Baillie Gifford™

Baillie Gifford High Yield Bond Fund

30 September 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 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 Facts

Fund Launch Date	30 November 2001
Fund Size	£315.6m
IA Sector	£ High Yield
Current Number of Issuers	104
Typical Number of Issuers	90-120
Duration	2.7
Average Credit Rating	BB
Tracking Error	1.4%
Tracking Error Range	0-5%
Redemption Yield	7.0
Running Yield	6.9

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 (%)	4.3	16.0	1.4	2.4
Sector Average (%)*	3.5	13.0	2.2	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

	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 (%)	0.3	7.7	-18.1	9.7	16.0
Sector Average (%)*	-0.4	10.6	-14.3	10.2	13.0

Source: FE. Total return net of charges, in sterling.
Share class returns calculated using 10am prices.
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Market environment

Market environment

With inflation now close to target levels in the developed world, three of the world's major central banks – the US Federal Reserve (the Fed), Bank of England (BoE) and European Central Bank (ECB) – were among those cutting interest rates during the third quarter of 2024. In the US, the Fed's first interest rate cut of the cycle was by half a percentage point, with a softer labour market providing more conviction that policy rates are too high for current levels of inflation. Moving earlier, the BoE was much more tentative as services inflation remained high. In the Eurozone, the ECB also cut by a quarter percentage point in response to signs of slowing growth in the bloc's core economies.

Credit markets performed well over the quarter, responding positively to continued lower inflation and falling interest rates. While growth is slowing, importantly, developed market economies continue to grow. There are signs of deteriorating company fundamentals but weakness starts from a very robust starting point. Overall, these are strong market conditions for corporate credit and, in this context, high yield corporate bonds outperformed their investment grade counterparts.

Valuations, as measured by credit spreads (the additional yield provided by corporate bonds compared to government bonds), remain high relative to the past. 'All-in' yields continued to look attractive as interest rates remained near their highest levels in 15 years. This supported corporate bond returns as evidenced by the high demand for corporate bonds, most visibly in the buoyant new issues market – a further sign of a healthy market.

However, there was a short-lived "rout" in August which provided evidence of the fragility of market sentiment. The perception of a higher risk of recession combined with the unwinding of the yen carry trade (investors had been taking advantage of the significant yield differential between US and Japanese bonds but this began to narrow) led to a selloff in risk markets. While this settled quickly, reflecting the strong market backdrop, it served as a reminder that any economic scenario which does not reflect the market's positive base case is likely to be met with significant volatility.

Performance

The Fund's total return was positive in the third quarter. This was primarily driven by falling government bond yields (there is an inverse relationship between falling yields and bond prices) and coupon income. The Fund underperformed the reference index we use for performance attribution reflecting the strategy's underweight to lower quality parts of the market which outperformed over the period. Strong peer group relative performance reflects the strategy's high allocation to US high yield which outperformed European high yield over the quarter.

The Fund has delivered strong relative returns over the last 12 months with bond selection driving relative outperformance. For example, within the technology and electronics sector, bonds issued by US-headquartered cable and network equipment manufacturer, Belden added value. Purchased in late 2022 at a significant discount to par value, these long-dated bonds have outperformed peers as this well-rated issuer continued to post strong operational results in 2023 and 2024. Trading tight for the rating, we sold out of this position in the period to fund the purchase of more attractive opportunities.

Positioning

High yield credit spreads (the risk premium bondholders receive for lending to corporates over governments) ended the quarter slightly tighter than where they started it (there is an inverse relationship between credit spreads and corporate bond prices). Despite a considerable 'wobble' in August, the market continues to price in a supportive market backdrop for corporate bonds. Reflecting this, high yield credit spreads remain tight relative to history.

In this context, from a portfolio construction perspective, our objective is to find an appropriate balance of risk, recognising the 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, increased activity in the new issuance market provided a broad range of opportunities to add attractively valued bonds issued by resilient companies. For example, we took a position in Innomotics, a leading global manufacturer of electric motors and drives. The company has attractive characteristics that make it a desirable capital goods investment. Its products are mission-critical to industrial customers, and aftermarket support forms around two-thirds of operating profit. We like this because it provides stability against the potential cyclicality of product sales. This bond holds the potential to deliver an attractive income for the strategy over the long term.

We also identified new opportunities in the secondary market with the potential for capital appreciation. Mobico, formerly National Express Group, is a diversified transportation business operating in Europe, the USA and the UK. Their recent downgrade to high yield has created a valuation opportunity in our view. We believe the market is underestimating the potential for disposals to deleverage the balance sheet and to fund bond buybacks.

Market outlook

The economic outlook is finely poised at this stage. There were various signs of a slowdown in the US economy during the third quarter, including weaker data on labour markets, manufacturing and consumer confidence. Very recently, some of those data points have been subject to positive revisions, and the latest US labour market data showed strong job growth and a decline in the unemployment rate.

Looking ahead, the upcoming US presidential election is considered too close to call, and this could bring market volatility in the very short term. Rising tensions in the Middle East could escalate further still, with spillover effects into the wider global economy, which have been limited thus far. For example, disruption in the oil market could cause inflation to rise from current benign levels.

