

Baillie Gifford High Yield Bond Fund

31 December 2024

Baillie Gifford Update

Philosophy	Forward-looking research creates differentiated insights Patience is the key to exploiting market inefficiencies High conviction
Partnership	100% owned by 58 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Fund Facts

Fund Launch Date	30 November 2001
Fund Size	£305.8m
IA Sector	£ High Yield
Current Number of Issuers	108
Typical Number of Issuers	90-120
Duration	2.7
Average Credit Rating	B
Tracking Error	1.6%
Tracking Error Range	0-5%
Redemption Yield	7.0
Running Yield	7.2

Investment Proposition

The Fund seeks a high total return by investing in a diverse portfolio of European and American sub-investment grade bonds. We aim to invest in attractively valued bonds issued by resilient companies. We emphasise detailed bottom-up research and invest according to the strength of our view in the prospects and risks of each opportunity. We adopt a patient and flexible approach to portfolio construction, investing with conviction in 90-120 companies.

Fund Manager

Name	Years' Experience
Arthur Milson	18
Faisal Islam	8

Fund Objective

To produce a combination of income and capital growth.

The fund will invest in sub-investment grade bonds and will be actively managed. The fund is global best ideas, hedged to sterling.

The manager believes an appropriate comparison for this Fund is the Investment Association Sterling High Yield Sector average given the investment policy of the Fund and the approach taken by the manager when investing.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Inc (%)	2.1	10.9	2.3	2.5
Sector Average (%)*	1.6	8.7	2.7	3.3

Source: FE. Total return net of charges, in sterling.

Share class returns calculated using 10am prices.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

*IA £ High Yield Sector.

Discrete Performance

	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Class B-Inc (%)	3.0	2.5	-13.3	11.3	10.9
Sector Average (%)*	4.0	4.1	-10.2	11.1	8.7

Source: FE. Total return net of charges, in sterling.

Share class returns calculated using 10am prices.

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Market environment

An eventful final quarter of 2024 saw President Trump's re-election in the United States and the Republicans taking control of Congress. The incoming US administration signalled its intention to enact various policies to boost economic growth, some of which could prove inflationary. This was followed by a shift in tone at the Federal Reserve in December. Despite cutting rates in both November and December meetings, the Federal Open Market Committee signalled a slower pace of easing in 2025 reflecting their concerns about lingering inflation.

The anticipation of continued high interest rates caused US Treasury bond yields to rise and, by extension, impacted valuations across asset classes. Broadly, government bond yields followed treasuries higher, even though changes in interest rate expectations were more modest outside of the US. The European Central Bank signalled a more dovish tone reflecting weaker growth projections. In the UK, the Bank of England warned of stubborn inflation and downgraded growth prospects.

US high-yield credit spreads widened in December in response to rising treasury yields, ending the quarter roughly where they started. European high-yield credit spreads ground tighter over the course of the final quarter of the year. So, despite rising government bond yields, the asset class delivered positive total returns, demonstrating its low sensitivity to changing interest rate expectations. The overall market environment was supportive for high yield. Economic data showed that growth remained on trend and central banks cut interest rates. Company fundamentals remained strong and demand for high yield bonds outstripped supply as attractive all-in yields enticed investors.

Performance

The Fund's total return was positive in the final quarter of 2024 as coupon income and tightening credit spreads more than offset the impact of rising government bond yields (there is an inverse relationship between rising yields and bond prices). The Fund outperformed the peer group return and reference index we use for performance attribution with bond selection driving strong relative returns across most sectors. The stand-out individual performer was US railroad Brightline East which showed improving balance sheet metrics.

Relative returns over the last 12 months were also strong with bond selection driving outperformance. Contributions from holdings in the Real Estate, Basic Industry and Financial Services sectors

added significant value. The Fund's position in debt collector Arrow Global is a good example of an investment thesis playing out as expected. We took advantage of a valuation opportunity in these bonds as they sold off in response to signs of difficulty in the sector. Arrow subsequently rallied as the market came to recognise the business's fundamental strengths. Avoiding distressed stories was also important in 2024. For example, the Fund avoided exposure to French IT company Atos which went through a restructuring that was costly for bondholders.

