Baillie Gifford™

Diversified Return Quarterly Update

31 March 2024

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Past Performance

Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio. Material market or economic conditions will have an impact on investment results. The returns presented in this document are gross of fees unless otherwise stated and reflect the reinvestment of dividends and interest.
Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results.
It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

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Product Overview

Diversified Return invests across a broad range of asset classes with the aim of achieving dual objectives:

Return
Targeting attractive portfolio returns: 3.5% p.a. over cash*, net of fees, annualised over rolling five-year periods.

A positive return over rolling three-year periods.

Risk
With lower volatility than equity markets: annualised volatility of less than 10% over rolling five-year periods.

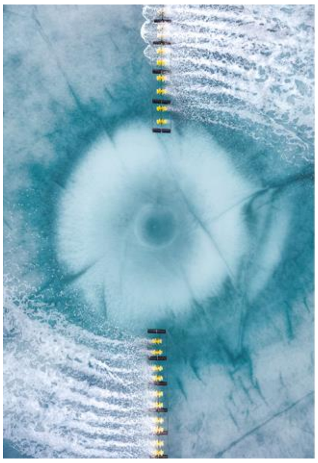
The performance objectives stated are not guaranteed.

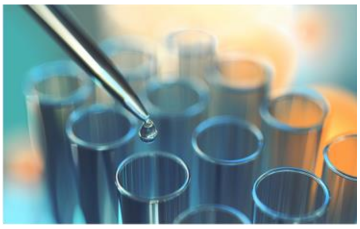
*Cash rate applicable to base currency.

The global macroeconomic outlook continued to soften at the start of the year, with the notion of 'immaculate disinflation' emerging as a key narrative

Financial markets have been aligning with this more benign outcome. A tempering of expectations around Fed rate cuts provided a supportive backdrop for momentum in risk assets

Reflecting their attractive long-term return prospects, we added to infrastructure and property. Overall, the portfolio remains well diversified.





Baillie Gifford Key Facts

Assets under management and advice	US$290.9bn
Number of clients	655
Number of employees	1817
Number of investment professionals	393

Market environment

Markets' confidence in a 'soft landing' continued into the start of 2024: equity markets rose, credit spreads tightened, and government bonds sold off as a result. Guidance from major central banks on potential rate cuts later this year, encouraging macro data, favourable updates on inflation, and the continued artificial intelligence (AI) frenzy were the dominant themes. All served to fuel that confident sentiment throughout what was, ultimately, a relatively benign opening quarter.

In market parlance, the term 'immaculate disinflation' – a scenario whereby price rises slow to target levels without causing undue strife elsewhere in the economy – came to the fore. This was positive for risk assets such as equities; less so for fixed income markets which no longer priced in as many rate cuts this year as was the case in January. The US 10-year yield, having briefly touched 5% in 2023 and starting the year at below 4%, rose back towards 4.4% by the end of March.

Our central macroeconomic case is for a continuation of this market environment, with growth remaining robust, thereby allowing higher interest rates to cool inflation gradually, as recessionary fears abate. We expect the Fed to begin a gradual easing cycle, which will be supportive for asset prices and general household net worth. This clearly comes with no guarantees, however, and we are acutely aware that such a 'soft landing' requires most things to continue to go right.

The most probable alternative scenario, in our opinion, is one of stickier developed market inflation, leading to weaker growth in 2025 and an increased risk of recession. This scenario would impact equity and credit markets negatively and highlights the virtues of maintaining a well-diversified portfolio.

Away from the US, we have a below-consensus-growth outlook for China, which will continue to be impacted negatively by the ongoing challenges in its local property market. Similarly, the Euro Area is hampered by poor demographics and low productivity, despite a strong savings surplus and the possibility of a consumer-led recovery. Elsewhere, Japan is experiencing a structural break higher in inflation, in part fuelled by wage growth, which should – all else being equal – lead to policy normalisation. In the UK, better recent macro data has also pushed expectations of rate cuts further out into the future. While inflation has eased, the rate of decline will slow, and the challenges of low growth and twin deficits persist.

Performance

Having started 2024 with a relatively cautiously positioned portfolio, the portfolio benefited from the rather calm start to the year. We reduced exposure to traditional fixed income markets - government bonds and investment grade credit - in a timely manner, and maintained allocations to several asset classes which delivered the highest returns over the period. Our structured finance and emerging market bond exposures continued their good run; and, after a difficult 2023, high yield credit also contributed positively.

