Baillie Gifford™

Baillie Gifford High Yield Bond Fund

31 March 2024

Baillie Gifford Update

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 57 partners with average 21 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 seeks a high total return by investing in a global portfolio of primarily sub-investment grade bonds. We aim to invest in companies that will weather economic fluctuations, rather than attempting to time markets. We emphasise detailed bottom-up research and invest according to the strength of our conviction in the prospects and risks of each holding. Our portfolio is well diversified, with exposure to between 50-90 companies typically.

Fund Facts

Fund Launch Date	30 November 2001
Fund Size	£444.4m
IA Sector	£ High Yield
Current Number of Issuers	109
Typical Number of Issuers	50-90
Duration	3.2
Tracking Error	1.6%
Tracking Error Range	0-5%

Fund Manager

Name	Years' Experience
Robert Baltzer	23
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 (%)	2.6	14.0	0.3	2.2
Sector Average (%)*	2.0	10.8	1.5	3.1

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

	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Class B-Inc (%)	-10.8	23.9	-3.5	-8.2	14.0
Sector Average (%)*	-10.0	23.5	-1.1	-4.5	10.8

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.

Market environment

The widespread positive sentiment in financial markets in late 2023 has continued in the early stages of this year, which has seen further appreciation in both equity and corporate credit markets. Risk assets have responded positively to lower inflation and various global central banks have indicated that they believe interest rates have peaked.

However, across developed markets there are signs inflation is not as well-controlled as hoped. At the beginning of 2024, markets had priced in significant interest rate cuts in 2024. Over the first quarter of the year, expectations for the number of cuts has fallen, the timing ‘pushed out’, leading to weakness in government bond markets.

The story of US exceptionalism has continued. A powerful combination of being home to dominant global technology companies, supportive industrial policy and expansionary fiscal policy continues to support consumer confidence and domestic growth. The picture is more mixed in other regions. For example, growth across Europe has been stagnant and markets expect the European Central Bank to cut interest rates before the US Federal Reserve. The surprise early mover was the Swiss National Bank which delivered a cut in March following weaker-than-expected inflation data.

Performance

The Fund’s total return was positive in the first quarter of 2024. Coupon income and tightening credit spreads 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 average return over the period as bond selection added value for the Fund. Notably, our patience with subordinated bonds issued by Eastern European Property company CPI was rewarded as they rallied hard on an improving market backdrop for the sector.

The Fund has provided strong relative returns over the last 12 months with bond selection driving performance across most sub-sectors. For example, within the services sector, multinational heavy-lifting rental company Sarens beat growth estimates in most of their markets and remained committed to debt reduction leading to strong performance from their bonds. Within financial services, the Fund’s holding in payment processing solutions provider PaymentSense added significant value as the company continued to grow strongly and successfully refinanced this bond in November 2023.

Positioning

High yield credit spreads tightened over the quarter (there is an inverse relationship between falling credit spreads and corporate bond prices) as the market continued to respond positively to signals that a soft landing scenario is playing out. We remained constructive on credit risk during this period, and, throughout the quarter, worked hard to rotate out of richly valued positions into resilient bonds that offered more attractive yields. New issuance markets were quieter than we anticipated in January and February, leading us to focus our efforts on topping up existing positions and identifying new ideas in the secondary market that enhanced portfolio yield without adding significant credit risk. For example, we added 2028 senior secured bonds issued by leading international label manufacturer Multi-Color. Printed labels have limited substitution risk and Multi-Color is able to use its scale to deliver product innovations which provide an edge over competitors. Offering a $ redemption yield of c. 9% at purchase, these bonds fulfilled our selection criteria.

