

Baillie Gifford Investment Grade 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

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	£973.7m
IA Sector	£ Corporate Bond
Current Number of Issuers	81
Typical Number of Issuers	50-90
Duration	5.8
Tracking Error	0.9%
Tracking Error Range	0.5-3%

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 (%)	0.4	6.9	-3.5	-0.3
Index (%)*	0.0	6.1	-3.3	-0.3
Target (%)**	0.2	6.9	-2.7	0.2
Sector Average (%)***	0.4	7.4	-2.3	0.5

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

	31/03/19- 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 (%)	0.9	8.6	-5.0	-11.5	6.9
Index (%)*	1.7	7.0	-5.1	-10.3	6.1
Target (%)**	2.2	7.5	-4.6	-9.7	6.9
Sector Average (%)***	0.8	9.0	-4.3	-9.1	7.4

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

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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 indicating we have reached a peak in interest rates.

Across developed markets there are signs inflation is not as well-controlled as hoped, however. At the beginning of 2024, markets had priced in significant interest rate cuts in 2024. Expectations for the number of cuts has fallen, and the timing 'pushed out', with weakness in government bond markets as result.

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

Absolute returns were low for the quarter, reflecting a modest rise in government bond yields as expectations for interest rate cuts softened. Corporate bonds performed relatively well, with credit spreads (the additional yield provided to compensate for the credit risk in corporate bonds) falling as positive sentiment for riskier assets continued.

The Fund outperformed its benchmark, most notably in March with the additional risk being taken (see following Positioning section) bearing fruit.

Over longer periods, Fund returns have been close to the 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, as has our exposure to higher-yielding bonds such as subordinated financials, where we have been responsive to changing market sentiment and taken advantage of valuation opportunities that have arisen.

Positioning

We remain cautious with valuations on corporate bonds continuing to steadily rise, and we believe tighter financial conditions are likely to cause pockets of stress at some point, leading to volatile bond prices. However, with a benign economic backdrop and plenty of demand for bonds given the high level of all-in yield – accounting for high government bond yields, despite falling credit spreads – corporate bonds may continue to perform well. We decided, on balance, to add a little risk to the Fund but we retain meaningful headroom to add more should there be a sell-off.

We reduced exposure to government bonds and low-risk quasi-government holdings (such as European Investment Bank and German government-guaranteed KfW) in favour of some higher yielding opportunities. Among new purchases were Kyndryl and CK Hutchison Telecoms. Kyndryl is 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, providing us with an attractive opportunity for the Fund. CK Hutchison Telecoms is owned by one of the largest Hong Kong-based conglomerates but focused on European operations. If a proposed merger between Vodafone and Three is approved it should provide significant synergies and result in higher bond prices.

Among sales of bonds that had performed well were Arqiva, a British telecoms group, and Carrier Global, a US business providing heating and air-con services. We also exited our position in Mobico – the former National Express Group which operates transport in the UK and internationally – as we lost confidence in management strategy. We were able to sell at prices which, in our view, do not reflect a deteriorating fundamental outlook.

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, hence our cautious outlook and portfolio positioning.

Distribution of Portfolio by Asset Class

	Fund Weight* (%)
Sterling	
Conventional Sovereign	4.2
Conventional Non Sovereign	80.9
Index Linked	0.0
Total Sterling	85.1
Cash & Derivatives	
Total Cash & Derivatives	1.8
Foreign Currency	
Conventional Sovereign	0.0
Conventional Non Sovereign	13.1
Index Linked	0.0
Total Foreign Currency	13.1
Total	100.0

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

Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AAA	11.3
AA	10.5
A	15.4
BBB*	52.8
BB	8.1
Cash & Derivatives	1.8
Total	100.0

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

Distribution of Portfolio by Sector

	Fund Weight (%)
Financial	34.7
Industrials	27.1
Quasi & Foreign Government	13.1
Utility	11.0
Securitized	8.9
Sovereign	3.4
Covered	0.0
Cash & Derivatives	1.8
Total	100.0