Listed equities also fared well. The asset class delivered the highest positive contribution to performance over the period, with growth-oriented stocks leading the way. As was the case throughout 2023, a small number of mega-cap stocks again powered this rally, with the likes of NVIDIA and Amazon providing stellar returns. Our underlying Baillie Gifford growth-equity funds benefited from meaningful stakes in these companies.

As one might expect within a diversified portfolio which has exposure to different underlying risks, some of the asset classes faced challenges over this short period. We took the opportunity offered by temporary price weakness to make additions to particular infrastructure stocks, as well as broadening out the number of companies to which we have exposure in that asset class. Despite a rally towards the end of the quarter, our commodity holdings disappointed: the metals held - copper and aluminium - were generally stable in price terms over the three-month period but, in contrast, the rare earth miners saw significant weakness, compounding the share price falls of 2023. That said, we retain the position given our positivity about the longer-term decarbonisation theme and the role that these companies will play.

Last year, insurance-linked securities were an important positive contributor to portfolio returns. This trend persisted into the first quarter of 2024. The reinsurance cycle has been 'hardening' for a few years now – that is, investors are being paid higher premiums for similar levels of risk, as compared to any time in the past decade. These floating-rate instruments have delivered a healthy yield and have seen some capital appreciation due to strong investor demand, and our investments, both in terms of the bonds which we hold directly and also those to which we have exposure via an externally-managed fund, have been rewarded handsomely.

Overall, we can reflect on the opening three months of the year as being a low-volatility period with risk markets' hot streak continuing. Just as trees do not grow all the way to the sky, stock market momentum will not persist ad infinitum. We are mindful of the famous Chuck Prince quote about carrying on dancing while the music is still playing, and continually test the portfolio against adverse scenarios which could endanger the performance of unprepared investors.

Positioning

We have made meaningful additions to several of those asset classes for which we currently have higher, long-term return expectations, thereby enabling us to build what we believe to be an exciting and robust portfolio for the remainder of 2024 and beyond.

Within infrastructure, we took new positions in two UK water companies and broadened out the operational renewables basket, in the process making our infrastructure allocation the largest in the portfolio. This reflects our optimism and confidence in the fundamentals of this asset class which, despite being out of favour over the last year or so, has been an important positive contributor to the portfolio's returns over the longer term. We are excited to be able to add to companies and funds which we have known for years, at valuations which are significantly discounted relative to their history.

Also, we have initiated positions in novel ideas, stemming from in-house research. For example, in commodities, we took a position in EU carbon credits which had fallen to €50 in price for the first time since 2021, and down from a recent peak of nearly €100. This afforded us a great opportunity for entry after a few years of watching from the sidelines. Given their critical importance in Europe's decarbonisation plans, from here, we anticipate double-digit annualised returns over the coming years, although we are aware that will not be a steady path.

Also, having previously held Egyptian T-bills in our multi-asset funds, we have reallocated to these instruments within our emerging market local currency bonds following a substantial devaluation of the Egyptian pound. What gives us confidence here is an enormous upfront payment made by the United Arab Emirates for the development of land on Egypt's Mediterranean coast, and the signing of an expanded IMF programme. Our central case expectation over the short term for the T-bills is a healthy return well in excess of the broader asset class.

We funded these positions by reducing the duration exposure – that is, the interest rate sensitivity - of the portfolio during the first quarter of 2024. As well as reducing the net government bond exposure (through the use of futures), we also removed the investment grade credit exposure by selling the holding in the Baillie Gifford Global Strategic Bond Fund, and reduced emerging market bonds, also by trimming the allocation to an internally-managed fund. Both of these asset classes had seen our long-term return expectations retreat at the end of last year, and these observations informed the reductions which we made.

The portfolio ended the quarter full of potential, with a variety of return sources over the next few years. The key long-run themes of decarbonisation and technological progress combine well with nearer-term and cyclical opportunities, the result being a well-diversified portfolio with a very healthy return expectation if our central economic case plays out, and which shows resilience in a downturn scenario. While we remain wary of lofty valuations in many markets, we are less cautious than at the turn of the year and far more willing to add risk where it will be best rewarded.

