% would have been a bold prediction indeed, but that was exactly what has happened".*

## Recovery ahead

By March 2009, the Dow Jones Index had plunged to levels not seen since 1997 and other markets followed suit. "To have suggested then", John Scott observed in his 2010 Chairman's Remarks, "that, over the next nine months, the FTSE All-Share Index would rally from its nadir by nearly 50% would have been a bold prediction indeed, but that was exactly what has happened".

Turning to that year's results, Scott was able to report that, having experienced some years of relatively disappointing performance by the Company, "there has been a substantial improvement for this financial year, both in absolute and relative terms.

The Company's Net Asset Value per share (measured with debt priced at market value) increased from 160.45p to 201.37p. This represented an increase of 34.9% in total return terms, slightly outperforming the Company's benchmark, the FTSE All-Share Index, which increased by 33.2% in total return terms".

## "Bull market from 2009"

While it is never easy, if possible at all, to judge the events of the last few years in a corporate history of this kind, economists are talking, as this account goes to print in 2018, in terms of a long bull market that began in 2009 and continues, pending the onset of any "unknown unknowns" such as a territorial dispute in the South China Sea.

Just such an unforeseen event occurred on 22 April 2010, when an uncontrollable blowout occurred at the Deepwater Horizon oil rig, drilling in the Gulf of Mexico's Macondo Prospect, killing eleven crewmen and igniting a fireball visible from 40 miles away.

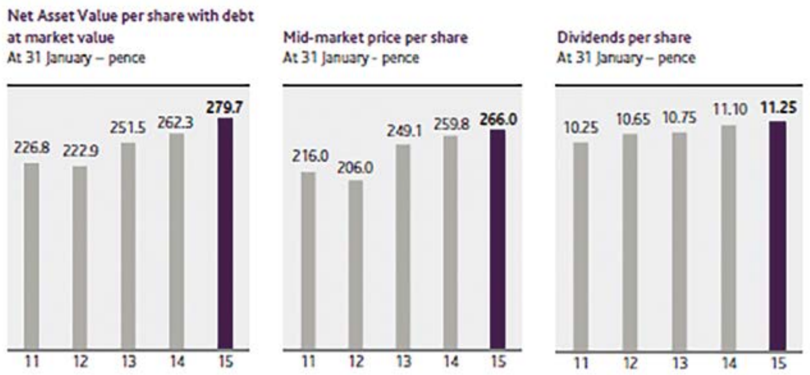
**Left**
The "Macondo Blowout" of April 2010.

**Deepwater Horizon**

The Deepwater Horizon oil spill led to the suspension of its dividends by BP, one of the world's largest 's oil and gas companies, not to mention being DIGIT's sixth largest holding at the time. For the Company, the loss of BP's dividend was largely offset by dividend growth elsewhere in the portfolio, meaning that it was only necessary to draw modestly upon dividend reserves. The episode, Jeremy Whitley later observed, was:

*"a salutary reminder that diversification is critical and that making sure DIGIT is not overly reliant on any one business or sector is important".*

As the recovery from the banking crisis gained momentum, another strong positive year in 2011, with an NAV total return of 19.6% was followed by a very slightly negative year in 2012 and then a series of three more uplifts in both net assets and dividends, through to 2015.




**Above**
Rising net asset values and prices in the years following the banking crisis. Source: 2015 Annual Report.

Two developments had taken place along the way. At a General Meeting held in December 2010, shareholders approved widening the Company's mandate to allow investment of up to 20% in overseas markets. Secondly, the income account had been successfully rebuilt, partly as the dividends received increased once more and partly through the limited use of option writing. The progress achieved in the overall performance figures, John Scott noted, had been achieved "against a backdrop of generally favourable economic and corporate news flow, interspersed with occasional panic over the indebtedness of various sovereign states".

In the boardroom, Jean Matterson retired in 2011 after 14 years of service, latterly as Senior Independent Director. Catherine Claydon, formerly managing director in Goldman Sachs International Pension & Insurance Strategies Group, joined the board the same year. She was joined in 2012 by Elisabeth Scott, formerly country head of Schroders in Hong Kong.

