

Baillie Gifford Investment Grade Bond Fund

30 June 2024

Baillie Gifford Update

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 seeks to maximise total return relative to an index comprised of sterling investment grade bonds. Performance is driven by stock selection. Ideas are sourced primarily from investment grade bonds and are driven by fundamental, bottom-up stock analysis. Our portfolio is well diversified, with exposure to between 50-90 companies typically. Holdings are sized according to our level of conviction in their prospects and the risks they pose.

Fund Facts

Fund Launch Date	30 November 2001
Fund Size	£962.8m
IA Sector	£ Corporate Bond
Current Number of Issuers	83
Typical Number of Issuers	50-90
Duration	5.9
Average Credit Rating	A
Tracking Error	1.0%
Tracking Error Range	0.5-2.5%
Redemption Yield	5.5
Running Yield	4.9

Fund Manager

Name	Years' Experience
Paul Dilworth	18
Nektarios Chatzilefteris Michalas	8

Fund Objective

To outperform (after deduction of costs) the ICE BofA Sterling Non-Gilt Index by 0.75% per annum over rolling three-year periods.

The manager believes this is an appropriate target 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 Sterling Corporate Bond 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 (%)	0.5	10.9	-4.0	-0.7
Index (%)*	-0.1	9.7	-3.9	-0.8
Target (%)**	0.1	10.5	-3.3	-0.2
Sector Average (%)***	0.1	10.5	-2.8	0.1

Source: FE, Revolution, ICE Data Indices. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index 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.

*ICE BofA sterling Non-Gilt Index.

**ICE BofA sterling Non-Gilt Index plus +0.50% to 16 September 2022; thereafter ICE BofA sterling Non-Gilt Index plus +0.75% per annum, over rolling three-year periods. The indices have been chain-linked for performance figures above.

***IA £ Corporate Bond Sector.

Discrete Performance

	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Class B-Inc (%)	5.1	3.5	-14.2	-6.9	10.9
Index (%)*	6.5	1.8	-12.9	-7.1	9.7
Target (%)**	7.0	2.4	-12.5	-6.4	10.5
Sector Average (%)***	5.8	3.3	-12.9	-4.6	10.5

Source: FE, Revolution, ICE Data Indices. Total return net of charges, in sterling.

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Market environment

The timeline for expected interest rate cuts was pushed out by markets in April following strong jobs data and an acceleration in inflation in the USA. Economic fundamentals did not change significantly. Global economic growth remains robust and is helped by signs of recovery in China. Encouraging growth in the Eurozone was supported by positive trends in consumer data. Developed market government bonds performed poorly as a result following a modest rise in yields.

While falling more slowly than anticipated at the start of 2024, inflation has continued to trend towards central bank policymakers' target levels in many countries. In the UK, consumer price inflation (CPI) is now running at the Bank of England's 2% target level. The European Central Bank cut interest rates for the first time in June, the market expects the US Federal Reserve and the Bank of England to follow suit later this year. However, there is still scope for unwelcome inflation surprises, as seen in the USA, Canada and Australia recently. With this in mind, central banks are likely to proceed with some caution and it is likely that volatility in government bond markets will continue.

Performance

Absolute returns were low once again this quarter, with government bond yields rising. Credit spreads (the additional yield provided by corporate bonds) ended the quarter at a similar level to the start, but the income provided was enough to offset the impact of rising government yields.

The Fund exceeded its target over the quarter and is similarly outperforming over the past 12 months. The main driver has been security selection. Property companies CPI and Berkeley Group have made the greatest contribution. European logistics property company CPI is one of the Fund's higher conviction holdings, which we added to during the quarter resulting in around a 2% position. It continued to add value as the market's view on its bonds improved. A diverse range of companies in other sectors have also performed well, notably higher-yielding subordinated financial bonds as well as healthcare companies Teva and Amgen.

Over longer periods, Fund returns have been close to the index benchmark. We underestimated the speed and scale of interest rate rises as inflation soared following the pandemic, and this detracted from performance due to exposure to sensitive sectors such as real estate. Security selection has been positive since, helping to offset this.