This presents a challenge for central banks. While interest rates in many countries appear too high today given current growth and inflation rates, policymakers have indicated a wariness of cutting rates too quickly and risking a rebound in inflation. On the other hand, they will be cognisant of the potential for high interest rates to restrict economic growth.

We continue to believe a soft landing is the most likely outcome. In addition, company fundamentals remain broadly resilient although pockets of deterioration are emerging in some cyclical sectors as higher financing costs start to impact demand. There is no sign that the market's insatiable hunger for corporate bonds is likely to deteriorate in the short term. However, valuations remain high and, as recent events have shown, sentiment is fragile leaving the market vulnerable to bad news.

Distribution of Portfolio by Asset Class

	Fund Weight*(%)
Sterling	
Conventional Sovereign	5.0
Conventional Non Sovereign	13.8
Index Linked	0.0
Total Sterling	18.7
Cash & Derivatives	
Total Cash & Derivatives	3.0
Foreign Currency	
Conventional Sovereign	0.0
Conventional Non Sovereign	78.2
Index Linked	0.0
Total Foreign Currency	78.2

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

Distribution of Portfolio by Industry

	Fund Weight (%)
Basic Industry	12.2
Telecommunications	11.6
Media	9.9
Health Care	8.7
Retail	7.3
Services	6.6
Financial Services	5.9
Energy	5.1
Leisure	5.0
Sovereign	5.0
Banking	4.2
Capital Goods	4.1
Automotive	3.6
Real Estate	2.7
Transportation	2.5
Technology & Electronics	2.4
Others	0.1
Cash & Derivatives	3.0

Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AA	5.0
BBB*	2.0
BB*	32.0
B	53.6
CCC-D	4.5
Cash & Derivatives	3.0

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

Distribution of Portfolio by Region

	Fund Weight (%)
Europe	39.4
North America	31.4
United Kingdom	23.3
Emerging Markets	2.0
Developed Asia	0.9
Cash & Derivatives	3.0

Top Ten Issuers

	Fund Weight (%)
UK Treasury	5.0
Barclays	1.7
United Group B.V.	1.7
Gannett Holdings LLC	1.6
Sofima Holding S.P.A.	1.6
Albion Capital Group LLP	1.6
Telefonica	1.6
CPI Property Group	1.6
Brightline East LLC	1.5
Venture Global Delta LNG LLC	1.5

Company Engagement

Engagement Type	Company
Governance	B&M European Value Retail S.A., Victoria 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 18/11/2024	1.57
UK T Bill 23/12/2024	2.01
UK T Bill 30/12/2024	1.38
Total Conventional Sovereign	4.96
Conventional Non Sovereign	
Arrow Global Finance 6% 2026	0.77
B&M European Value Retail 8.125% 2030	0.77
Barclays 7.125% 2025 Perp AT1	1.72
David Lloyd 5.5% 2027	1.05
EDF 7.375% 2035 Perp	0.91
Encore Capital Group 4.25% 2028	1.06
Iceland Foods 10.875% 2027	1.08
Investec 10.5% 2030 Perp AT1	0.98
Kier Group 9% 2029	1.36
Miller Homes Gp (Finco) 7% 2029	1.08
Mobico 4.25% 2026 Perp	0.50
Mobico Group 2.375% 2028	0.51
Travelodge 10.25% 2028	0.66
Virgin Media RFN 4.875% 2028	1.32
Total Conventional Non Sovereign	13.76
Total Sterling Bonds	18.72
Foreign Currency Bonds	
Conventional Non Sovereign	
Acqua & Sapone 6.5% 2031	0.34
Aggreko 6.125% 2026 (144A)	1.60
Altice France Hdg 5.875% 2027	0.83
Altice France Hdg 8.125% 2027 (144A)	0.51
Altice International 5.75% 2029 (144A)	0.71
Altice USA 5.375% 2028 (144A)	0.59
AMS 10.5% 2029	0.82
Banijay Gp 7% 2029	0.73
Benteler Intl 9.375% 2028	0.49
BestSecret E+3.75% FRN 2029	0.65
Biogroup 5% 2029	0.62
Brightline East 11% 2030 (144A)	1.51
Burford Capital 9.25% 2031 (144A)	1.31
Cable One 4% 2030 (144A)	0.36
Caixabank 5.875% 2027 Perp AT1	0.54
Caixabank 7.5% 2030 Perp AT1	0.86