This commentary is based off a representative Diversified Return portfolio

Performance Objective

To outperform the Federal Funds Rate by 3.5% per annum (net of fees) annualised over rolling five-year periods with an annualised volatility of less than 10% over rolling five-year periods.

The performance target is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance target may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

	Composite Net (%)	Benchmark (%)
3 Months	0.7	2.2
1 Year	3.6	8.8
3 Years	-1.1	6.2
5 Years	1.8	5.5
Since Inception	2.4	5.4

Annualised periods ended 31 March 2024. 3 Month & 1 Year figures not annualised.
Inception date: 30 April 2017.
Figures may not sum due to rounding.
Benchmark is Federal Funds Rate +3.5%.
Source: Revolution.
US dollars.

Discrete Performance

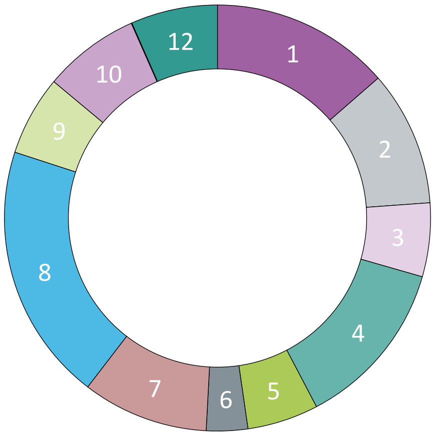
	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Fund	-5.8	19.9	2.0	-8.3	3.6
Benchmark	5.4	3.6	3.6	6.3	8.8

Benchmark is Federal Funds Rate +3.5%.
Source: Revolution.
US dollars.

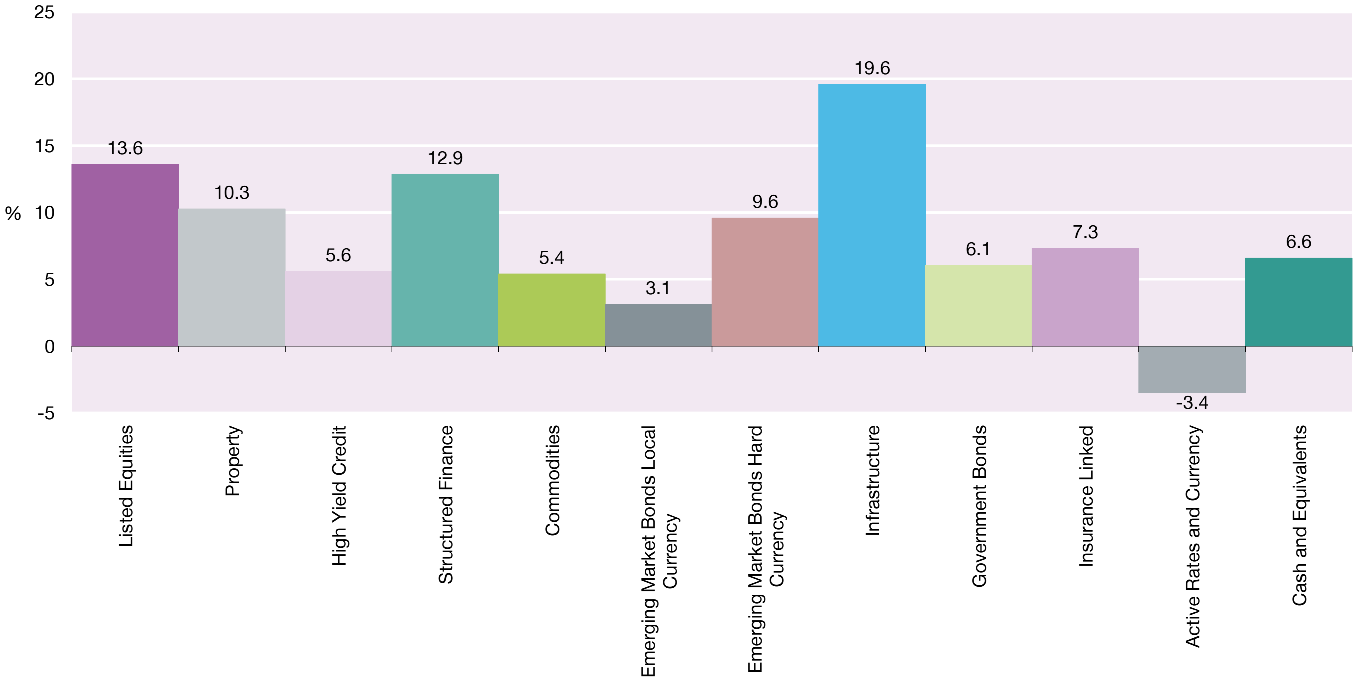
The Diversified Return composite is more concentrated than the Federal Funds Rate +3.5%.

