

Baillie Gifford Global Income Growth Fund

30 September 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
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

Investment Proposition

The Fund invests in an actively managed and well-diversified portfolio of stocks from around the world. It generally contains 50–80 stocks, and positions at initiation are typically 1–3 per cent of the portfolio. We seek to ensure a high degree of diversification of both income and capital, with no stock representing more than 5 per cent of the portfolio's income stream or capital at the time of purchase.

Fund Facts

Fund Launch Date	01 March 2010
Fund Size	£617.8m
IA Sector	Global Equity Income
Active Share	86%*
Current Annual Turnover	17%
Current number of stocks	57
Stocks (guideline range)	50-80

*Relative to MSCI ACWI Index. Source: Baillie Gifford & Co, MSCI.

Fund Manager

Name	Years' Experience
James Dow*	20
Ross Mathison	16

*Partner

Fund Objective

To achieve (after deduction of costs) growth in both income and capital over rolling five-year periods, whilst delivering a yield higher than that of the MSCI ACWI Index over rolling five-year periods.

The manager believes this is an appropriate benchmark given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Global Equity Income Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Inc (%)	0.6	12.3	6.5	9.5
Benchmark (%)*	0.6	20.4	8.8	10.8
Sector Average (%)**	2.4	15.2	7.8	7.9

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

Share class returns calculated using 10am prices, while the Benchmark is calculated close-to-close.

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.

*MSCI ACWI Index.

**IA Global Equity Income Sector.

Discrete Performance

	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Class B-Inc (%)	9.8	18.8	-1.4	9.3	12.3
Benchmark (%)*	5.8	22.7	-3.7	11.0	20.4
Sector Average (%)**	-3.9	21.6	-0.6	9.4	15.2

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

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Market environment

After reaching multi-year lows in June, a gauge of equity markets volatility - the “VIX” index - jumped to 38 at the beginning of August, a level last seen in the pandemic. This is a reminder that under a deceptively calm surface, global equity markets are not immune to convulsions which are impossible to forecast.

It only took relatively weak US economic data and a decision in Japan to trigger market turmoil. Early August, the Bank of Japan told financial markets that interest rates were on their way to 0.5%. Whilst not a surprise, this was quite a statement for the Central Bank, which has been keeping official rates negative for so long. It led to fears that significant carry trade flows (borrowing at low cost in yen to invest in higher yielding currencies like the Australian dollar) were about to reverse. Cue a rapid appreciation of the yen and the largest one-day fall in Japanese equities in nearly 40 years. Within the week, and after the fastest U-turn in Central Bank announcements in history, the markets had recovered half their losses. And all of their losses by the end of the month.

On the macro-economic front, the big event this quarter was the large interest rates cut by the US Federal Reserve (“Fed”) in September. Whilst the cut was well telegraphed, its size came as a small surprise. The equity market celebrated what is seen as the beginning of a journey towards the promised land of lower interest rates and accelerating growth.

Multiple indicators show that the Chinese economy is slowing down. And in a curious case of disappearing statistics, the number of indicators is falling, reducing visibility and denting confidence. The real estate sector remains weak and since it is the main asset of Chinese households, that weakness is leading consumers to save more and consume less. The Chinese Government, and many companies, will hope that the measures announced late September will be able to break that vicious circle. Chinese equity markets certainly celebrated, enjoying their best week since 2008.

Germany also stopped publishing some key economic data and is another important economy running out of steam. That will be a drag on the whole EU activity.

In summary, quite a lot has happened over the past three months, but you couldn’t tell just by looking at global equity markets.

Performance

Global equity markets and the Fund returns were marginally up (in GBP) in the quarter, with the early August scare fully erased by the end of September.

For the Fund, this was a slightly unusual quarter: Novo Nordisk tops the list of detractors whilst the absence of NVIDIA and Alphabet is, for once, a boost to relative performance. We don’t pretend that the quarter marks a decisive turn for technology stocks, but it is a reminder that Artificial Intelligence (AI) is not a one-way boulevard to performance heaven.