New issuance picked up significantly in March, as issuers responded to improved financing conditions. European high yield supply hit its highest monthly level since October 2021, creating significant opportunities to further enhance portfolio yield. We participated in new issuance from Neopharmed which is a good example of the type of bonds we added in March. A new name to the European high yield market, this c. 7% coupon 2030 bond enhanced portfolio yield without adding extra duration or significant credit risk. The sale of off-patent branded drugs is a business model we are comfortable with being asset-light and having no R&D costs. Neopharmed's product portfolio in Italy demonstrates very stable to slightly growing characteristics, which translates cleanly into high profit margins. While leverage is high and the company is likely to remain acquisitive, Neopharmed’s underlying cash flow generation is robust, supporting the capital structure and making the current valuation attractive relative to the market.

The portfolio ended the quarter with a higher allocation to B-rated bonds of c. 42% (up from c. 39% at the end of December) and outyielding the index on a running yield basis (portfolio running yield c. 6.4%). Looking ahead, the evidence suggests that a soft landing scenario is the most likely outcome. This has been priced in by markets leaving valuations rich on a credit spread basis, but all-in yields and the prospect of rate cuts mean that the asset class is well-positioned to produce attractive total returns in the year ahead. While we expect benign conditions to prevail, current valuations leave the market vulnerable to bad news, whether that be signs of sticky inflation, recession or increased geopolitical risk. In this context, we remain constructive on the high yield market but are wary of adding significant credit risk. As such, we continue to focus on recycling out of richly valued bonds into higher-yielding bonds with resilient characteristics.

Market Outlook

Our central expectation is that markets have placed too great an emphasis on short-term inflation signals, which should settle back towards targets and allow central banks to enact rate cuts. The US Federal Reserve has clearly signalled it does not see the need for more restrictive monetary policy, so nominal interest rates are expected to follow the path of inflation, maintaining real rates of interest. This is a benign scenario and should be supportive for corporate bonds. The risk of stickier inflation remains – the 'last mile is the hardest' scenario – and we will be keeping a close eye on oil prices amid continued geopolitical uncertainty, along with labour markets. Tighter policy rates run the risk of a growth slowdown which is likely to cause volatility in corporate bond prices.

Distribution of Portfolio by Asset Class

	Fund Weight* (%)
Sterling	
Conventional Sovereign	1.0
Conventional Non Sovereign	13.7
Index Linked	0.0
Total Sterling	14.7
Cash & Derivatives	
Total Cash & Derivatives	-0.4
Foreign Currency	
Conventional Sovereign	0.0
Conventional Non Sovereign	85.7
Index Linked	0.0
Total Foreign Currency	85.7
Total	100.0

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

Distribution of Portfolio by Sector

	Fund Weight (%)
Industrials	85.7
Financial	12.1
Utility	1.5
Sovereign	1.0
Cash & Derivatives	-0.4
Total	100.0

Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AA	1.0
BBB	6.7
BB*	45.0
B*	42.8
CCC-D	4.9
Cash & Derivatives	-0.4
Total	100.0

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

Distribution of Portfolio by Region

	Fund Weight (%)
Europe	42.6
North America	34.4
United Kingdom	18.5
Emerging Markets	3.7
Developed Asia	1.2
Cash & Derivatives	-0.4
Total	100.0

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	None	Companies	None	Companies	None
Resolutions	None	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Burford Capital Limited
Governance	Burford Capital Limited, Ocado Group 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 %
Sterling Bonds	
Conventional Sovereign	
UK T Bill 20/05/2024	1.03
Total Conventional Sovereign	1.03

Asset Name	Fund %
Conventional Non Sovereign	
ASDA 3.25% 2026	0.57
B&M European Value Retail 8.125% 2030	0.55
Barclays 7.125% 2025 Perp AT1	1.47
Co-operative Group 7.5% 2026	0.17
David Lloyd 5.5% 2027	0.72
EDF 6% 2026 Perp	1.51
Iceland Foods 10.875% 2027	0.57
Investec 10.5% 2030 Perp AT1	0.48
Kier Group 9% 2029	1.04
Miller Homes Gp (Finco) 7% 2029	0.73
Nationwide BS 10.25% Perp CCDS	0.28
Ocado 3.875% 2026	0.54
Pension Insurance Corp 8% 2033 T2	0.46
Pinewood Finco 6% 2030	1.08
Santander UK 6.75% 2024 Perp AT1	0.53
Virgin Media 4.125% 2030 (144A)	1.17
Virgin Media RFN 4.875% 2028	0.91
Weir Group 6.875% 2028	0.91
Total Conventional Non Sovereign	13.66
Total Sterling Bonds	14.69