Asset Allocation at Quarter End

		(%)
1	Listed Equities	13.6
2	Property	10.3
3	High Yield Credit	5.6
4	Structured Finance	12.9
5	Commodities	5.4
6	Emerging Market Bonds Local Currency	3.1
7	Emerging Market Bonds Hard Currency	9.6
8	Infrastructure	19.6
9	Government Bonds	6.1
10	Insurance Linked	7.3
11	Active Rates and Currency	0.0
12	Cash and Equivalents	6.6
	Total	100.0



Asset Class Exposures at Quarter End



Source: Baillie Gifford.

Total may not sum due to rounding

Any difference between the weight of an asset class (as shown in the Asset Allocation at Quarter End table above) and its exposure relates to future positions, as do any negative exposures. The weight shown against Active Rates and Currency reflects the net unrealised profit or loss of open positions in the Fund. In other asset classes, any negative exposures relate to futures positions

Company	Engagement Report
Brookfield Renewable Corporation	Objective: To follow up on the wildfire risk exposure questions we sent to the company recently and to discuss how it approaches and mitigates physical climate risks regarding its ownership and operation of a portfolio of hydroelectric, wind and solar power assets, primarily in the United States, Europe, Colombia and Brazil. We specifically sought to address the themes of (1) risk exposure, (2) preventative measures and accountability, and (3) cost recovery and liability. Discussion: There are clear links between the company's effective physical climate risk mitigation, health and safety performance, and the well-being of the local communities in which it operates, as well as with its achievement of operational and financial goals. The key takeaways from this meeting were that the company's geographic and technological diversification aim to minimise the business interruption and the potential associated financial implications from any one given acute extreme weather event. We discussed with the team, including the company's Director of Portfolio Management and Risk and its Vice President of ESG Management, how acute physical climate risks are managed at the asset level and the operations team's ongoing monitoring of changes to chronic risks. Examples of representative risk management measures to reduce the risk of wildfires include vegetation management, installing and managing firebreaks and infrastructure hardening. Similarly, hydro flooding risk is managed via monitoring of inflows relative to capacity levels, updating of flood map studies and adaptation measures such as inflow design reviews for assets deemed at higher risk. Outcome: We deem the company's approach to physical climate risk management to be appropriate. We will continue to track this for both acute and chronic physical climate risks in relation to flooding and wildfires.
Hydro One Limited	Objective: To follow up on the wildfire risk exposure questions we recently sent to the Canadian-regulated transmission and distribution utility Hydro One Ltd. and to discuss how it approaches and mitigates physical climate risks. We specifically sought to address the themes of (1) risk exposure, (2) preventative measures and accountability, and (3) cost recovery and liability. Discussion: Given its geographical focus in Ontario, Canada, Hydro One is exposed to extreme climate risk events primarily related to snowstorms and ice storms. These can significantly impact electrical infrastructure: when ice accumulates on wires and poles, it can lead to increased weight and stress, causing them to break or collapse. Ongoing resilience management activities are linked to the company's customer service reliability and, relative to some of its North American peers, Hydro One is more forthcoming about its exposure to extreme climate risks in terms of disclosure and its efforts to mitigate such risks. This relates partly to its starting point as a recently privatised entity, which creates a meaningful opportunity for capital investment to address emerging physical climate risks. We discussed how the company has been undertaking a series of stress-testing exercises, the output of which will feature in a Climate Adaptation Report outlining the company's strategy, scope and scale of actions for mitigating extreme climate risk. The company's ambition is to use this report to proactively argue the case with the regulator for increased investment in the rate base, which, if materialised, could act as a notable additional driver of earnings growth. Outcome: A key milestone is to engage with the company's upcoming Climate Adaptation Report (to be published during the first half of 2024) to learn more about how extreme climate-related risks are quantified.