Other significant contributors to relative performance this quarter are the more cyclical companies: Swiss asset manager Partners Group and US distributor Fastenal. Partners published lacklustre half-year results but a distribution partnership with Blackrock announced at the end September boosted the share price. Results from US distributor Fastenal showed a small decline in earnings but also market share gains and good cost control. Fastenal is one of the best-run distribution businesses in the US and whilst subject to the economic cycle and industrial activity, it is structurally gaining share thanks to its strong distribution platform and focus on customer.

Unusually, Novo Nordisk was the main drag on relative performance this quarter. Partly as investors took profit after another set of strong results (Q2 sales were up 25% vs. last year), partly due to some disappointing news about a next-generation obesity drug currently in trial. We know that the road to curing obesity will be a bumpy one and we remain confident that Novo’s deep expertise and world-leading manufacturing capabilities will keep them in a leading position in a gigantic market.

Other detractors include the French employee benefits company Edenred as investors worry about potential change in regulation and US machine vision company Cognex on disappointing results.

Notable transactions

One new stock entered the Fund this quarter. CME group is the world’s largest marketplace for derivatives. These contracts offer clients the opportunity to hedge or speculate on a wide range of products, from lean hogs to interest rates or the weather. Its trading platform matches buyers with sellers whilst its clearing house reduces risk for both, with CME as the counterparty to every trade.

The name of the game is to be as efficient as possible to lower costs and attract volume, which, in turn, lowers costs further in a virtuous circle. CME's revenues and operating profits have grown at around 8% per annum over the past decade and we see several factors which could sustain that growth over the next decade: product innovations, price increases and an increased use of derivatives by companies and asset managers to hedge risks on a growing asset base.

The above has been known for some time, so why now? The shares have derated this year as market participants worried about the impact of lower interest rates and a potential new competitor. Our due diligence leads us to believe that the threat from that competitor is not as high as perceived and that investors are too pessimistic about the impact of lower interest rates on the company.

The other main transaction this quarter was the complete sale of the UK's leading savings platform Hargreaves Lansdown. Shares had been weak over the past 18 months as results had disappointed and this attracted an opportunistic bid by Private Equity owners, which was recommended by the company's Board in August. With no alternative bidder in sight, and to avoid the non-negligible risk of a last-minute collapse, we divested our holding just before the deal closed.

Market Outlook

Interest rate cuts by Central banks are helpful but the US economy is slowing down, European growth is anaemic, and the effect of the Chinese stimulus are yet to be seen, particularly on the real estate sector.

The spike in equity markets volatility in August was a healthy reminder of the importance to maintain a well-balanced, diversified Fund.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

Stock Name	Contribution (%)
ANTA Sports Products	0.4
Alphabet	0.4
NVIDIA	0.3
Partners Group	0.3
Midea Group	0.3
Amazon.com	0.2
Fastenal	0.2
Hong Kong Exchanges & Clearing	0.2
Deutsche Boerse	0.2
Admiral Group	0.2
Novo Nordisk	-0.8
Edenred	-0.2
Tesla Inc	-0.2
Intuit	-0.2
Cognex Corp	-0.2
Fevertree Drinks	-0.2
TSMC	-0.1
Analog Devices	-0.1
Kuehne & Nagel	-0.1
T. Rowe Price	-0.1

One Year to 30 September 2024

Stock Name	Contribution (%)
TSMC	1.0
Schneider Electric SE	0.5
Experian	0.4
SAP	0.3
Carsales.com	0.3
Tesla Inc	0.2
Midea Group	0.2
Atlas Copco A	0.2
AVI	0.2
EXXON MOBIL CORP	0.2
NVIDIA	-2.0
Edenred	-1.1
Albemarle	-0.9
UPS	-0.7
B3 S.A.	-0.6
Pepsico	-0.6
Nestle	-0.5
Sonic Healthcare	-0.5
Meta Platforms Inc.	-0.5
NetEase HK Line	-0.4

Source: Revolution, MSCI. Baillie Gifford Global Income Growth Fund relative to MSCI ACWI Index.

Some stocks may only have been held for part of the period.

All attribution figures are calculated gross of fees, relative to the Index from stock level up, based on closing prices.

As Attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

Transactions from 01 July 2024 to 30 September 2024.

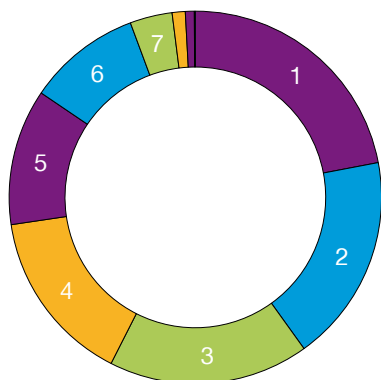
New Purchases

Stock Name	Transaction Rationale
CME Group Inc	<p>Founded in 1898, CME is the world's largest marketplace for derivatives. The numbers boggle the mind: the notional value of the contracts traded on its four exchanges is more than \$1 quadrillion, or about 40 times US GDP. Its contracts offer clients the opportunity to hedge, or take views, on a wide range of agricultural, metal, financial and other products. For example farmers use it to sell wheat in 3 months at a price agreed today, and utilities use it to hedge the risk of a cold snap in the future. CME's platform matches buyers with sellers and its clearing house business reduces risk for both, with CME as the counterparty to every trade.</p> <p>In the past 50 years there have been only 7 times when the volume of derivatives trading over CME's platform has fallen year-over-year. During the past decade, CME's earnings per share have compounded at 12% per annum. Looking forward, we see multiple growth drivers that appear likely to sustain good growth rates over the next 5-10 years, including rising number of investors outside the US using the platform, and an ever-expanding product range including for example lithium and other battery metals.</p> <p>So why are we investing now? The shares have derated this year as some investors have worried about two risks. The first is the emergence of a potential new competitor, FMX, in one of CME's business lines. History tells us the odds of FMX succeeding are very low: there are only two instances in the past several decades when a competitor has successfully stolen a business line from an incumbent derivative exchange. Our due diligence suggests this is unlikely to be the third. At the same time, some investors see a second risk. They worry that lower interest rates at the Federal Reserve will lead to decreased trading volumes in CME's interest rate futures business. This is a story that appears from time to time but again, our experience is that the level of interest rates is not a factor that drives interest rate derivative volumes.</p> <p>In short, we view these worries as presenting an attractive opportunity to invest in a terrific business which we expect to compound earnings and dividends at a good rate for many years to come.</p>

Complete Sales

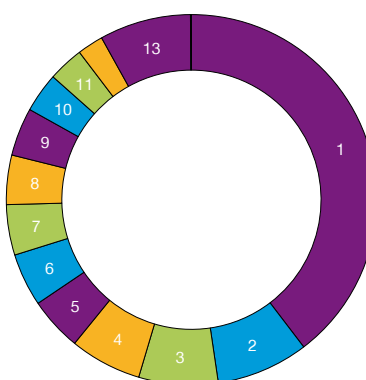
Stock Name	Transaction Rationale
Hargreaves Lansdown	<p>This has been a poor investment. We took a holding expecting many years of asset growth on the platform, driven by structural changes in the UK savings market, Hargreaves leadership position as perhaps the most trusted provider in the industry, and its ongoing innovation of new products such as cash savings. At the time we invested, we were aware of some management issues, but we believed these were being addressed. However it became apparent over the past couple of years that these issues ran deeper than we thought, and the company struggled with customer service levels. Customer growth slowed, raising concerns about the future earnings of the business, and the share price fell. The Board replaced the senior management team, and the new executives who were appointed recognised they would need to raise the company's investment in its internal systems, following a period of under-investment.</p> <p>The new plans seemed to hold good potential to address the company's issues. We expected to hold on to the shares and ride through the issues, given that all of the positives behind the invest case were still in place. However, what we had not anticipated was that an opportunistic bid by private equity would emerge and, to our surprise, would be backed by the two founders of the company, who still have a substantial holding in the shares. Typically we would hope that anchor shareholders helped protect minority shareholders from low-ball bids: we believe the price offered by the private equity consortium significantly undervalues the company. However, in this case it appears the founders are able to maintain an ownership position alongside the private equity bidders. The bid was then recommended by the company's Board. With no alternative bidder in sight, and the shares trading at the bid price, we divested our holding just before the deal closed, so that we could put the capital to work in something more productive. A disappointing outcome, but one we will learn from.</p>

