

## Baillie Gifford Investment Grade Bond Fund

31 December 2024

### Baillie Gifford Update

<b>Philosophy</b>	Forward-looking research creates differentiated insights Patience is the key to exploiting market inefficiencies High conviction
<b>Partnership</b>	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

### Fund Facts

Fund Launch Date	30 November 2001
Fund Size	£1005.6m
IA Sector	£ Corporate Bond
Current Number of Issuers	80
Typical Number of Issuers	50-90
Duration	6.3
Average Credit Rating	BBB
Tracking Error	1.3%
Tracking Error Range	0.5-2.5%
Redemption Yield	5.3
Running Yield	4.8

### 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 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 (%)	-0.3	3.7	-2.9	-0.7
Index (%)*	-0.4	1.8	-3.1	-1.0
Target (%)**	-0.1	2.7	-2.4	-0.3
Sector Average (%)***	-0.3	2.6	-2.0	-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

	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Class B-Inc (%)	8.2	-2.5	-18.5	8.2	3.7
Index (%)*	8.0	-3.0	-17.8	8.6	1.8
Target (%)**	8.5	-2.5	-17.3	9.4	2.7
Sector Average (%)***	7.8	-1.9	-16.1	9.4	2.6

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.

## Market environment

An eventful final quarter of 2024 saw President Trump's re-election in the United States and the Republicans taking control of Congress. The incoming US administration signalled its intention to enact various policies to boost economic growth, some of which could prove inflationary. This was followed by a shift in tone at the Federal Reserve in December. Despite cutting rates in both November and December meetings, the Federal Open Market Committee signalled a slower pace of easing in 2025 reflecting their concerns about lingering inflation.

The anticipation of continued high interest rates caused US Treasury bond yields to rise and, by extension, impacted valuations across asset classes. Broadly, government bond yields followed treasuries higher, even though changes in interest rate expectations were more modest outside of the US. The European Central Bank signalled a more dovish tone reflecting weaker growth projections. In the UK, the Bank of England warned of stubborn inflation and downgraded growth prospects.

Overall, corporate bond markets proved resilient as credit spreads continued to tighten over the final three months of the year. A range of factors supported the asset class. Economic data showed that growth remained on trend and central banks cut interest rates. Company fundamentals remained strong and demand for corporate bonds outstripped supply as attractive all-in yields enticed investors.

## Performance

The Fund delivered a negative return over the quarter due to the rise in government bond yields. Corporate bonds performed relatively well but not by enough to offset the impact of lower government bond prices (which move inversely to yields). The Fund had overweight exposure to overall yield levels (also described as being 'long duration'), expecting deteriorating growth expectations to lead to further interest rate cuts in the UK and lower yields. We still believe this is likely, but in the short term this positioning detracted from relative returns. This was more than offset by the positive impact of bond selection and the Fund outperformed its index benchmark.

The most significant contribution came from the Fund's large position in bonds issued by Annington Funding, which owns the Married Quarters Estate that is leased to the UK Ministry of Defence. We had been expecting a sale of these properties back to the government and this was announced in

December. As a result, Annington offered to buy back many of its bonds, leading to a significant rally in prices.

Over 12 months the Fund is comfortably ahead of its target return, again driven by security selection. Aside from Annington, other property companies have been among the top contributors, with Eastern European office and residential operator CPI another strong performer. Over three years the Fund has outperformed the index net of fees but not met its target. 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 – as noted above, in some cases bonds have recovered strongly since.

## Positioning

We did not make any broad changes to Fund positioning over the quarter. Having reduced risk throughout the year as corporate bond valuations rose, we are reasonably defensively positioned. The portfolio yield is close to the benchmark so the Fund should not lag the market if positive conditions continue, but we have recycled longer-dated and riskier bonds into shorter-dated ones with robust characteristics but attractive valuations. We expect bond selection to be the main driver of returns in this scenario. Many of the new additions have come from the new issue market which has been very active. This allows us to benefit from low transactions costs as well as a fruitful source of return as new issues often provide higher yields and more liquidity than their peers. Some new holdings have performed exceptionally well over a short period and we have since sold for a profit – Prysmian, an Italian cabling company and Tornator, a Finish forestry business are two examples. In other cases we had added to core holdings such as holiday business Center Parcs and banks such as ING and Intesa.

