Baillie Gifford™

Baillie Gifford Strategic 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

Performance is driven by bond selection. Ideas are sourced across both investment grade and high yield and are driven by our fundamental, bottom-up stock analysis. The portfolio is well diversified with exposure typically between 60-85 companies. The portfolio could be characterised as comprising the "best ideas" we can find across the high yield and investment grade markets.

Fund Facts

Fund Launch Date	26 February 1999
Fund Size	£458.0m
IA Sector	£ Strategic Bond
Current Number of Issuers	72
Typical Number of Issuers	60-85
Duration	5.0
Tracking Error	1.7%
Tracking Error Range	0-4%

Fund Manager

Name	Years' Experience
Lesley Dunn*	23
Robert Baltzer	23
Torcail Stewart	19

*Partner

Fund Objective

To produce monthly income. Opportunities for capital growth are also sought, subject to prevailing market conditions.

The manager believes that appropriate comparisons for this Fund are the Investment Association Sterling Strategic Bond sector average, given the investment policy of the Fund and the approach taken by the manager when investing and a composite index comprising 70%: ICE BofA Sterling Non-Gilt Index and 30%: ICE BofA European Currency High Yield Constrained Index (hedged to GBP) being representative of the strategic asset allocation of the Fund.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Inc (%)	1.5	9.4	-2.1	0.9
Index (%)*	0.6	8.1	-1.7	0.9
Sector Average (%)**	1.0	7.2	-0.4	1.9

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.
*70% ICE BofA Sterling Non Gilts Index / 30% ICE BofA European Currency High Yield Constrained Index (Hedged to GBP).
**IA £ Strategic Bond 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 (%)	-4.2	16.3	-5.2	-9.4	9.4
Index (%)*	-1.4	11.6	-4.3	-8.1	8.1
Sector Average (%)**	-1.4	12.4	-2.2	-5.7	7.2

Source: FE, Revolution, ICE Data Indices. Total return net of charges, in sterling.
Share class and Sector returns calculated using 10am prices, while the Index is calculated close-to-close.
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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 the year. 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 comparator index and peer group average return. Last quarter we signalled our desire to outyield the index through an overweight to BBB-rated corporate bonds (those at the lowest quality end of the investment grade credit spectrum). The portfolio started the quarter with a neutral allocation to high yield bonds of c. 30% with an underweight position to the lower quality end of this market where the impact of high financing costs was most likely to be felt. This strategy was rewarded this quarter as BBB-rated bonds outperformed within investment grade and the strategy avoided the idiosyncratic events that caused underperformance in the lower reaches of the high yield market.

Bond selection also added significant value. Notably, our patience with bonds issued by Eastern European Property company CPI was rewarded as they rallied on an improving market backdrop for the sector. Over the last three years, Fund returns have been behind the comparator index. We underestimated the speed and scale of interest rate rises as inflation soared following the pandemic, and this detracted from performance due to the strategy’s exposure to sensitive sectors such as real estate. Over the last 12 months, bond selection has been positive, helping to offset this. We are particularly pleased with performance within the Fund’s insurance allocation. We believed that life insurers would benefit from higher interest rates leading to a large sector overweight which has been rewarded. In addition, the Fund’s off-benchmark subordinated insurance bonds, purchased in periods of weakness, have performed strongly as risk has rallied.

Positioning

Corporate 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 and as demand outstripped supply. In this context, we became more constructive on credit risk leading us to deploy some of the Fund’s dry powder into BBB and BB-rated bonds. Our objective was to maintain an above-index portfolio yield without adding significant credit risk. We achieved this by trading in the secondary market and by participating in new issuance which picked up this quarter as companies responded to more attractive financing conditions.

Additions included Kyndryl, a leading technology services company and the largest IT infrastructure provider in the world. The company was spun-off from IBM in 2021 and has been successfully executing its strategy to boost margin and cash flow. The company remains committed to an investment grade rating but offered a valuation in line with high yield bonds. These BBB-rated bonds met our selection criteria. Other examples included subordinated financial bonds issued by Investec. This well-managed, non-systemic bank has stood on its own two feet for decades, without requiring any government or shareholder support. The bank is well-capitalised and funded, with a distinctive approach to business. These BB-rated Additional Tier 1 bonds came with an extremely attractive coupon of 10.5% which we were delighted to lock in for the next 5 years.

