

Baillie Gifford High Yield 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 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	£392.0m
IA Sector	£ High Yield
Current Number of Issuers	110
Typical Number of Issuers	50-90
Duration	3.2
Average Credit Rating	BB
Tracking Error	1.4%
Tracking Error Range	0-5%
Redemption Yield	7.4
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 (%)	1.6	12.8	0.3	1.9
Sector Average (%)*	1.4	10.7	1.3	2.9

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

	30/06/19- 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 (%)	-0.6	9.6	-15.1	5.4	12.8
Sector Average (%)*	-2.3	13.5	-12.4	7.1	10.7

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

Share class returns calculated using 10am prices.

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\*IA £ High Yield Sector.

## 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

The Fund's total return was positive in the second quarter of 2024. Coupon income was the key return driver, more than offsetting the impact of a modest increase in government bond yields (there is an inverse relationship between rising yields and bond prices). European high yield bonds outperformed their American equivalents as the European investment backdrop improved. The Fund outperformed the peer group average return over the period. Bond selection was the key performance driver with a range of positions adding value for the strategy.

The Fund has delivered strong relative returns over the last 12 months with bond selection driving performance across most sub-sectors. For example, within the technology and electronics sector, bonds issued by light and sensor technology company ams OSRAM added value. Our decision to lock in profits on their 2029 bonds in September 2023, following the announcement of a refinancing, proved to be the right one as the company has faced challenges since. Within the property sector, our patience with Eastern European name CPI has been rewarded as the

market has realised it had been undervaluing its fundamentals.

## Positioning

Despite a modest rise in government bond yields, high yield credit spreads (the risk premium bondholders receive for lending to corporates over governments) held relatively steady over the quarter. This reflects the benign economic environment, the strong fundamental health of corporates and, ultimately, the market's expectation that defaults will remain contained for the foreseeable future. In this context, high yield credit spreads remain tight relative to history (there is an inverse relationship between credit spreads and corporate bond prices).

Our objective is to find an appropriate balance of risk in the portfolio, recognising the constructive backdrop but the potential, given tight credit spreads, for price volatility. We want the portfolio to outyield the reference index but provide some insulation from a possible selloff in credit spreads. 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) whilst continuing to back our conviction in a select group of resilient B-rated bonds, where we maintain a sizeable overweight, particularly in Europe. A good example of the type of B-rated bonds in this category are those issued by Sunrise Medical, new additions to the portfolio this quarter. Sunrise Medical designs and markets mobility aids. It has high barriers to entry and good revenue visibility from a predictable replacement cycle. The company's asset-light business model affords them strong margins and robust cash generation.

Other trading this quarter focused on reducing exposure to longer-dated subordinated financial bonds that have performed well. These positions are likely to be volatile in the event of a selloff. Some of the proceeds from these sales were invested in off-benchmark Floating Rate Notes (FRNs), high yield bonds with variable coupon rates tied to 3-month EURIBOR (the overnight interbank rate in Europe) plus a credit spread. This is a liquid and popular market for European corporates and issuance is primarily senior secured (providing more protection for bondholders than typical high yield bonds). Given that 3-month EURIBOR is currently elevated, many FRNs are offering a superior income stream relative to fixed-rate bonds for equivalent credit

risk. The additional yield cushion they offer further provides protection against price volatility.

New purchases included FRNs issued by Multiversity and BestSecret. Multiversity has achieved impressive earnings growth in recent years as their private, online universities in Italy continue to rise in popularity and given operating leverage, revenues have translated impressively into free cash flow. Looking ahead, we are confident in the company's prospects. BestSecret also has a demonstrable track record of revenue, earnings and cash flow growth owing to the increasing popularity of its members-only, off-price fashion platform. In our view, the risk profile of these bonds is more akin to BB credit risk, given underlying free cash flow generation and the business's growth 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 remain uncertain.

## Distribution of Portfolio by Asset Class

	Fund Weight*(%)
<b>Sterling</b>	
Conventional Sovereign	2.0
Conventional Non Sovereign	14.4
Index Linked	0.0
<b>Total Sterling</b>	<b>16.5</b>
<b>Cash &amp; Derivatives</b>	
<b>Total Cash &amp; Derivatives</b>	<b>1.0</b>
<b>Foreign Currency</b>	
Conventional Sovereign	0.0
Conventional Non Sovereign	82.5
Index Linked	0.0
<b>Total Foreign Currency</b>	<b>82.5</b>

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

## Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AA	2.0
BBB	5.1
BB*	45.0
B*	42.8
CCC-D	4.1
Cash & Derivatives	1.0