Positioning

The outlook for corporate profitability remains good, with growth reasonably strong or better than expected in most economies. Company fundamentals also remain robust, but this is reflected in high valuations relative to history (low credit spreads). Our approach is to maintain the yield of the portfolio above the benchmark, expecting the benign backdrop to continue. We are, however, wary that any concerns in the market could translate into reasonable levels of volatility due to the tight valuations. We have been reducing exposure to longer-dated bonds, whose prices are more likely to be impacted in this scenario. Shorter-dated bonds offer attractive risk-adjusted returns given yields remain high and they should be less sensitive to market volatility. Purchases included fashionwear company Burberry bonds and airport operator Heathrow Finance bonds, each of which mature in 2025.

Other new purchases which offer good diversification benefits for the Fund included Bel SA, a global leader in cheese and dairy products, with geographically diversified revenue and strong brands. As a rare issuer, we believe the valuation is attractive for a quality business. Another purchase was International Workspace Group, a flexible workspace provider that benefits from increasing hybrid working and is moving to a more asset-light model. Despite having the maturity, experience and discipline to avoid the mistakes that peer WeWork made, the negative connotations provided an opportunity to participate in a new issue at attractive price levels for a cash-generative business with good prospects.

Market outlook

Looking ahead, the path of inflation and growth will continue to dominate markets. There are essentially three likely scenarios in our view: above-target inflation, trend growth, or mild recession. We believe trend growth is the most likely outcome in the near term. Importantly, 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. However, as we have seen over the past three months, the risk of stickier inflation remains. Central banks will continue to be heavily influenced by unpredictable new data on inflation and labour markets, meaning that the speed and pace of interest rate cuts remains uncertain.

Distribution of Portfolio by Asset Class

	Fund Weight*(%)
Sterling	
Conventional Sovereign	6.3
Conventional Non Sovereign	78.1
Index Linked	0.0
Total Sterling	84.4
Cash & Derivatives	
Total Cash & Derivatives	1.9
Foreign Currency	
Conventional Sovereign	0.0
Conventional Non Sovereign	13.7
Index Linked	0.0
Total Foreign Currency	13.7

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

Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AAA	11.0
AA	11.9
A*	13.6
BBB*	53.4
BB	8.1
Cash & Derivatives	1.9

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

Top Ten Issuers

	Fund Weight (%)
HM Treasury	3.8
National Grid	3.4
EIB	3.2
Banco Santander	3.1
Telereal Securitisation PLC	2.8
AT&T	2.6
Annington Finance	2.5
EDF	2.4
Nationwide Building Society	2.4
KfW	2.4

Distribution of Portfolio by Industry

	Fund Weight (%)
Banking	17.7
Real Estate	9.8
Utility	8.9
Insurance	8.2
Financial Services	7.5
Asset Backed	5.9
Sovereign	5.5
Telecommunications	5.3
Supranational	5.0
Government Guaranteed	4.2
Commercial Mortgage Backed	4.1
Health Care	2.5
Retail	2.5
Agency	2.2
Others	8.8
Cash & Derivatives	1.9

Distribution of Portfolio by Region

	Fund Weight (%)
United Kingdom	53.7
Europe	19.7
North America	15.3
Supranational	5.0
Emerging Markets	2.9
Developed Asia	1.4
Cash & Derivatives	1.9