Asset Name	Fund %
Foreign Currency Bonds	
Conventional Non Sovereign	
Aggreko 6.125% 2026 (144A)	1.37
Albion Financing 1sarl / 5.25% 2026	0.32
Altice France Hdg 5.875% 2027	0.64
Altice France Hdg 8.125% 2027 (144A)	0.39
Altice International 5.75% 2029 (144A)	0.56
Altice USA 5.375% 2028 (144A)	0.48
AMS 10.5% 2029	0.59
ANGI Homeservices 3.875% 2028 (144A)	1.08
Ardagh Metal Packaging 4% 2029 (144A)	0.73
Ardagh Packaging 2.125% 2026	1.01
Banijay Gp 7% 2029	0.82
Belden 3.375% 2031	1.34
Biogroup 5% 2029	1.50
Burford Capital 6.125% 2025	0.42

Asset Name	Fund %
Burford Capital 6.25% 2028 (144a)	0.53
Burford Capital 9.25% 2031 (144A)	0.96
Cable One 4% 2030 (144A)	0.69
Caixabank 5.875% 2027 Perp AT1	0.38
Caixabank 7.5% 2030 Perp AT1	1.05
Calumet Specialty Products 8.125% 2027 (144A)	0.91
Canpack 2.375% 2027	1.13
Canpack 3.125% 2025 (144A)	0.31
CBR Fashion 5.5% 2026	0.88
CBR Fashion 6.375% 2030	0.54
CCO Holdings 6.375% 2029 (144A)	0.68
Chart Industries 7.5% 2030 (144A)	1.35
Cheplapharm 5.5% 2028 (144A)	1.16
Cimpress 7% 2026 (144A)	1.02
Cirsa 6.5% 2029	0.73
Cirsa Finance 10.375% 2027	0.69
Cogent Communications Holdings 7% 2027 (144A)	0.56
Collision Caliber 3 7.625% 2032 (144A)	0.50
Compass Minerals International 6.75% 2027 (144A)	0.60
Conduent 6% 2029 (144A)	0.55
CPI Property 4.875% 2025 Perp	0.75
Crash Champions 8.75% 2029 (144A)	0.49
Cullinan Hdgs 4.625% 2026	0.34
Cullinan Hdgs FRN 2026	0.15
DaVita 4.625% 2030 (144A)	1.07
Digi Communications 3.25% 2028	1.08
DirecTV 5.875% 2027 (144A)	0.46
DirecTV 8.875% 2030 (144A)	0.47
EquipmentShare 9% 2028 (144A)	0.53
Erste Group Bank AG 5.125% 2025 Perp AT1	1.19
Eutelsat 9.75% 2029	0.18
FNAC Darty 6% 2029	0.07
Frontier Communications 5.875% 2027 (144A)	0.60
Grifols 3.875% 2028	0.96
Gruenenthal Gmbh 3.625% 2026	0.48
Ht Troplast Ag 9.375% 2028	0.95
IHO Verwaltungs PIK 8.75% 2028	0.73
Iliad 6.5% 2026 (144A)	1.83
IMA 3.75% 2028	0.58
Infopro Digital 8% 2028	0.90
IQVIA 2.25% 2029	1.55
Italmatch Chemicals 10% 2028	1.19
JB Poindexter 7.125% 2026 (144A)	0.56