Sector Exposure



		%
1	Industrials	22.0
2	Information Technology	18.1
3	Financials	17.4
4	Consumer Staples	15.2
5	Consumer Discretionary	11.8
6	Health Care	9.9
7	Communication Services	3.7
8	Utilities	1.1
9	Materials	0.8
10	Cash	-0.1

Geographic Exposure



		%
1	United States	39.7
2	Switzerland	8.1
3	UK	6.9
4	France	6.3
5	Hong Kong	4.7
6	Sweden	4.6
7	Denmark	4.4
8	Australia	4.3
9	Germany	4.2
10	Taiwan	3.5
11	China	3.1
12	Netherlands	2.3
13	Others	8.0
14	Cash	-0.1

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Microsoft	Technology company offering software, hardware and cloud services	4.3
Fastenal	Distribution and sales of industrial supplies	3.5
Partners	Private markets asset management	3.4
Novo Nordisk	Pharmaceutical company	3.2
Procter & Gamble	Household product manufacturer	3.2
Atlas Copco	Manufacturer of industrial compressors	3.1
Apple	Computing and media equipment	3.1
TSMC	Semiconductor manufacturer	2.9
Schneider Electric	Electrical power products	2.7
Deutsche Börse	Stock exchange operator	2.7
Total		32.1

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	3	Companies	None	Companies	1
Resolutions	60	Resolutions	None	Resolutions	1

Company Engagement

Engagement Type	Company
Environmental	ANTA Sports Products Limited, Experian plc, United Parcel Service, Inc.
Social	ANTA Sports Products Limited, Apple Inc., Experian plc
Governance	Apple Inc., Deutsche Börse AG, Experian plc, Hong Kong Exchanges and Clearing Limited, McDonald's Corporation, Midea Group Co., Ltd., NetEase, Inc., T. Rowe Price Group, Inc., USS Co., Ltd.
Strategy	Epiroc AB (publ)

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 %
Microsoft	4.3	Amadeus IT Group	1.0
Fastenal	3.5	Diageo	0.9
Partners	3.4	Pernod Ricard	0.8
Novo Nordisk	3.2	Albemarle	0.8
Procter & Gamble	3.2	Cognex Corp	0.7
Atlas Copco	3.1	Eurofins	0.6
Apple	3.1	TCI Co	0.5
TSMC	2.9	Fevertree Drinks	0.5
Schneider Electric	2.7	Cash	-0.1
Deutsche Börse	2.7	Total	100.0
Anta Sports Products	2.6		
Coca-Cola	2.5		
CAR Group	2.5		
Watsco	2.4		
PepsiCo	2.4		
Experian	2.4		
Wolters Kluwer	2.3		
Admiral Group	2.1		
Analog Devices	2.1		
Roche	2.0		
Midea	2.0		
CME Group Inc.	1.9		
United Parcel Service	1.9		
Sonic Healthcare	1.8		
McDonald's	1.7		
L'Oréal	1.7		
Nestlé	1.6		
Epiroc	1.6		
SAP	1.5		
AJ Gallagher	1.5		
United Overseas Bank	1.4		
USS	1.4		
B3	1.3		
Valmet	1.2		
Cisco Systems	1.2		
Texas Instruments	1.2		
Coloplast AS	1.2		
Home Depot	1.2		
NetEase	1.2		
Greencoat UK Wind	1.1		
Hong Kong Exchanges & Clearing	1.1		
Starbucks Corp	1.1		
Intuit	1.1		
Kuehne & Nagel	1.1		
T. Rowe Price Group, Inc.	1.0		
AVI	1.0		
Edenred	1.0		
Man Wah	1.0		
Medtronic	1.0		

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	16 March 2010	GB0005772479	0577247	0.50	0.53
Class B-Inc	01 March 2010	GB0005772586	0577258	0.50	0.53

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.

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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 30 September 2024 and source is Baillie Gifford & Co unless otherwise stated.