Asset Name	Fund %	Asset Name	Fund %
Sterling Bonds		CPI Property 2.75% 2028	
Conventional Sovereign		DNB Bank 1.375% 2024/25	0.74
LCR Finance 4.5% 2028	0.84	DNB Bank 4% 2026/27	0.75
Long Gilt Future 10yr Sep 24	-0.04	E.ON 5.875% 2037	0.33
UK Treasury 3.5% 22/10/2025	1.20	E.ON 6.75% 2039	0.44
UK Treasury 4.125% 29/01/2027	0.50	EDF 5.5% 2037	0.53
UK Treasury 4.25% 07/12/2049	1.66	EDF 5.5% 2041	0.31
UK Treasury 4.5% 07/12/2042	1.33	EDF 6% 2026 Perp	0.70
UK Treasury 5% 07/03/2025	0.80	EDF 6% 2114	0.47
Total Conventional Sovereign	6.30	EIB 0.125% 2026	0.51
Conventional Non Sovereign		EIB 1.375% 2025	0.61
Abrdn 5.25% 2026 Perp AT1	0.30	EIB 4.5% 2044	0.73
Admiral Group 8.5% 2034 T2	1.11	EIB 4.625% 2054	0.38
Amgen 4% 2029	0.70	EIB 6% 2028	1.01
Anglian Water 6% 2039	0.26	Ford Motor Co 5.625% 2028	0.98
Annington Funding 2.308% 2032	0.48	Gatwick Funding 5.5% 2040	0.64
Annington Funding 2.924% 2051	0.82	Heathrow Airport 2.75% 2049	0.14
Annington Funding 3.935% 2047	0.48	Heathrow Airport 4.625% 2046	0.46
Annington Funding 4.75% 2033	0.68	Heathrow Finance 5.75% 2025	0.75
AT&T 4.25% 2043	0.38	Housing & Care 3.288% 2049	0.49
AT&T 4.875% 2044	0.40	HSBC Bank 5.844% 2031 Perp	0.34
AT&T 7% 2040	1.82	IBRD 0.25% 2026	1.26
Aviva 6.875% 2038/58 T2	0.71	IBRD 5.75% 2032	0.52
Banco Santander 3.125% 2025/26	0.96	Inchcape 6.5% 2028	1.02
Banco Santander 5.5% 2029	1.20	ING Groep 5% 2025/26	0.95
Barclays 1.7% 2025/26	0.47	Intesa Sanpaolo 6.5% 2028/29	0.97
Barclays 3.75% 2025/30 T2	0.24	Investec 1.875% 2027/28	0.75
Barclays 7.09% 2028/29	0.50	Investec 10.5% 2030 Perp AT1	0.53
Barclays 7.125% 2025 Perp AT1	0.30	Investor 5.5% 2037	0.41
Barclays 8.407% 2027/32 T2	0.81	KFW 0.875% 2026	0.99
Berkeley Group 2.5% 2031	0.83	KFW 5% 2036	0.49
Blackstone Private Credit 4.875% 2026	2.14	KFW 6% 2028	0.90
Burberry 1.125% 2025	1.49	Legal & General 5.375% 2025/45 T2	1.14
CaixaBank 6.875% 2028/33 T2	0.72	Longhurst Libra 3.25% 2043	0.38
Canada Pension Plan 1.25% 2027	0.47	Lunar Funding 1 5.75% 2033	0.86
Canada Pension Plan 1.625% 2071	0.47	Meadowhall Finance 4.988% 2032	0.03
Center Parcs 5.876% 2027	0.97	Mitchells & Butlers FRN (AB) 2033	0.49
Center Parcs 6.136% 2031	0.21	Motability 3.625% 2036	0.48
Centrica 6.5% 2030 Perp	0.39	Motability 5.625% 2035	0.93
Centrica 7% 2033	0.35	National Gas Transmission 1.375% 2031	0.98
Citigroup 5.875% 2024 T2	0.53	National Grid 5.625% 2025 Perp	0.37
CK Hutchison Telecom 2.625% 2034	1.00	National Grid ED plc 3.5% 2026	0.82
		National Grid ED S Wales 5.35% 2039	0.52