Asset Name	Fund %
LeasePlan 7.375% 2024 Perp AT1	2.26
Liberty Puerto Rico 6.75% 2027 (144A)	0.47
Loxam 4.5% 2027	0.56
Match.com 5.625% 2029 144A	0.86
Mercer Intl 12.875% 2028 (144A)	0.41
Merlin Entertainments 7.375% 2030	0.74
Mineral Resources 9.25% 2028 (144A)	0.68
Multi-Colour 9.5% 2028 (144A)	0.82
Neopharmed 7.125% 2030	0.52
Neptune 6.625% 2025	1.13
New Immo Holding Sa 2.75% 2026	0.76
Nordstrom 4.375% 2030	0.42
OCI 4.625% 2025 (144A)	0.50
OCI 6.7% 2033 (144A)	0.68
One Toronto Gaming 8% 2030 (144A)	0.54
Open Text 3.875% 2028 (144A)	0.88
Organon & Co. 5.125% 2031 (144A)	0.57
Paprec 6.5% 2027	0.53
Paprec 7.25% 2029	0.55
PeopleCert 5.75% 2026	1.15
ProGroup 5.125% 2029	0.52
Progroup Ag 3% 2026	0.58
Rabobank 4.375% Perp	0.86
Rain Carbon 12.25% 2029 (144A)	0.52
Sally Beauty Holdings 6.75% 2032	0.69
Santander 9.625% 2029 Perp AT1	0.81
Sarens 5.75% 2027	0.80
Sealed Air 6.875% 2033 (144A)	0.66
SIGMA Holdco 7.875% 2026 (144A)	0.48
Sirius Media 5% 2027 (144A)	0.95
Sirius XM Radio 4.125% 2030 (144A)	0.50
Six Flags Entertainment 7.25% 2031 (144A)	0.51
Softbank 5% 2028	0.47
Solenis 9.625% 2028	0.40
Solenis 9.75% 2028 (144A)	0.87
SPCM 2.625% 2029	1.14
Talos Energy 9% 2029 (144A)	0.76
Taseko Mines 7% 2026 (144A)	1.52
Tegna Inc 4.625% 2028	1.13
Telecom Italia 7.875% 2028	1.39
Telefonica 5.7522% 2032 Perp	0.47
Telefonica 7.125% 2028 PERP	1.05
Teva Pharma Ind 7.375% 2029	1.39

Asset Name	Fund %
The House of HR 9% 2029	1.16
Townsquare Media 6.875% 2026 (144A)	0.70
United Gp 6.75% 2031	0.74
United Gp PIK 10% 2029	0.28
Venture Global Delta LNG 8.125% 2028 (144A)	0.88
Venture Global Delta LNG 8.375% 2031 (144A)	0.22
Veritext 8.5% 2030 (144A) (144A)	0.55
Verra Mobility 5.5% 2029 (144A)	1.24
Victoria 3.625% 2026	0.61
Volkswagen 7.5% 2028 Perp	0.33
Volkswagen 7.875% 2032 Perp	0.74
Ziggo 2.875% 2030	1.08
Total Conventional Non Sovereign	85.68
Total Foreign Currency Bonds	85.68

Cash & Derivatives	
Forwards	
EUR Fwd Asset 18-Apr-2024 S	-42.84
GBP Fwd Asset 18-Apr-2024 P	84.68
USD Fwd Asset 18-Apr-2024 S	-42.11
Total Forwards	-0.27

Cash	
Collateral Account Memo	0.37
EUR Uncommitted Cash	-0.58
GBP BNY Revenue Uncommitted Cash	0.05
GBP Uncommitted Cash	0.06
Total Cash	-0.09
Total Cash & Derivatives	-0.36
Total	100.00

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	24 May 2007	GB00B1W0GF10	B1W0GF1	0.35	0.37
Class B-Inc	28 February 2002	GB0030816713	3081671	0.35	0.37

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.

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

Baillie Gifford & Co Limited
Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 bailliegifford.com

 Ref: 99823