The same year, John Scott, who had been a director since 2001 and Chairman since 2006 stood down, being replaced by Rory Macnamara. Scott signed off by saying that "there is much to remember about the past 11 years, notable moments of stress being the 9/11 atrocity and its aftermath, the Iraq War, the near-destruction of the UK banking sector, Lehman Brothers, eurozone turmoil, ash clouds, oil well disasters, hurricanes and tsunamis". When put like that, it might be observed, the merits of a robustly constructed managed fund, paying attractive dividends year in, year out are not hard to appreciate.

Rory Macnamara's forthright observations became a hallmark of DIGIT's Annual Report during his four-year tenure in the Chair. In 2013, for example, as well as reporting the first of three successive years of strong positive performance by the Company, he made his views on diktats emanating from Brussels clear:



**Above**
Rory Macnamara became Chairman in 2012.

*"Bureaucrats and politicians in Europe, continue to impose ever more regulation without, it seems to me, paying proper regard to the balance of costs and benefits of so doing. Despite its long and relatively untroubled history … the UK Investment Trust sector will shortly be subject to the Alternative Investment Fund Managers Directive (you might well ask in exactly what sense are we an "Alternative Investment Fund"!). This will begin to be implemented from July and will increase compliance and regulatory costs … we will continue to monitor its progress and implications with a view to making the necessary changes on the most efficient basis possible."*

Similar refreshing direct comments can be found, for those who, like your author, enjoy delving into the small print of long-gone company documentation, at various points in DIGIT's past accounts.

By now, the uplift in the Company's fortunes had been noticed, to the extent that it began trading at a small premium to net asset value, allowing the issuance of 300,000 new shares, the first for many years, to take place in 2013. At the same time, the Chairman noted, "it may seem somewhat churlish to sound a note of caution … but with valuations at reasonably full levels and aggregate earnings we should maintain a cautious stance".

Jeremy Whitley, who by now was being assisted by Ben Ritchie in his fund managerial role, made a similar point, saying in early 2014 that. "we have struck a cautious tone driven by a lack of fundamental value open to us". Whitley went on to say that the companies Pearson, Standard Chartered, Centrica, Tesco, HSBC, Wood Group, and Royal Dutch Shell had "all queued up to give us bad news from the summer months of 2013 onwards … to give you some idea of [our] due diligence and research, we have met with those nine companies 240 times in the past five years."

In the event, although 2014 turned out to be a volatile year, which included conflict in the Ukraine, the election of the Syriza party in Greece and rapidly falling energy prices, the cautious portfolio positioning paid off. The Company's NAV total return for the twelve months to 31 January 2015 was 11.1%, compared with the 7.1% return on the benchmark FTSE All-Share Index, while total annual dividends were increased by 1.4% to a new high of 11.25p for the year.

After five out of six years of outperforming its benchmark, 2015 proved to be a year in which, against a generally weak market backdrop, domestically focused, lower-yielding stocks did relatively better than higher-yielding, internationally focused companies. The upshot was that DIGIT's NAV total return of – 11.5% for the year underperformed the benchmark index by 6.9% over the year to 31 January 2016. Yet again, however, the total dividend was increased by more than the prevailing rate of inflation, to a total of 11.4p per share, fully covered by current earnings.

At the 2016 AGM, the recent appointment of two new Directors was announced.

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The first, the Company's present Chairman, David Barron is CEO of Miton Group plc, as well a former Head of Investment Trusts of JP Morgan (previous JPMorgan Fleming) Asset Management. The second, Jasper Judd, like David Barron, a Chartered Accountant, previously worked for Brambles Limited, the Australian multinational, where he held senior roles including Global Head of Strategy. Finally, Peter Wolton, a director since 2006, retired at the end of the AGM.

Following these appointments, the board comprised six independent directors, the intention being that after a transitional period one long-serving director would retire at the 2017 AGM. Very sadly indeed, such plans would be overtaken by events.

### Rory Macnamara

After a period of illness, Rory Macnamara died on 17 December 2016. He had served as a director of the Company since 2005 and as Chairman since 2012.