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

## Top Ten Issuers

	Fund Weight (%)
Virgin Media Holdings Inc.	2.4
UK Treasury	2.1
Albion Capital Group LLP	1.9
Telefonica	1.7
EDF	1.7
Barclays	1.7
Liberty Media Corporation	1.7
CaixaBank, S.A.	1.6
Cirsa Finance Plc	1.6
Teva Pharmaceutical Industries	1.6

## Distribution of Portfolio by Industry

	Fund Weight (%)
Telecommunications	14.4
Media	12.8
Basic Industry	12.2
Health Care	9.6
Services	7.1
Leisure	5.5
Banking	4.5
Financial Services	4.1
Retail	4.0
Energy	3.8
Capital Goods	3.7
Technology & Electronics	3.6
Automotive	3.5
Real Estate	3.4
Sovereign	2.0
Others	4.8
Cash & Derivatives	1.0

## Distribution of Portfolio by Region

	Fund Weight (%)
Europe	41.8
North America	34.6
United Kingdom	18.8
Emerging Markets	3.1
Developed Asia	0.8
Cash & Derivatives	1.0

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
Social	International Personal Finance plc
Governance	International Personal Finance plc
Strategy	International Personal Finance 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 19/08/2024	2.04
Total Conventional Sovereign	2.04
Conventional Non Sovereign	
Arrow Global Finance 6% 2026	0.33
B&M European Value Retail 8.125% 2030	0.60
Barclays 7.125% 2025 Perp AT1	1.67
David Lloyd 5.5% 2027	0.81
EDF 6% 2026 Perp	1.73
Encore Capital Group 4.25% 2028	0.80
Iceland Foods 10.875% 2027	0.62
Investec 10.5% 2030 Perp AT1	0.78
Kier Group 9% 2029	1.20
Miller Homes Gp (Finco) 7% 2029	0.82
Nationwide BS 10.25% Perp CCDS	0.30
Ocado 3.875% 2026	0.18
Pension Insurance Corp 8% 2033 T2	0.51
Pinewood 6% 2030	1.22
Travelodge 10.25% 2028	0.51
Virgin Media 4.125% 2030 (144A)	1.31
Virgin Media RFN 4.875% 2028	1.04
Total Conventional Non Sovereign	14.43
Total Sterling Bonds	16.47
Foreign Currency Bonds	
Conventional Non Sovereign	
Aggreko 6.125% 2026 (144A)	1.88
Altice France Hdg 5.875% 2027	0.71
Altice France Hdg 8.125% 2027 (144A)	0.44
Altice International 5.75% 2029 (144A)	0.59
Altice USA 5.375% 2028 (144A)	0.49
AMS 10.5% 2029	0.69
Banijay Gp 7% 2029	0.58
Belden 3.375% 2031	1.11
BestSecret E+3.75% FRN 2029	0.52
Biogroup 5% 2029	0.86
Brightline East 11% 2030 (144A)	1.46
Burford Capital 6.25% 2028 (144a)	0.43
Burford Capital 9.25% 2031 (144A)	1.11
Cable One 4% 2030 (144A)	0.30
Caixabank 5.875% 2027 Perp AT1	0.43

Asset Name	Fund %
Caixabank 7.5% 2030 Perp AT1	1.18
Calumet Specialty Products 8.125% 2027 (144A)	1.02
Canpack 3.125% 2025 (144A)	0.35
Catalent 2.375% 2028	0.33
CBR Fashion 6.375% 2030	0.64
CCO Holdings 6.375% 2029 (144A)	0.78
Cheplapharm 5.5% 2028 (144A)	1.28
Cimpress 7% 2026 (144A)	1.13
Cirsa 6.5% 2029	0.82
Cirsa Finance 10.375% 2027	0.79
Cogent Communications Holdings 7% 2027 (144A)	0.62
Compass Minerals International 6.75% 2027 (144A)	0.66
CPI Card Group 10% 2029 (144A)	0.17
CPI Property 4.875% 2025 Perp	0.62
CPI Property 7% 2029	0.43
Cullinan Hdgs 4.625% 2026	0.35
Cullinan Hdgs FRN 2026	0.15
Dana 8.5% 2031	0.46
David Lloyd Leisure FRN 8.69% 2027	0.26
DaVita 4.625% 2030 (144A)	0.78
Digi Communications 3.25% 2028	1.23
DirecTV 5.875% 2027 (144A)	0.52
DirecTV 8.875% 2030 (144A)	0.53
EquipmentShare 9% 2028 (144A)	0.59
Eutelsat 9.75% 2029	0.48
FNAC Darty 6% 2029	0.53
Gannett Hdgs 6% 2026 (144A)	1.31
Garrett Motion 7.75% 2032 (144A)	0.53
Goodyear Europe 2.75% 2028	0.46
Gruenthal Gmbh 3.625% 2026	0.53
Herbalife 12.25% 2029 (144A)	0.58
Ht Troplast Ag 9.375% 2028	1.02
IHO Verwaltungs PIK 8.75% 2028	0.79
Iliad 6.5% 2026 (144A)	0.99
Iliad Hdg 6.875% 2031	0.29
IMA E+3.75% FRN 2029	1.48
Infopro Digital 8% 2028	0.98
International Personal Finance 10.75% 2029	0.53
International Workplace Group 6.5% 2030	0.82
IQVIA 2.25% 2029	1.05
Italmatch Chemicals 10% 2028	1.38
La Doria E+4.5% 2029 FRN	0.79
Liberty Puerto Rico 6.75% 2027 (144A)	0.52