## Market Outlook

Looking ahead, much will depend on the direction of the US Treasury market, from which other assets are priced. Recent evidence suggests that robust economic growth, coupled with sticky inflation and high levels of bond issuance, will require higher for longer interest rates in the US. The challenge for policymakers in other regions, including the UK and Europe, is that they do not enjoy the same buoyant economic growth to justify maintaining high interest rates. The Bank of England, European Central Bank and others will find it difficult to balance the requirements of their own mandates and the risks of

deviating too far from US interest rate policy. We expect policy divergence to be a key theme in 2025.

As always, unpredictable events have the potential to upset the apple cart. Exactly which policy actions the incoming Trump administration will choose to enact remain unclear. The conflict in Ukraine, the potential for increasing energy prices and political instability in Western Europe present possible downside risks. However, as it stands, the outlook for corporate credit remains broadly supportive. US growth is robust and European growth expectations are low but stable. Inflation should remain closer to target and central banks have plenty of scope to cut interest rates. Across credit markets, company fundamentals are healthy and supply and demand dynamics are set to remain favourable.

Distribution of Portfolio by Asset Class

	Fund Weight*(%)
<b>Sterling</b>	
Conventional Sovereign	5.2
Conventional Non Sovereign	78.8
Index Linked	0.0
<b>Total Sterling</b>	<b>84.0</b>
<b>Cash &amp; Derivatives</b>	
<b>Total Cash &amp; Derivatives</b>	<b>4.7</b>
<b>Foreign Currency</b>	
Conventional Sovereign	0.0
Conventional Non Sovereign	11.3
Index Linked	0.0
<b>Total Foreign Currency</b>	<b>11.3</b>
<b>Total</b>	<b>100.0</b>

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

Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AAA	7.2
AA	11.2
A*	7.3
BBB*	60.8
BB*	7.8
B	1.0
Cash & Derivatives	4.7

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

Top Ten Issuers

	Fund Weight (%)
HM Treasury	4.0
Banco Santander	3.4
National Grid	3.3
Annington Finance	3.2
NatWest Group plc	3.0
Telereal Securitisation PLC	2.7
EDF	2.6
AT&T	2.5
Blackstone / GSO Loan Financing Limited	2.1
CPI Property Group	2.0

Distribution of Portfolio by Industry

	Fund Weight (%)
Banking	17.6
Real Estate	10.2
Utility	9.7
Asset Backed	8.0
Financial Services	7.6
Insurance	6.7
Sovereign	4.4
Telecommunications	3.9
Commercial Mortgage Backed	3.8
Supranational	3.7
Government Guaranteed	3.6
Automotive	2.9
Retail	2.9
Consumer Goods	2.4
Agency	2.3
Others	8.2
Cash & Derivatives	2.1

Distribution of Portfolio by Region

	Fund Weight (%)
United Kingdom	54.0
Europe	22.3
North America	11.3
Supranational	3.7
Emerging Markets	2.8
Developed Asia	1.3
Cash & Derivatives	4.7