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 high all-in yields (accounting for high government bond yields, despite falling credit spreads) and the prospect of rate cuts mean that the Fund is well-positioned to produce attractive 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 credit risk but are wary of the lowest-quality segments of the market.

At the end of the first quarter of the year, the Fund continues to outyield its comparator index, offering a gross redemption yield of c. 5.8%. We have achieved this by increasing the Fund's BBB overweight to c. 17%. Asset allocation remains broadly neutral. High Yield exposure is c. 32% (just above the Fund's typical strategic allocation of 30%), with an underweight allocation to lower-quality B-rated issuance and no CCC-rated bonds, which we deem too sensitive to high financing costs. The Fund continues to hold dry powder in the form of a c. 26% allocation to A-rated and above investment grade bonds, ready to deploy into the high yield market in the event of future volatility.

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	0.0
Conventional Non Sovereign	60.8
Index Linked	0.0
Total Sterling	60.8
Cash & Derivatives	
Total Cash & Derivatives	1.1
Foreign Currency	
Conventional Sovereign	0.0
Conventional Non Sovereign	38.1
Index Linked	0.0
Total Foreign Currency	38.1
Total	100.0

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

Distribution of Portfolio by Sector

	Fund Weight (%)
Industrials	41.2
Financial	40.2
Securitized	6.4
Quasi & Foreign Government	6.0
Utility	4.0
Index Credit Default Swaps	1.0
Covered	0.0
Cash & Derivatives	1.1
Total	100.0

Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AAA	6.0
AA	3.5
A	14.5
BBB*	42.7
BB*	27.0
B*	5.0
CCC-D*	0.0
Cash & Derivatives	1.1
Total	100.0

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

Distribution of Portfolio by Region

	Fund Weight (%)
United Kingdom	38.0
Europe	31.2
North America	15.9
Emerging Markets	8.8
Developed Asia	3.4
Supranational	1.7
Cash & Derivatives	1.1
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, Netflix, Inc., 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 Non Sovereign	
Abrdn 5.25% 2026 Perp AT1	0.76
Admiral Group 8.5% 2034 T2	2.61
Annington Funding 2.308% 2032	1.91
Annington Funding 2.924% 2051	0.68
Annington Funding 3.935% 2047	0.55
B&M European Value Retail 8.125% 2030	1.27
Banco Santander 1.5% 2026	1.91
Barclays 1.7% 2025/26	1.00
Barclays 7.125% 2025 Perp AT1	1.54
Berkeley Group 2.5% 2031	1.72
Berkshire Hathaway 2.375% 2039	1.60
Berkshire Hathaway 2.625% 2059	0.62
CaixaBank 6.875% 2028/33 T2	1.33
Canada Pension Plan 1.25% 07/12/2027	1.26
CK Hutchison Telecom 2.625% 2034	1.32
Co-operative Group 5.125% 2024	1.40
CPI Property 2.75% 2028	1.96
Delamare 5.5457% 2029	0.95
DNB Bank 4% 2026/27	2.58
EDF 6% 2026 Perp	2.56
EDF 6% 2114	0.34
EIB 4.625% 2054	1.46
ENEL 5.625% 2024	1.14
IBRD 5.75% 2032	0.25
Investec 10.5% 2030 Perp AT1	0.54
Investec 2.625% 2026/32 T2	1.88
J.P. Morgan 1.895% 2033	1.83
KFW 5% 2036	0.19
KFW 5.75% 2032	1.60
Kier Group 9% 2029	0.55
Legal & General 5.625% Perp	1.23
Mitchells & Butlers 5.574% 2030 (A2)	0.15
Mitchells & Butlers 6.469% 2030 (C1)	0.22
Nationwide BS 10.25% Perp CCDS	0.56
Ocado 0.75% 2027 Convertible	0.14
Ocado 3.875% 2026	0.59
Pension Insurance 3.625% 2032 T2	0.32
Pension Insurance 4.625% 2031 T2	0.86
Pension Insurance 5.625% 2030 T2	0.67
Pension Insurance Corp 8% 2033 T2	1.33
Pinewood Finco 6% 2030	0.75