As Acting Chairman, the Senior Independent Director John Carson, said that "the board benefited hugely from Rory's significant knowledge and experience. The board extends its thoughts and sympathy to Rory's family. We will all miss his knowledge and good judgement and those of us who had the fortune to work closely with him are already missing a much-valued friend".

In his obituary in the Times, an extract from which is shown opposite, Rory Macnamara had been described as "a gentle, kind, very clever, rather shy chap, with a slightly incongruous aversion to beetroot and an avidity for tidiness and order. As well as reading volumes on mathematical theory, he was fond of Jane Austen, Charles Dickens and Douglas Adams, devouring their complete works at bewildering speed on his Kindle. A softly spoken man, his nickname was Roar."

John Carson remained in post until, following a review, the board appointed David Barron as Chairman with effect from the 2017 Annual General Meeting. John then reverted to the role of Senior Independent Director with the intention of stepping down from the board a year later.

The last board appointment to be related in this account is that of Howard Williams, who has over 35 years of fund management experience and was, until October 2017, Chief Investment Officer and Head of the Global Equity Team at JPMorgan Asset Management.

Returning to the fortunes of the Company, the year to 31 January 2017 produced what might be described as a return to form, with a net asset total return of 19.2%. Although this figure marginally lagged the FTSE All-Share Index total return of 20.1%, it significantly outperformed many of DIGIT's sector peers. Furthermore, it seems scarcely necessary to mention that both revenue returns and dividends were higher than the previous year, taking total distributions to 11.7p for the year.

### Managers

Bringing the managerial arrangements up to date, in late 2016, it was announced that Jeremy Whitley, Aberdeen's head of UK and European equities, was to retire to pursue other interests. He left in March 2017, to be succeeded by his deputy Ben Ritchie, assisted by his colleague Louise Kernohan.

Ben Ritchie is Deputy Head of European Equities. Ben joined Aberdeen in 2002 as a graduate having interned with Aberdeen in 2000 and 2001. Ben graduated with a BA (Hons) in Modern History and Politics from Pembroke College, University of Oxford and is a CFA charterholder

**Left**
Ben Ritchie



Rory Macnamara's obituary, published by the Times on 14 April 2017, recalled that in the Big Bang era of the City, an ability to get by on a minimum of sleep was highly prized, saying that:

> Arguably his most heroic act of going without what Shakespeare called "great nature's second course" was when he worked for an unbroken 48 hours to save the Channel Tunnel project, emerging blinking in the cold dawn to announce to the waiting press:
>
> "It's all done. The money is guaranteed for Eurotunnel now. It's an extraordinary financing for a historic project."
>
> That double all-nighter was in November 1987, when Macnamara was 32. He had gone to Eurotunnel on secondment as finance director and found himself playing a pivotal role in the Anglo-French consortium's initial financing, masterminding the underwriting of a crucial £770 million share issue as well as two subsequent deals.

**Left**
Louise Kernohan

Louise Kernohan is a Senior Investment Manager on the UK Equities Team, having joined Aberdeen via the acquisition of Deutsche Asset Management businesses in 2005. Louise graduated with a BSc (Hons) in Mathematics, Physics and Philosophy and an MA in Management from the University of Durham and is a CFA Charterholder.

Finally, on 6 March 2017, the boards of Aberdeen Asset Management PLC and Standard Life plc announced that they had reached agreement on the terms of a recommended all-share merger of Aberdeen and Standard Life. The Scheme was sanctioned by the Court of Session in Edinburgh on 11 August 2017.

## Taking stock

As this report was being prepared for publication in the first half of 2018, the Company was able to announce another good set of results. "In the year ended 31 January 2018", David Barron reported to shareholders, "your Company delivered solid absolute and relative returns. The Company's net asset value increased by 12.0% on a total return basis, outperforming the FTSE All-Share Index which produced a total return of 11.3%. The share price total return for the year was 11.7%".

Once the final dividend of 4.375p per share had been paid on 30 May, he continued, it would make a total distribution of 12.1p per share for the year, an increase of 3.4% on last year. "This will be the 34th year out of the past 38 that the Company has grown its dividend", he added, "with the distribution maintained in the other four years". Not only that but a further 0.65p per share was to be added to revenue reserves, to be set aside for the next rainy day, should it come.