Positioning

From a portfolio construction perspective, our objective is to find an appropriate balance of risk, recognising the broadly supportive backdrop but the potential, given tight credit spreads, for price volatility. We want the strategy to be risk-facing overall but insulated from the parts of the market we think are most at risk of a sell-off. As such, we continue to maintain an underweight to the lowest quality parts of the market (low-quality B-rated, CCC-rated and distressed bonds) and continue to back our conviction in a select group of resilient B-rated bonds, where we maintain a sizeable overweight, particularly in Europe.

In terms of trading this quarter, we continued to take advantage of the new issuance market to add bonds to the core of the portfolio such as those issued by UK parcel delivery company Evri. We believe the market has failed to fully recognise Evri's improving trajectory. This is a resilient B rated issuer that stands to benefit from e-commerce growth. It has long-tenured blue-chip customers and a recent history of gaining market share. Another example was UK insurer Domestic and General (D&G). D&G provides a valued and successful extended warranty offering in the UK that has potential in other markets. These B rated bonds offer an attractive yield for the rating and meet our resilience criteria. D&G is a leading player in a growing market with scale and strong partnerships. Its liquidity position and low cyclical help to offset the risks associated with its high working capital requirements. Both of these new issues hold the potential to deliver an attractive income for the Fund over the long term.

Market Outlook

Looking ahead, much will depend on the direction of the US Treasury market, from which other assets are priced. Recent evidence suggests that robust economic growth, coupled with sticky inflation and high levels of bond issuance, will require higher for longer interest rates in the US. The challenge for policymakers in other regions, including the UK and Europe, is that they do not enjoy the same buoyant economic growth to justify maintaining high interest rates. The Bank of England, European Central Bank and others will find it difficult to balance the requirements of their own mandates and the risks of deviating too far from US interest rate policy. We expect policy divergence to be a key theme in 2025.

As always, unpredictable events have the potential to upset the apple cart. Exactly which policy actions the incoming Trump administration will choose to enact remain unclear. The potential for increasing energy prices and political instability in Western Europe present possible downside risks. However, as it stands, the outlook for corporate credit remains broadly supportive. US growth is robust and European growth expectations are low but stable. Inflation should remain closer to target and central banks have plenty of scope to cut interest rates. Across credit markets, company fundamentals are healthy and supply and demand dynamics are set to remain favourable.

So, what can high yield bond investors expect in 2025? All in yields remain high relative to history and, therefore, continue to offer an attractive opportunity for patient income investors. While credit spreads are tight, high coupon income provides a solid base for total returns and, as always, we believe our portfolio is well-equipped to add value through bond selection no matter the market conditions.

Distribution of Portfolio by Asset Class

	Fund Weight*(%)
Sterling	
Conventional Sovereign	1.0
Conventional Non Sovereign	14.3
Index Linked	0.0
Total Sterling	15.3
Cash & Derivatives	
Total Cash & Derivatives	4.9
Foreign Currency	
Conventional Sovereign	0.0
Conventional Non Sovereign	79.8
Index Linked	0.0
Total Foreign Currency	79.8

*Shows exposure to bonds in the currency before any hedging is applied

Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AA*	1.0
BBB*	2.1
BB*	29.9
B	58.2
CCC-D	4.0
Cash & Derivatives	4.9

*Includes BG internally-rated bonds where there is no official rating.

Top Ten Issuers

	Fund Weight (%)
Barclays	1.8
United Group B.V.	1.7
Albion Capital Group LLP	1.7
Brightline East LLC	1.7
CPI Property Group	1.7
Sofima Holding S.P.A.	1.6
Venture Global Delta LNG LLC	1.6
Telefonica	1.6
Teva Pharmaceutical Industries	1.5
Olympus Ltd	1.5

Distribution of Portfolio by Industry

	Fund Weight (%)
Basic Industry	11.7
Telecommunications	10.6
Media	9.1
Health Care	8.9
Services	8.5
Retail	8.3
Financial Services	5.9
Leisure	5.1
Capital Goods	4.8
Banking	4.5
Transportation	4.1
Energy	4.1
Consumer Goods	3.8
Automotive	3.7
Technology & Electronics	2.5
Others	3.4
Cash & Derivatives	1.1

Distribution of Portfolio by Region

	Fund Weight (%)
Europe	37.0
North America	33.6
United Kingdom	21.3
Emerging Markets	2.1
Developed Asia	1.1
Cash & Derivatives	4.9