Asset Name	Fund %
LifePoint Health 11% 2030 (144A)	0.52
Match.com 5.625% 2029 144A	0.98
McGraw-Hill Education 5.75% 2028 (144A)	0.54
Mercer Intl 12.875% 2028 (144A)	1.04
Merlin Entertainments 7.375% 2030	0.81
Mineral Resources 9.25% 2028 (144A)	0.76
Motel One 7.75% 2031	0.82
Multi-Colour 9.5% 2028 (144A)	0.91
Multiversity 8.049667% 2031 FRN	0.80
NCR Atleos 9.5% 2029 (144A)	0.78
Neopharmed 7.125% 2030	1.17
New Immo Holding Sa 2.75% 2026	0.88
OCI 4.625% 2025 (144A)	0.56
OCI 6.7% 2033 (144A)	0.78
Organon & Co. 5.125% 2031 (144A)	0.64
Paprec 6.5% 2027	0.58
Paprec 7.25% 2029	0.60
PeopleCert 5.75% 2026	1.05
ProGroup 5.125% 2029	0.59
Rain Carbon 12.25% 2029 (144A)	0.63
Sally Beauty Holdings 6.75% 2032	0.79
Santander 9.625% 2029 Perp AT1	0.92
Scripps 3.875% 2029 (144A)	0.54
Sealed Air 6.875% 2033 (144A)	0.75
Sirius Media 5% 2027 (144A)	1.08
Sirius XM Radio 4.125% 2030 (144A)	0.56
Solenis 9.625% 2028	0.44
Solenis 9.75% 2028 (144A)	0.96
SPCM 2.625% 2029	0.87
Summit Midstream Partners 9.5% 2026 (144A)	0.57
Sunrise Medical 6.5% 2031	0.52
Sunrise Medical FRN 2031	0.34
Talos Energy 9% 2029 (144A)	0.86
Taseko Mines 8.25% 2030 (144A)	0.47
Tegna Inc 4.625% 2028	0.76
Telecom Italia 7.875% 2028	0.65
Telecom Italia 7.875% 2028	0.92
Telefonica 5.7522% 2032 Perp	0.54
Telefonica 7.125% 2028 PERP	1.19
Teva Pharma 7.375% 2029	1.58
The House of HR 9% 2029	0.82
Townsquare Media 6.875% 2026 (144A)	0.91
TUI Cruises 6.25% 2029	0.58

Asset Name	Fund %
United Gp 6.75% 2031	0.85
United Gp FRN 2031	0.53
Uniti Gp 10.5% 2028 (144A)	0.67
Upfield 6.875% 2029	0.52
Venture Global Delta LNG 8.125% 2028 (144A)	0.98
Venture Global Delta LNG 8.375% 2031 (144A)	0.24
Veritext 8.5% 2030 (144A) (144A)	0.63
Victoria 3.625% 2026	0.30
Volkswagen 7.5% 2028 Perp	0.37
Volkswagen 7.875% 2032 Perp	0.85
Ziggo 2.875% 2030	1.19
Total Conventional Non Sovereign	82.54
Total Foreign Currency Bonds	82.54
Cash & Derivatives	
Forwards	
EUR Fwd Asset 18-Jul-2024 S	-42.87
GBP Fwd Asset 18-Jul-2024 P	82.87
USD Fwd Asset 18-Jul-2024 S	-40.48
Total Forwards	-0.48
Cash	
Collateral Account Memo	0.39
EUR Uncommitted Cash	-0.85
GBP BNY Revenue Uncommitted Cash	0.29
GBP Uncommitted Cash	-0.22
USD Uncommitted Cash	1.86
Total Cash	1.47
Total Cash & Derivatives	0.99
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 (%)	Distribution Yield (%)	Underlying Yield (%)
Class B-Acc	24 May 2007	GB00B1W0GF10	B1W0GF1	0.35	0.39	7.30	6.90
Class B-Inc	28 February 2002	GB0030816713	3081671	0.35	0.39	7.30	6.90

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.

This document contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

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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.