The founding ethos of Robert Fleming in 1873, in short, lives on and there is no reason why Dunedin Income Growth Investment Trust should not thrive for another 145 years and beyond.

### The Company's ten largest investments at the end of March 2018.

| No. | Ten largest portfolio holdings as at 31 March 2018 | % of total investments |
|---|---|---|
| 1 | British American Tobacco | 5.2 |
| 2 | Royal Dutch Shell "B" | 4.8 |
| 3 | Prudential | 4.4 |
| 4 | Unilever | 4.4 |
| 5 | HSBC | 3.8 |
| 6 | Vodafone | 3.6 |
| 7 | AstraZeneca | 3.4 |
| 8 | GlaxoSmithKline | 3.3 |
| 9 | Total | 3.3 |
| 10 | BHP Billiton | 3.2 |
| | Total percentage invested in "top ten": | 39.4 |

Source: Aberdeen Standard Investments, April 2018


**Right**
Marching on: the legendary figures of Desperate Dan, Minnie the Minx and Dawg the Dog, all characters from the Beano comic, published by the Dundee company D. C. Thomson, take pride of place in the city's city centre today.

## APPENDIX 1
## CHAIRMEN, TRUSTEES AND DIRECTORS 1868-1918

| | Director | Chairman |
|---|---|---|
| Thomas Hunter Cox | 1873-1891 | |
| John Guild | 1873-1891 | 1873-1891 |
| John Sharp | 1873-1895 | 1891-1895 |
| Thomas Smith | 1873-1886 | |
| William (later Sir William) Ogilvy Dalgleish | 1887-1914 | |
| Edward Cox | 1892-1912 | 1895-1912 |
| Alexander Gilroy | 1892-1918 | 1913-1917 |
| Robert Bogle Don LLD | 1895-1917 | |
| James Ernest Cox LLD | 1913-1947 | 1917-1947 |
| Adam Hunter | 1914-1936 | |
| George Bonar | 1919-1938 | |
| William Low | 1917-1936 | |
| Robert Stuart Lyle Macpherson CA | 1936-1968 | 1947-1969 |
| William Henry Fraser WS | 1936-1942 | |
| Lewis Findlay Robertson CA | 1938-1943 | |
| John Donald Mackenzie, Solicitor, Dundee | 1942-1948 | |
| William (later Sir William) G.N. Walker | 1948-1961 | |
| The Earl of Airlie KT GCVO MC LLD | 1947-1963 | |
| Sir George Williamson | 1943-1959 | |
| Andrew Philip Anderson | 1960-1963 | |
| Sir John Ure Primrose DL JP | 1961-1973 | 1969-1973 |
| Lord Inchyra | 1963-1968 | |
| Ivor Guild CBE WS | 1964-1994 | 1973-1994 |
| Sir Herbert Vernon Bonar CBE LLD | 1969-1980 | |
| Richard Evelyn Fleming MC | 1968-1977 | |
| Donald Marr CA | 1970-1996 | 1994-1996 |
| G.R.Simpson DSO MVO TD DL | 1975-1987 | |
| A.K.Aitkenhead CA (alternate to Donald Marr) | 1975-1986 | |
| H.S.Spens MBE MC TD (alternate to R.E.Fleming) | 1977-1979 | |
| Valentine P. Fleming | 1979-2001 | |
| The Earl of Eglington and Winton | 1985-2000 | |
| Robert A.G. Douglas Miller | 1989-2006 | |
| David A.Coltman | 1993-1996 | |
| Ewan Brown CBE MA CA | 1995-2001 | 1996-2001 |
| Jean Matterson | 1997-2011 | |
| Ruaridh Budge | 2000-2007 | |
| Max Ward | 2000-2006 | 2001-2006 |
| John Scott | 2001-2012 | 2006-2012 |
| Rory Macnamara | 2005-2016 | 2012-2016 |
| Peter Wolton | 2006-2016 | |
| John Carson | 2007-present | Acting Chairman, December 2016 March 2017 |
| Catherine Claydon | 2011-present | |
| Elisabeth Scott | 2012-present | |
| David Barron | 2016-present | 2017-present |
| Jasper Judd | 2016-present | |
| Howard Williams | 2018-present | |

# Epilogue

I was delighted earlier this year to have a meeting with industry historian John Newlands and Piers Currie, from Aberdeen Standard Investments, who explained they wished to publish the history of Dunedin Income Growth Trust, Scotland's first investment trust. We then shared more information from the family archives and John has investigated public records far and wide to help build the story.