Asset Name	Fund %	Asset Name	Fund %
National Grid ED W Midlands 6% 2025	0.67	Yorkshire Water 5.5% 2035	0.14
Nationwide 5.875% 2024 Perp AT1	1.51	Yorkshire Water 6.601% 2031	0.37
Nationwide Building Society 6.125% 2028	0.92	Total Conventional Non Sovereign	78.07
NatWest 2.875% 2025/26	0.96	Total Sterling Bonds	84.37
NatWest 3.125% 2026/27	0.29		
NatWest 3.622% 2025/30 T2	0.94	Foreign Currency Bonds	
NatWest 5.125% 2027 Perp AT1	0.31	Conventional Sovereign	
Network Rail 4.75% 2035	0.95	Euro Buxl 30yr Bund Sep 24	0.00
New York Life Insurance 4.875% 2031	1.07	Euro-Bobl Future Sep 24	0.01
New York Life Insurance 4.95% 2029	0.95	Euro-Bund Future Sep 24	0.01
Ontario Teachers' Pension Plan Board 1.125% 2026	0.47	US 5yr Note Sep 24	0.00
Pension Insurance 4.625% 2031 T2	1.19	US Ultra 10yr Note Future Sep 24	0.01
Pension Insurance 7.375% 2029 Perp RT1	0.51	Total Conventional Sovereign	0.02
Pension Insurance Corp 8% 2033 T2	0.15		
Phoenix 5.75% 2028 Perp RT1	0.50	Conventional Non Sovereign	
Phoenix Group 7.75% 2033/53 T2	0.57	Aptiv 4.25% 2036	0.60
Pinewood Gp 3.625% 2027	0.64	BEL SA 4.375% 2029	0.73
Realty Income 1.875% 2027	0.27	Brenntag 3.875% 2032	1.01
Realty Income 5.75% 2031	0.10	Burford Capital 6.25% 2028 (144a)	0.43
Santander UK 7.098% 2026/27	0.91	Burford Capital 9.25% 2031 (144A)	0.60
Schroders 6.346% 2029/34 T2	1.27	Caixabank 5.875% 2027 Perp AT1	0.28
SNCF Reseau 5.25% 2035	0.36	CPI Property 1.5% 2031	0.97
Sovereign Housing 4.768% 2043	0.48	CPI Property 7% 2029	0.50
Swedish Export Credit 0.125% 15/12/2025	0.48	EDF 4.75% 2044	0.42
Telereal 1.3657% 2031 (A6)	0.15	Fraport 4.25% 2032	0.66
Telereal 1.9632% 2031 (B2)	0.42	Iberdrola 1.874% 2026 Perp	0.49
Telereal 3.5625% 2031 (A3)	1.03	International Workplace Group 6.5% 2030	2.02
Telereal 5.3887% 2031 (A5)	0.09	Kyndryl Holdings 6.35% 2034	1.49
Telereal 5.634% 2031 (B3)	0.72	Lonza Finance Intl 3.875% 2036	0.49
Telereal FRN 2031 (B7)	0.42	Novo Nordisk 3.375% 2034	0.33
Temasek 5.125% 2040	0.41	Rabobank 6.5% Perp	0.42
Tesco Property Finance 1 7.6227% 2039	0.39	Telefonica 8.25% 2030	1.21
Tesco Property Finance 4 5.801% 2040	0.84	Teva 7.875% Pharma 2031	0.60
Unite Group 5.6% 2032	0.59	Teva Pharma 7.375% 2029	0.40
Vodafone 3% 2056	0.50	Total Conventional Non Sovereign	13.65
Weir Group 6.875% 2028	1.17	Total Foreign Currency Bonds	13.68
Wellcome Trust 2.517% 2118	0.30		
Welsh Water 1.625% 2026	0.48	Cash & Derivatives	
Welsh Water 2.375% 2034	0.62	Forwards	
Yorkshire Building Society 3.375% 2027/28 T2	0.40	EUR Fwd Asset 22-Aug-2024 S	-10.18
Yorkshire Building Society 6.375% 2027/28	1.24	GBP Fwd Asset 22-Aug-2024 P	14.04
Yorkshire Power 7.25% 2028	1.12	USD Fwd Asset 22-Aug-2024 S	-3.80
Yorkshire Water 2.75% 2041	0.25	Total Forwards	0.06

Asset Name	Fund %
Swaps	
IRS GBP PAY FLT 19/07/25	-15.32
IRS GBP PAY FLT 21/03/27	-7.43
IRS GBP PAY FLT 26/10/25	-11.19
IRS GBP REC FIX 19/07/25	15.46
IRS GBP REC FIX 21/03/27	7.37
IRS GBP REC FIX 26/10/25	11.22
Total Swaps	0.10
Cash	
Collateral Account Memo	-0.11
EUR Futures Initial Margin Account	0.13
EUR Uncommitted Cash	0.00
GBP BNY Revenue Uncommitted Cash	-0.07
GBP CCP Initial Margin	0.54
GBP CCP Variation Margin	-0.10
GBP Futures Initial Margin Account	0.31
GBP Uncommitted Cash	1.04
USD Futures Initial Margin Account	0.06
USD Uncommitted Cash	-0.01
Total Cash	1.79
Total Cash & Derivatives	1.96
Total	100.00

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Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)	Distribution Yield (%)	Underlying Yield (%)
Class B-Inc	26 March 2002	GB0030816481	3081648	0.25	0.28	5.10	4.80
Class B-Acc	01 April 2016	GB00BYQCYS34	BYQCYS3	0.25	0.28	5.10	4.80

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.

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

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