Company Engagement

Engagement Type	Company
Environmental	Edge Finco PLC, OEG Finance PLC
Social	B&M European Value Retail S.A., Edge Finco PLC
Governance	B&M European Value Retail S.A., Edge Finco PLC
Strategy	Edge Finco PLC

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %	Asset Name	Fund %
Sterling Bonds			
Conventional Sovereign			
UK T Bill 24/02/2025	0.98	Caixabank 5.875% 2027 Perp AT1	0.56
Total Conventional Sovereign	0.98	Caixabank 7.5% 2030 Perp AT1	0.90
Conventional Non Sovereign			
Arrow Global Finance 9.625% 2029	0.49	Canpack 3.125% 2025 (144A)	0.46
B&M European Value Retail 8.125% 2030	0.78	CBR Fashion 6.375% 2030	0.83
Barclays 7.125% 2025 Perp AT1	0.89	CCO Holdings 6.375% 2029 (144A)	0.98
Barclays 8.875% 2028 Perp AT1	0.89	CDIB ITRX Crossover GOS	-3.98
Boparan Finance 9.375% 2029	0.48	Cheplapharm 4.375% 2028	0.34
David Lloyd 5.5% 2027	0.56	Cheplapharm 5.5% 2028 (144A)	0.41
Domestic & General 8.125% 2029	0.76	Cheplapharm 7.5% 2030	0.35
Encore Capital Group 4.25% 2028	1.12	Cimpres 7.375% 2032 (144A)	0.80
Evri 8.125% 2031	0.82	Cirsa Finance 10.375% 2027	0.98
Iceland Foods 10.875% 2027	1.08	Coinbase 3.375% 2028 (144A)	0.51
Investec 10.5% 2030 Perp AT1	0.78	Coronado 9.25% 2029 (144A)	0.54
Kier Group 9% 2029	1.41	CPI Card Group 10% 2029 (144A)	0.64
Miller Homes Gp (Finco) 7% 2029	1.09	CPI Property 4.875% 2025 Perp	0.75
Mobico 4.25% 2026 Perp	0.55	CPI Property 7% 2029	0.93
Mobico Group 3.625% 2028	0.52	Cullinan Hdgs 4.625% 2026	0.49
Travelodge 10.25% 2028	0.66	Cullinan Hdgs FRN 2026	0.21
Virgin Media RFN 4.875% 2028	1.39	Dana 8.5% 2031	0.58
Total Conventional Non Sovereign	14.28	David Lloyd Leisure FRN 8.69% 2027	0.32
Total Sterling Bonds	15.25	EquipmentShare 9% 2028 (144A)	0.77
Foreign Currency Bonds			
Conventional Non Sovereign			
Acqua & Sapone 6.5% 2031	0.53	Eutelsat 9.75% 2029	0.55
Aggreko 6.125% 2026 (144A)	1.72	FNAC Darty 6% 2029	0.68
Altice France Hdg 5.875% 2027	0.88	Full House Resorts 8.25% 2028 (144A)	0.51
Altice International 5.75% 2029 (144A)	0.72	Garrett Motion 7.75% 2032 (144A)	0.69
Altice USA 5.375% 2028 (144A)	0.68	Global Medical Response 9.50% 2028 (144A)	0.62
AMS 10.5% 2029	0.82	Grifols 7.5% 2030	0.50
Arrow Global Finance E+550 2029 FRN	0.24	Herbalife 12.25% 2029 (144A)	0.78
Asmodee E+375 2029 FRN	0.52	Ht Troplast Ag 9.375% 2028	1.38
Asmodee Group 5.75% 2029	0.17	IHO Verwaltungs PIK 8.75% 2028	0.98
Banijay Gp 7% 2029	0.48	Iliad 5.375% 2030	0.42
Benteler Intl 9.375% 2028	0.51	Iliad Hdg 6.875% 2031	0.39
BestSecret E+3.75% FRN 2029	0.67	IMA E+3.75% FRN 2029	1.62
Biogroup 5% 2029	0.66	Infopro Digital 8% 2028	0.66
Brightline East 11% 2030 (144A)	1.68	Innomotics 6.25% 2031	0.54
Burford Capital 9.25% 2031 (144A)	1.45	International Personal Finance 10.75% 2029	0.69
		International Workplace Group 6.5% 2030	1.14
		IRCA 6.648% 2029 FRN	0.57
		Italmatch Chemicals 10% 2028	1.12
		Kik Consumer 10.75% 2032 (144A)	0.50
		Kik Consumer 8.25% 2031 (144A)	0.49
		Kiko Milano 4.125% FRN 2031	0.34
		La Doria E+4.5% 2029 FRN	1.00