Distribution of Portfolio by Region

	Fund Weight (%)
United Kingdom	47.6
Europe	25.6
North America	15.4
Supranational	5.8
Emerging Markets	2.5
Developed Asia	1.4
Cash & Derivatives	1.8
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, Tritax Big Box REIT 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 %
Sterling Bonds		E.ON 6.75% 2039	
Conventional Sovereign		EDF 5.5% 2037	
LCR Finance 4.5% 2028	0.85	EDF 5.5% 2041	0.31
UK Treasury 3.5% 22/10/2025	0.44	EDF 6% 2026 Perp	0.68
UK Treasury 4.25% 07/12/2049	1.72	EDF 6% 2114	0.48
UK Treasury 4.5% 07/12/2042	1.23	EIB 0.125% 2026	0.50
Total Conventional Sovereign	4.24	EIB 1.375% 2025	0.60
Conventional Non Sovereign		EIB 4.5% 2044	0.74
Abrdn 5.25% 2026 Perp AT1	0.30	EIB 4.625% 2054	0.39
Admiral Group 8.5% 2034 T2	1.09	EIB 6% 2028	1.80
Amgen 4% 2029	0.69	Enel 2.875% 2029	0.97
Anglian Water 6% 2039	0.29	Ford Motor Co 4.535% 2025	0.92
Annington Funding 2.308% 2032	0.49	Ford Motor Co 5.625% 2028	0.97
Annington Funding 2.924% 2051	0.86	Gatwick Funding 5.5% 2040	0.65
Annington Funding 3.935% 2047	0.50	Heathrow Airport 2.75% 2049	0.15
Annington Funding 4.75% 2033	0.68	Heathrow Airport 4.625% 2046	0.46
AT&T 4.25% 2043	0.40	Holcim 2.25% 2034	0.18
AT&T 4.875% 2044	0.42	Housing & Care 3.288% 2049	0.51
AT&T 7% 2040	1.93	HSBC Bank 5.844% 2031 Perp	0.34
Aviva 6.875% 2038/58 T2	0.75	Iberdrola SA 4.875% 2027	0.89
Banco Santander 1.5% 2026	0.38	IBRD 0.25% 2026	1.24
Banco Santander 3.125% 2025/26	0.94	IBRD 5.75% 2032	0.54
Bank of America 1.667% 2028/29	0.74	Inchcape 6.5% 2028	1.04
Barclays 1.7% 2025/26	0.46	ING Groep 5% 2025/26	0.93
Barclays 3.75% 2025/30 T2	0.24	Intesa Sanpaolo 6.5% 2028/29	0.95
Barclays 7.09% 2029	0.50	Investec 1.875% 2027/28	1.22
Barclays 7.125% 2025 Perp AT1	0.30	Investec 10.5% 2030 Perp AT1	0.52
Barclays 8.407% 2027/32 T2	0.79	Investor 5.5% 2037	0.43
Berkeley Group 2.5% 2031	0.82	KFW 0.875% 2024	0.49
Blackstone Private Credit 4.875% 2026	1.71	KFW 0.875% 2026	0.97
CaixaBank 6.875% 2028/33 T2	0.73	KFW 5% 2036	0.52
Canada Pension Plan 1.25% 07/12/2027	0.47	KFW 6% 2028	0.90
Canada Pension Plan 1.625% 22/10/2071	0.48	KPN 5.75% 2029	0.18
Center Parcs 5.876% 2027	0.95	Legal & General 5.375% 2025/45 T2	1.16
Center Parcs 6.136% 2031	0.21	Longhurst Libra 3.25% 2043	0.39
Centrica 7% 2033	0.87	Lunar Funding 1 5.75% 2033	0.89
Citigroup 5.875% 2024 T2	0.52	Motability 3.625% 2036	0.49
CK Hutchison Telecom 2.625% 2034	0.98	Motability 5.625% 2035	0.94
CPI Property 2.75% 2028	0.61	National Gas Transmission 1.375% 2031	0.97
DNB Bank 1.375% 2024/25	1.43	National Grid 5.625% 2025 Perp	0.38
DNB Bank 4% 2026/27	1.26	National Grid ED plc 3.5% 2026	0.81
E.ON 5.875% 2037	0.33	National Grid ED S Wales 5.35% 2039	0.53
		National Grid ED W Midlands 6% 2025	0.70