### Company Engagement

Engagement Type	Company
Governance	Burberry Group plc, Close Brothers 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 %	Asset Name	Fund %
<b>Sterling Bonds</b>		<b>Sterling Bonds</b>	
<b>Conventional Sovereign</b>		<b>Conventional Sovereign</b>	
LCR Finance 4.5% 2028	0.80	DNB Bank 4% 2026/27	0.71
Long Gilt Future 10yr Mar 25	0.03	E.ON 5.875% 2037	0.30
UK Treasury 4.25% 07/12/2046	0.63	E.ON 6.75% 2039	0.42
UK Treasury 4.25% 07/12/2049	0.86	EDF 5.5% 2037	0.52
UK Treasury 4.375% 31/07/2054	0.38	EDF 5.5% 2041	0.28
UK Treasury 4.5% 07/12/2042	0.82	EDF 6% 2114	0.90
UK Treasury 4.75% 07/12/2030	1.72	EDF 7.375% 2035 Perp	0.91
<b>Total Conventional Sovereign</b>	<b>5.25</b>	EIB 4.5% 2044	0.68
<b>Conventional Non Sovereign</b>		EIB 4.625% 2054	0.33
Abrdn 5.25% 2026 Perp AT1	0.31	EIB 6% 2028	0.93
Admiral Group 8.5% 2034 T2	0.98	Ford Motor Co 5.625% 2028	0.92
Amgen 4% 2029	0.47	Gatwick Funding 5.5% 2040	0.62
Anglian Water 6% 2039	0.25	Great Portland Estates 5.375% 2031	0.37
Anglian Water 6.25% 2044	0.46	Heathrow Airport 6% 2032	0.48
Annington Funding 2.308% 2032	0.51	Heathrow Finance 5.75% 2025	0.72
Annington Funding 2.924% 2051	1.51	HSBC Bank 5.844% 2031 Perp	0.32
Annington Funding 3.935% 2047	0.52	Iberdrola SA 5.25% 2036	0.69
Annington Funding 4.75% 2033	0.71	IBRD 0.25% 2026	1.24
AT&T 4.25% 2043	0.36	IBRD 5.75% 2032	0.50
AT&T 4.875% 2044	0.38	Inchcape 6.5% 2028	1.41
AT&T 7% 2040	1.77	ING Groep 5% 2025/26	0.89
Banco Santander 3.125% 2025/26	0.92	Intesa Sanpaolo 6.5% 2028/29	0.94
Banco Santander 5.5% 2029	1.19	Investec 1.875% 2027/28	0.74
Barclays 3.75% 2025/30 T2	0.23	Investec 10.5% 2030 Perp AT1	0.29
Barclays 7.09% 2028/29	0.47	Investor 5.5% 2037	0.39
Barclays 8.407% 2027/32 T2	0.76	KfW 4.25% 2030	0.70
Berkeley Group 2.5% 2031	0.81	KfW 5% 2036	0.46
Blackstone Private Credit 4.875% 2026	2.14	KfW 6% 2028	0.83
Burberry 1.125% 2025	1.47	Legal & General 5.375% 2025/45 T2	1.81
CaixaBank 6.875% 2028/33 T2	1.00	Lunar Funding 1 5.75% 2033	0.46
Canada Pension Plan 1.25% 2027	0.45	Mitchells & Butlers FRN (AB) 2033	1.48
Canada Pension Plan 1.625% 2071	0.70	Motability 3.625% 2036	0.45
Center Parcs 5.876% 2027	0.93	Motability 5.625% 2035	0.88
Center Parcs 5.94% 2030	0.52	National Gas Transmission 1.375% 2031	0.97
Center Parcs 6.136% 2031	0.21	National Grid 5.625% 2025 Perp	0.36
Centrica 6.5% 2030 Perp	0.38	National Grid ED plc 3.5% 2026	0.79
Centrica 7% 2033	0.32	National Grid ED S Wales 5.35% 2039	0.49
CK Hutchison Telecom 2.625% 2034	0.93	National Grid ED W Midlands 6% 2025	0.67
Close Brothers 7.75% 2028	0.45	Nationwide 5.75% Perp AT1	0.49
CPI Property 2.75% 2028	0.68	Nationwide Building Society 6.125% 2028	0.86
		NatWest 2.875% 2025/26	0.92
		NatWest 3.622% 2025/30 T2	0.91
		NatWest 5.642% 2034	1.17