Predicted volatility is based on a snapshot of the portfolio at the end of the quarter, and provides a one-year prediction of the volatility of returns.

Risk Statistics (%)

Predicted Volatility	7.8

Source: Baillie Gifford & Co, Moody's Analytics UK Limited

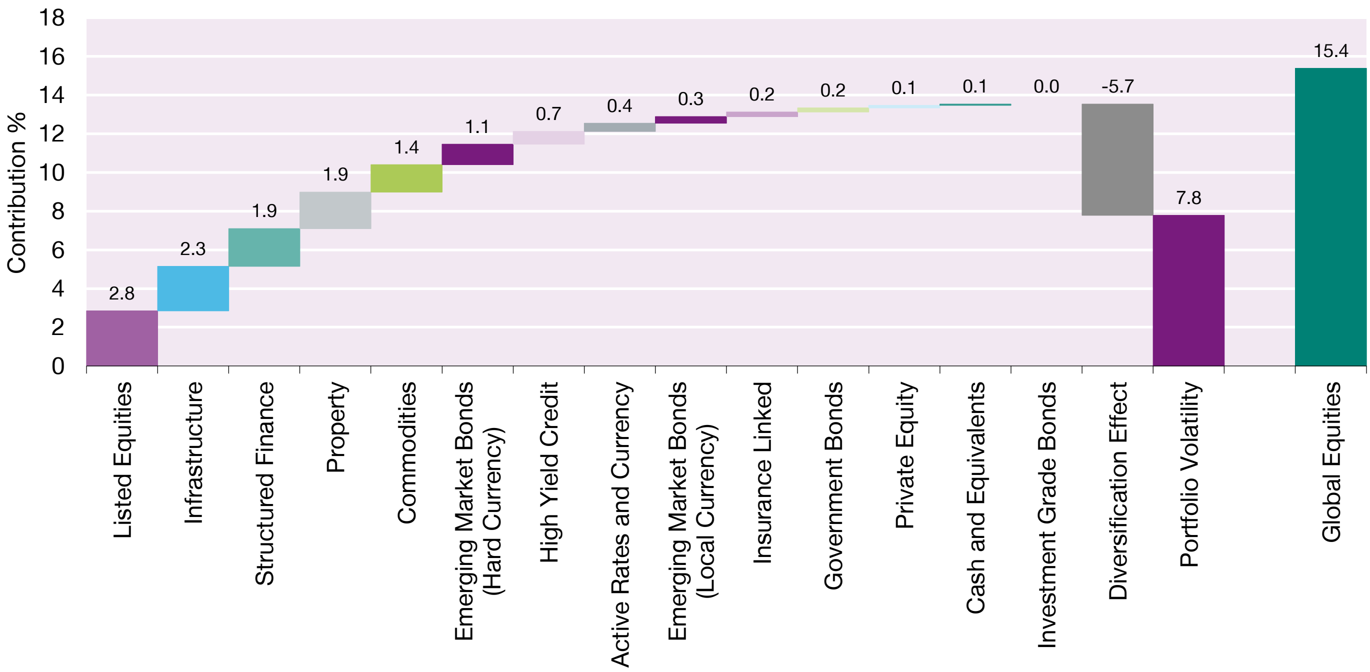
With expectations of a more benign environment prevailing, market volatility remained low throughout the quarter

At the start of the year, we reduced duration (that is, the portfolio's sensitivity to inflation and interest rate risk) through sales of investment grade and emerging market local currency bonds

By adding to allocations in infrastructure, property and mezzanine structured finance, predicted volatility has risen, reflecting the increased risk and return opportunity

The risk attribution chart shows the contribution to predicted volatility of each asset class held in the portfolio at the end of the quarter. The diversification offset bar depicts the benefits of diversification, reflecting that asset classes are not perfectly correlated and therefore do not fluctuate in precisely the same manner over time. Therefore, the overall volatility of the portfolio is lower than the sum of the standalone volatility for each asset class. The blue bar shows the one year predicted volatility for global equities and is provided for context only.

Predicted Volatility – Attribution by Asset Class



Source: Baillie Gifford & Co, Moody's Analytics UK Limited and relevant underlying index provider(s).
Total may not sum due to rounding.
Global Equities: MSCI World Index.

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