Asset Name	Fund %	Asset Name	Fund %
Nationwide 5.875% 2024 Perp AT1	0.48	Total Conventional Non Sovereign	80.90
Nationwide Building Society 6.125% 2028	0.91	Total Sterling Bonds	85.14
NatWest 2.875% 2025/26	0.94		
NatWest 3.125% 2026/27	0.29	Foreign Currency Bonds	
NatWest 3.622% 2025/30 T2	0.92	Conventional Non Sovereign	
NatWest 5.125% 2027 Perp AT1	0.30	AB InBev 3.75% 2037	0.54
Network Rail 4.75% 2035	0.95	AB InBev 3.95% 2044	0.42
New York Life Insurance 4.95% 2029	0.97	Amgen 5.65% 2053	0.23
Ontario Teachers' Pension Plan Board 1.125% 2026	0.46	Amgen 5.75% 2063	0.45
Pension Insurance 4.625% 2031 T2	1.24	AP Moller-Maersk A/S 4.125% 2036	1.46
Pension Insurance Corp 8% 2033 T2	0.15	Burford Capital 6.25% 2028 (144a)	0.44
Phoenix Group 7.75% 2033/53	0.59	Burford Capital 9.25% 2031 (144A)	0.58
Realty Income 6% 2039	0.51	Caixabank 5.875% 2027 Perp AT1	0.28
Santander UK 2.92% 2025/26	0.48	Caixabank 7.5% 2030 Perp AT1	0.30
Santander UK 6.75% 2024 Perp AT1	1.52	CPI Property 1.5% 2031	0.62
Santander UK 7.098% 2026/27	0.90	Enel 6.625% 2031 Perp	0.49
SNCF Reseau 5.25% 2035	0.37	Iberdrola 1.874% 2026 Perp	0.50
Sovereign Housing 4.768% 2043	0.50	Intesa Sanpaolo 5.874% 2031 Perp	0.29
Swedish Export Credit 0.125% 15/12/2025	0.47	Kyndryl Holdings 6.35% 2034	1.47
Telefonica 5.375% 2026	0.91	LeasePlan 7.375% 2024 Perp AT1	0.65
Telereal (B-3) 5.634% 2031	0.72	Rabobank 6.5% Perp	0.60
Telereal (B7) FRN 2031	0.41	Realty Income 5.125% 2034	1.00
Telereal 1.3657% 2031 (A6)	0.16	Telefonica 5.7522% 2032 Perp	0.47
Telereal 1.9632% 2033 (B2)	0.39	Telefonica 6.75% 2031 Perp	0.51
Telereal 3.5625% 2031 (A3)	1.03	Telefonica 8.25% 2030	1.20
Telereal 5.3887% 2031/33 (A5)	0.09	Teva 7.875% 2031	0.60
Temasek 5.125% 2040	0.41	Total Conventional Non Sovereign	13.10
Tesco Property Finance 1 7.6227% 2039	0.40	Total Foreign Currency Bonds	13.10
Tesco Property Finance 4 5.801% 2040	0.86		
Tritax Big Box 1.5% 2033	0.53	Cash & Derivatives	
Vodafone 3% 2056	0.51	Forwards	
Volkswagen 3.375% 2026	0.38	EUR Fwd Asset 23-May-2024 S	-8.83
Weir Group 6.875% 2028	1.23	GBP Fwd Asset 23-May-2024 P	13.28
Wellcome Trust 2.517% 2118	0.31	USD Fwd Asset 23-May-2024 S	-4.44
Welsh Water 1.625% 2026	0.48	Total Forwards	0.01
Welsh Water 2.375% 2034	0.66		
Yorkshire Building Society 3.375% 2027/28	0.39	Swaps	
Yorkshire Building Society 6.375% 2027/28	1.22	IRS GBP PAY FLT 19/07/25	-15.03
Yorkshire Power 7.25% 2028	1.11	IRS GBP PAY FLT 21/03/27	-7.29
Yorkshire Water 2.75% 2041	0.27	IRS GBP PAY FLT 26/10/25	-10.98
Yorkshire Water 5.5% 2035	0.16	IRS GBP REC FIX 19/07/25	15.21
Yorkshire Water 6.601% 2031	0.39	IRS GBP REC FIX 21/03/27	7.29
Zurich Financial Services 5.125% 2032/52 T2	1.13	IRS GBP REC FIX 26/10/25	11.05

Asset Name	Fund %
Total Swaps	0.25
Cash	
EUR Futures Initial Margin Account	0.16
EUR Uncommitted Cash	0.00
GBP BNY Revenue Uncommitted Cash	-0.54
GBP CCP Cash Account	0.00
GBP CCP Initial Margin	0.66
GBP CCP Variation Margin	-0.25
GBP Futures Initial Margin Account	0.16
GBP Uncommitted Cash	1.22
USD Futures Initial Margin Account	0.09
USD Uncommitted Cash	0.00
Total Cash	1.50
Total Cash & Derivatives	1.76
Total	100.00

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Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Inc	26 March 2002	GB0030816481	3081648	0.25	0.27
Class B-Acc	01 April 2016	GB00BYQCYS34	BYQCYS3	0.25	0.27

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