Asset Name	Fund %	Asset Name	Fund %
Network Rail 4.75% 2035	0.86	US 10yr Note Future Mar 25	0.00
New York Life Insurance 4.875% 2031	1.02	US 5yr Note Mar 25	0.00
New York Life Insurance 4.95% 2029	0.91	<b>Total Conventional Sovereign</b>	<b>0.00</b>
Ontario Teachers' Pension Plan Board 1.125% 2026	0.46		
Pearson Funding 5.375% 2034	0.65	<b>Conventional Non Sovereign</b>	
Pension Insurance 4.625% 2031 T2	0.99	Asmodee Group 5.75% 2029	0.23
Pension Insurance Corp 8% 2033 T2	0.14	BEL SA 4.375% 2029	1.20
Phoenix Group 7.75% 2033/53 T2	0.55	Burford Capital 6.25% 2028 (144a)	0.43
Pinewood Gp 3.625% 2027	0.99	Burford Capital 9.25% 2031 (144A)	0.58
Realty Income 1.875% 2027	0.27	CDIB ITRX Crossover SAS	-2.95
Realty Income 5% 2029	0.39	CPI Property 1.5% 2031	1.34
Santander UK 7.098% 2026/27	1.29	ING Groep 3.375% 2032	0.50
Schroders 6.346% 2029/34 T2	1.29	International Workplace Group 6.5% 2030	1.60
SNCF Reseau 5.25% 2035	0.35	Intesa 4.271% 2036 T2	1.08
South West Water 6.375% 2041	0.69	Public Property Invest 4.625% 2030	1.51
Sovereign Housing 4.768% 2043	0.44	Rabobank 6.5% Perp	0.39
Swedish Export Credit 0.125% 15/12/2025	0.47	Roquette Freres 3.774% 2031	1.22
Telereal 1.3657% 2031 (A6)	0.13	TAG Immobilien 4.25% 2030	1.22
Telereal 1.9632% 2031 (B2)	0.94	Teleperformance 5.75% 2031	0.96
Telereal 3.5625% 2031 (A3)	0.99	Teva 7.875% Pharma 2031	0.59
Telereal 5.634% 2031 (B3)	0.27	Teva Pharma 7.375% 2029	0.39
Telereal FRN 2031 (B7)	0.39	UBS 7% 2025 Perp	1.02
Temasek 5.125% 2040	0.37	<b>Total Conventional Non Sovereign</b>	<b>11.31</b>
Tesco Property Finance 1 7.6227% 2039	0.36	<b>Total Foreign Currency Bonds</b>	<b>11.31</b>
Tesco Property Finance 4 5.801% 2040	0.78		
Vodafone 3% 2056	0.44	<b>Cash &amp; Derivatives</b>	
Volkswagen 2.25% 2025	1.01	<b>Forwards</b>	
Volkswagen 4.25% 2025	1.01	EUR Fwd Asset 20-Feb-2025 S	-12.26
Weir Group 6.875% 2028	1.16	GBP Fwd Asset 20-Feb-2025 P	14.33
Welsh Water 1.625% 2026	0.47	USD Fwd Asset 20-Feb-2025 S	-1.99
Welsh Water 2.375% 2034	0.62	<b>Total Forwards</b>	<b>0.08</b>
Welsh Water 5.75% 2044	0.82		
Yorkshire Building Society 3.375% 2027/28 T2	0.39	<b>Swaps</b>	
Yorkshire Building Society 6.375% 2027/28	1.16	CDIB ITRX Crossover SAS	2.71
Yorkshire Power 7.25% 2028	1.04	IRS GBP PAY FLT 19/09/27	-12.40
Yorkshire Water 2.75% 2041	0.24	IRS GBP PAY FLT 21/03/27	-7.32
Yorkshire Water 5.5% 2035	0.14	IRS GBP REC FIX 19/09/27	12.22
Yorkshire Water 6.601% 2031	0.28	IRS GBP REC FIX 21/03/27	7.25
<b>Total Conventional Non Sovereign</b>	<b>78.76</b>	<b>Total Swaps</b>	<b>2.45</b>
<b>Total Sterling Bonds</b>	<b>84.01</b>		
		<b>Cash</b>	
<b>Foreign Currency Bonds</b>		Collateral Account Memo	0.18
<b>Conventional Sovereign</b>		EUR Futures Initial Margin Account	0.15



Asset Name	Fund %
EUR Uncommitted Cash	0.05
GBP BNY Revenue Uncommitted Cash	-0.35
GBP CCP Initial Margin	0.52
GBP CCP Variation Margin	0.27
GBP Futures Initial Margin Account	0.35
GBP Uncommitted Cash	0.97
USD Futures Initial Margin Account	0.01
USD Uncommitted Cash	0.00
Total Cash	2.15
Total Cash & Derivatives	4.68
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-Inc	26 March 2002	GB0030816481	3081648	0.25	0.27	5.00	4.70
Class B-Acc	01 April 2016	GB00BYQCYS34	BYQCYS3	0.25	0.27	5.00	4.70

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.

ICE Data Indices

Source: ICE DATA INDICES, LLC ("ICE DATA"), is used with permission. ICE® is a registered trademark of ICE DATA or its affiliates and BOFA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BOFA") and may not be used without BOFA'S prior written approval. ICE DATA, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE DATA, its affiliates nor their respective third party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided as an "as is" basis and your use is at your own risk. ICE DATA, its affiliates and their respective third party suppliers do not sponsor, endorse or recommend Baillie Gifford & Co, or any of its products and services.

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.

This document is issued by Baillie Gifford & Co Limited, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, a company which is authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 119179, and is a member of The Investment Association. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co, which is authorised and regulated by the Financial Conduct Authority. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK clients. Both are authorised and regulated by the Financial Conduct Authority.

#### **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 December 2024 and source is Baillie Gifford & Co unless otherwise stated.