Asset Name	Fund %
Rothesay Life 8% 2025	2.89
Santander UK 6.75% 2024 Perp AT1	1.26
Telefonica 5.375% 2026	0.40
Telereal (B-4) 6.1645% 2031	1.33
Telereal (C1) FRN 2031	1.77
Tesco Property Finance 3 5.744% 2040	1.22
Tesco Property Finance 6 5.4111% 2044	0.75
TP ICAP Gp 2.625% 2028	0.13
TP ICAP Gp 7.875% 2030	0.67
University of Cambridge 2.35% 2078	0.34
University of Oxford 2.544% 2117	0.98
Weir Group 6.875% 2028	1.02
Zurich Financial Services 5.125% 2032/52 T2	1.90
Total Conventional Non Sovereign	60.78
Total Sterling Bonds	60.78

Foreign Currency Bonds	
Conventional Non Sovereign	
Accor SA 2.625% 2025 Perp	0.51
Accor SA 7.25% 2029 Perp	1.35
Ardagh Packaging 4.125% 2026 (144A)	0.50
Bath & Body Works 9.375% 2025 (144A)	0.82
Bharti Airtel 5.65% 2025 Perp	2.32
Burford Capital 9.25% 2031 (144A)	0.71
Caixabank 6.75% 2024 Perp AT1	0.68
CDIS ITRX Crossover GOS	1.03
Cirsa Finance 10.375% 2027	0.77
Concentrix 6.65% 2026	0.77
CPI Property 1.5% 2031	0.13
Ctp N.V. 0.5% 2025	0.12
Ctp N.V. 1.25% 2029	0.57
Ctp N.V. 2.125% 2025	0.11
Ctp N.V. 4.75% 2030	1.67
Darling Ingredients 6% 2030 (144A)	1.10
Heimstaden Bostad 0.25% 2024	1.33
Helvetia 2.75% 2031/41 T2	2.14
Infopro Digital 8% 2028	1.17
Jefferies Finance Group 5% 2028 (144A)	0.79
Kyndryl Holdings 6.35% 2034	1.59
LeasePlan 7.375% 2024 Perp AT1	2.97
Marks and Spencer 7.125% 2037 (144A)	0.99
Neopharmed 7.125% 2030	0.26
Netflix 3.625% 2030	0.14

Asset Name	Fund %
Netflix 4.625% 2029	0.51
Nissan Motor 4.81% 2030	0.78
OCI 6.7% 2033 (144A)	0.69
Pershing Square 3.25% 2031 (RegS)	0.31
Pershing Square Holdings 3.25% 2030	1.27
Phoenix Life 5.625% 2025 Perp RT1	0.75
Prosus 3.832% 2051	0.84
Rabobank 6.5% Perp	0.54
Realty Income 5.125% 2034	1.73
TD Synnex Corp 1.25% 2024	0.20
Telefonica 5.7522% 2032 Perp	1.03
Temasek 0.5% 2031	0.63
Temasek 3.5% 2033	0.65
Townsquare Media 6.875% 2026 (144A)	0.86
UPC 3.625% 2029	1.43
Venture Global Calcasieu 3.875% 2029 (144A)	0.05
Venture Global Calcasieu 3.875% 2033 (144A)	0.56
Veritext 8.5% 2030 (144A) (144A)	0.74
Virgolino De Oliveira 11.75% 2022	0.01
Total Conventional Non Sovereign	38.11
Total Foreign Currency Bonds	38.11

Cash & Derivatives	
Forwards	
EUR Fwd Asset 23-May-2024 S	-21.20
GBP Fwd Asset 23-May-2024 P	37.18
USD Fwd Asset 23-May-2024 S	-16.08
Total Forwards	-0.10

Swaps	
CDIS ITRX Crossover GOS	-0.94
IRS GBP PAY FIX 06/03/25	-0.91
IRS GBP PAY FLT 06/03/25	-9.17
IRS GBP REC FIX 06/03/25	9.14
IRS GBP REC FLT 06/03/25	0.92
Total Swaps	-0.97

Cash	
Collateral Account Memo	0.04
EUR Futures Initial Margin Account	0.08
EUR Uncommitted Cash	0.51
GBP BNY Revenue Uncommitted Cash	-0.86
GBP CCP Cash Account	0.00

Asset Name	Fund %
GBP CCP Initial Margin	0.08
GBP CCP Variation Margin	0.03
GBP Futures Initial Margin Account	0.33
GBP Uncommitted Cash	2.17
USD Futures Initial Margin Account	0.30
USD Uncommitted Cash	-0.50
Total Cash	2.18
Total Cash & Derivatives	1.11
Total	100.00

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Inc	26 February 1999	GB0005947741	0594774	0.50	0.52
Class B-Acc	21 June 2000	GB0005947857	0594785	0.50	0.52

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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