This year is also a celebratory one for the sector, being the 150th anniversary of the founding of the investment trust industry. Dunedin Income Growth, originally set up as the Scottish American Investment Trust, is in fact just five years younger than the first investment trust, Foreign & Colonial Investment Trust, that was launched in London in 1868. 145 years and being the second trust in the UK nonetheless is quite a record and timeline too. As John's history of the company relates, it was quite an achievement being the first such trust in Scotland and springing from as remote a financial centre as the City of Dundee.

My great grandfather Robert Fleming's story is one of innovation, adaptation, effort and the eventual founding of what later, as new trusts were launched, became called the investment trust movement. It is a journey that has continued for many of the Fleming family too over the generations with my father Richard and cousin Val both former Directors of Dunedin. Indeed investment trusts were always in the DNA of what became Robert Fleming Holdings, until its eventual acquisition by JP Morgan Chase eighteen years ago. JP Morgan Asset Management continues the tradition today and it is pleasing to note that the current Chairman's career was also with them in the investment trust area.

What I have enjoyed about John's history is both big and small, that challenged the world during the course of the twentieth century, but also the local and very human tenacity of the events, the early founders of what then became the pooled fund industry. We may think in this modern age that international travel and discovery is a new take on globalisation, but the pioneering Victorians were there long before us and helped not just to democratise investment, by pooling risk, but also sought to find returns with reduced risk in a then faraway land which proved to be the world's economic powerhouse as the 20th century developed.

I would like to record my thanks that this book has been published, for sharing it with us and to the Board of Dunedin Income Growth for recommending its execution.

**Adam Fleming**
Deputy Chairman, Stonehage Fleming
June 2018



# About the Author

John Newlands is an independent investment trust analyst and historian. He has written four books about financial history, including The History of Aberdeen Asset Management (2nd Edition, 2013) and the 150-year anniversary History of Foreign & Colonial Investment Trust, published in March 2018.

He has produced historical booklets for Murray International Trust, Witan Pacific, The Edinburgh Investment Trust, the Merchants Trust and British Empire Trust. He was Head of Investment Companies Research at Brewin Dolphin Limited from 2007 until June 2017.

**Author's Acknowledgements**
I would like to thank Martin Allan, Sarah Aitken and their colleagues at Dundee City Archives, where the company's archives are stored, for their patient and thorough assistance. Bill Smith's biography of Robert Fleming, 1845-1933 provided a wealth of background detail about the man himself, whose life story is surely worthy of turning into a film one day. Adam Fleming and other contemporary family members have also been supportive throughout.

Donald Marr, Brian Tait and Ian Massie helped me with details about the Company's more recent history. I should like to thank Dundee & Angus Chamber of Commerce for permission to reproduce images of five of their Past Presidents, all key figures in this account: John Guild, John Sharp, Thomas Smith, Thomas Cox and James Ernest Cox." Lastly, I should like to thank Piers Currie, Antonia Dodson and Gordon Hay Smith of Aberdeen Standard for their support and Kino Design for their excellent work.

**Risk warning**
The value of investments and the income from them can go down as well as up and you may get back less than the amount invested. The tax benefits relating to ISA investments may not be maintained. Please refer to the Key Facts documents contained in the ISA/Share Plan brochure and application form or the Investment Plan for Children brochure and application form for general and specific investment risks attaching to the individual trusts.

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

**Registered Office of the trust:**
7th Floor, 40 Princes Street, Edinburgh EH2 2BY Registered in Scotland as an Investment Company Number 881.

**Investor information**
There are a number of ways in which you can buy and hold shares in this investment trust. These include online dealing, the Aberdeen Investment Trusts ISA Plan and the Aberdeen Investment Trusts Share Plan. See: http://www.dunedinincomegrowth.co.uk/en/itdunedinincomegrowth/how-to-invest for further details.