Asset Name	Fund %
Calumet Specialty Products 8.125% 2027 (144A)	1.22
Canpack 3.125% 2025 (144A)	0.42
CBR Fashion 6.375% 2030	0.80
CCO Holdings 6.375% 2029 (144A)	0.88
CDIB ITRX Crossover GOS	-2.05
Cheplapharm 5.5% 2028 (144A)	1.31
Cimpress 7.375% 2032 (144A)	0.51
Cirsa Finance 10.375% 2027	0.94
CPI Card Group 10% 2029 (144A)	0.56
CPI Property 4.875% 2025 Perp	0.70
CPI Property 7% 2029	0.87
Cullinan Hdgs 4.625% 2026	0.46
Cullinan Hdgs FRN 2026	0.19
Dana 8.5% 2031	0.54
David Lloyd Leisure FRN 8.69% 2027	0.31
EquipmentShare 9% 2028 (144A)	0.72
Eutelsat 9.75% 2029	0.60
FNAC Darty 6% 2029	0.67
Gannett Hdgs 6% 2026 (144A)	1.64
Garrett Motion 7.75% 2032 (144A)	0.65
Global Medical Response 9.50% 2028 (144A)	0.57
Gruenenthal Gmbh 3.625% 2026	0.67
Herbalife 12.25% 2029 (144A)	0.70
Ht Troplast Ag 9.375% 2028	1.29
IHO Verwaltungs PIK 8.75% 2028	0.97
Iliad Hdg 6.875% 2031	0.38
IMA E+3.75% FRN 2029	1.59
Infopro Digital 8% 2028	0.66
Innomotics 6.25% 2031	0.51
International Personal Finance 10.75% 2029	0.69
International Workplace Group 6.5% 2030	1.09
Italmatch Chemicals 10% 2028	1.12
Kiko Milano 4.125% FRN 2031	0.33
La Doria E+4.5% 2029 FRN	0.97
LifePoint Health 11% 2030 (144A)	0.64
Match.com 5.625% 2029 144A	1.09
McGraw-Hill Education 5.75% 2028 (144A)	0.79
Mercer Intl 12.875% 2028 (144A)	1.24
Merlin Entertainments 7.375% 2030	0.98
Mineral Resources 9.25% 2028 (144A)	0.92
Motel One 7.75% 2031	1.03
Multi-Colour 9.5% 2028 (144A)	1.12
Multiversity 8.049667% 2031 FRN	0.99

Asset Name	Fund %
NCR Atleos 9.5% 2029 (144A)	0.96
Neopharmed 7.125% 2030	1.48
New Immo Holding Sa 2.75% 2026	1.09
OCI 6.7% 2033 (144A)	0.40
OEG Finance 7.25% 2029	0.61
OI European Group 6.25% 2028	0.70
Optics Bidco 7.875% 2028	1.16
Organon & Co. 6.75% 2034 (144A)	0.73
Paprec 6.5% 2027	0.33
Paprec 7.25% 2029	0.75
Perrigo 5.375% 2032	0.18
ProGroup 5.125% 2029	0.72
Rain Carbon 12.25% 2029 (144A)	0.73
Sally Beauty Holdings 6.75% 2032	0.96
Santander 9.625% 2029 Perp AT1	1.12
Scripps 3.875% 2029 (144A)	0.53
Sealed Air 6.875% 2033 (144A)	0.70
Solenis 9.625% 2028	0.56
Solenis 9.75% 2028 (144A)	0.93
SPCM 2.625% 2029	0.75
Summit Midstream Holdings 8.625% 2029 (144A)	0.76
Sunrise Medical 6.5% 2031	0.65
Sunrise Medical FRN 2031	0.42
Talos Energy 9% 2029 (144A)	0.98
Taseko Mines 8.25% 2030 (144A)	0.83
Tegna Inc 4.625% 2028	0.94
Telecom Italia 7.875% 2028	0.73
Telefonica 5.7522% 2032 Perp	0.68
Telefonica 7.125% 2028 PERP	0.89
Teva Pharma 7.375% 2029	1.45
The House of HR 9% 2029	0.64
Townsquare Media 6.875% 2026 (144A)	1.07
United Gp 6.75% 2031	1.03
United Gp FRN 2031	0.64
Upfield 6.875% 2029	0.65
Venture Global Delta LNG 8.125% 2028 (144A)	1.19
Venture Global Delta LNG 8.375% 2031 (144A)	0.29
Veritext 8.5% 2030 (144A) (144A)	0.49
Victoria 3.625% 2026	0.38
Volkswagen 7.875% 2032 Perp	0.90
Walgreen Co 8.125% 2029	0.73
Windstream Escrow 7.75% 2028 (144A)	0.90
Zegona Finance Plc 8.625% 2029 (144A)	0.85

Asset Name	Fund %
Total Conventional Non Sovereign	78.23
Total Foreign Currency Bonds	78.23
Cash & Derivatives	
Forwards	
EUR Fwd Asset 24-Oct-2024 S	-41.98
GBP Fwd Asset 24-Oct-2024 P	80.67
USD Fwd Asset 24-Oct-2024 S	-37.22
Total Forwards	1.46
Swaps	
CDIB ITRX Crossover GOS	1.87
Total Swaps	1.87
Cash	
Collateral Account Memo	-1.16
GBP BNY Revenue Uncommitted Cash	-0.28
GBP Uncommitted Cash	1.15
Total Cash	-0.29
Total Cash & Derivatives	3.05
Total	100.00

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	0.39	7.60	7.20
Class B-Inc	28 February 2002	GB0030816713	3081671	0.35	0.39	7.60	7.20

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.

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