Asset Name	Fund %	Asset Name	Fund %
LifePoint Health 11% 2030 (144A)	0.67	Upfield 6.875% 2029	0.70
Match.com 5.625% 2029 144A	1.19	Venture Global Delta LNG 8.125% 2028 (144A)	1.29
McGraw-Hill Education 5.75% 2028 (144A)	0.87	Venture Global Delta LNG 8.375% 2031 (144A)	0.31
Mercer Intl 12.875% 2028 (144A)	1.35	Veritext 8.5% 2030 (144A) (144A)	1.09
Merlin Entertainments 7.375% 2030	1.00	Volkswagen 7.875% 2032 Perp	0.93
Mineral Resources 9.25% 2028 (144A)	0.51	Walgreen Co 8.125% 2029	0.82
Motel One 7.75% 2031	1.06	Zegona Finance Plc 8.625% 2029 (144A)	0.95
Multi-Colour 9.5% 2028 (144A)	1.17	Total Conventional Non Sovereign	79.81
Multiversity E+4.25% 2031 FRN	1.00	Total Foreign Currency Bonds	79.81
NCR Atleos 9.5% 2029 (144A)	1.01		
Neopharmed 7.125% 2030	1.52	Cash & Derivatives	
OCI 6.7% 2033 (144A)	0.43	Forwards	
OEG Finance 7.25% 2029	0.65	EUR Fwd Asset 23-Jan-2025 S	-45.24
OI European Group 6.25% 2028	0.71	GBP Fwd Asset 23-Jan-2025 P	83.15
One Sky Flight 8.875% 2029 (144A)	0.51	USD Fwd Asset 23-Jan-2025 S	-38.15
Optics Bidco 7.875% 2028	1.21	Total Forwards	-0.24
Organon & Co. 6.75% 2034 (144A)	0.76		
Paprec 6.5% 2027	0.33	Swaps	
Paprec 7.25% 2029	0.76	CDIB ITRX Crossover GOS	3.68
Perrigo 5.375% 2032	0.80	Total Swaps	3.68
ProGroup 5.125% 2029	0.73		
Rain Carbon 12.25% 2029 (144A)	0.80	Cash	
Roquette Freres 5.494% 2030 Perp	0.81	Collateral Account Memo	0.72
Sally Beauty Holdings 6.75% 2032	1.05	GBP BNY Revenue Uncommitted Cash	-0.15
Santander 9.625% 2029 Perp AT1	1.22	GBP Uncommitted Cash	0.93
Sealed Air 6.875% 2033 (144A)	0.75	Total Cash	1.50
SIG 9.75% 2029	0.43	Total Cash & Derivatives	4.94
Solenis 9.625% 2028	0.55	Total	100.00
Solenis 9.75% 2028 (144A)	0.99		
Summit Midstream Holdings 8.625% 2029 (144A)	0.84		
Sunrise Medical 6.5% 2031	0.69		
Talos Energy 9% 2029 (144A)	0.85		
Taseko Mines 8.25% 2030 (144A)	0.87		
Tegna Inc 4.625% 2028	1.04		
Telecom Italia 7.875% 2028	0.76		
Telefonica 5.7522% 2032 Perp	0.73		
Telefonica 7.125% 2028 PERP	0.87		
Teva Pharma 7.375% 2029	1.55		
TGS 8.5% 2030	0.78		
The House of HR 9% 2029	0.67		
Townsquare Media 6.875% 2026 (144A)	1.20		
United Gp 6.75% 2031	1.07		
United Gp FRN 2031	0.66		

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Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)	Distribution Yield (%)	Underlying Yield (%)
Class B-Acc	24 May 2007	GB00B1W0GF10	B1W0GF1	0.35	0.37	7.20	6.80
Class B-Inc	28 February 2002	GB0030816713	3081671	0.35	0.37	7.20	6.80

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

This document contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

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Additional Geographical Location Information

Israel: This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 31 December 2024 and source is Baillie Gifford & Co unless otherwise stated.