

## Baillie Gifford Strategic 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	26 February 1999
Fund Size	£376.7m
IA Sector	£ Strategic Bond
Current Number of Issuers	76
Typical Number of Issuers	60-85
Duration	4.9
Average Credit Rating	BBB
Tracking Error	1.1%
Tracking Error Range	1-4%
Redemption Yield	5.9
Running Yield	5.2

### 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 Manager

Name	Years' Experience
Robert Baltzer	23
Lesley Dunn*	23
Theo Golden	5

\*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 (%)	1.2	6.7	-0.7	0.6
Index (%)*	0.3	4.2	-1.0	0.5
Sector Average (%)**	-0.1	4.6	0.1	1.5

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.

\*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

	31/12/19- 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 (%)	6.2	-0.6	-16.0	9.1	6.7
Index (%)*	6.7	-0.9	-15.5	10.2	4.2
Sector Average (%)**	6.6	0.8	-11.0	7.8	4.6

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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\*\*IA £ Strategic 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's total return was positive in the final quarter of 2024. This was driven entirely by a strong contribution from bond selection. The composite index delivered a broadly flat return as 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). While a broad range of positions added relative value, a significant contribution came from the Fund's large position in bonds issued by Annington Funding following the announcement that it would sell the Married Quarters Estate back to the UK Ministry of Defence in December. As a result, Annington announced a tender offer to buy back many of its bonds leading to a significant rally in prices.

Relative returns over the last 12 months were also strong with bond selection driving outperformance. In addition to a strong contribution from Annington, the Fund's allocations within the European property

sector (a recovery story) and off-benchmark subordinated insurance bonds were key contributors. Performance relative to the peer group average was also strong. Given the diverse nature of strategies found within the £ Strategic Bond peer group it is hard to directly attribute the source of relative returns however contributions from bond selection and the fact that corporate bonds outperformed government bonds in 2024 are likely to be the key factors behind strong performance.

On a three-year basis, Fund returns are just ahead of the comparator index. Positive bond selection across a broad range of sectors and contributions from active management of portfolio credit risk were offset by the Fund's exposure to interest rate-sensitive sectors such as real estate which underperformed as interest rate expectations rose sharply in 2022.

## Positioning

Across the rating spectrum, credit spreads are now at post-financial crisis tightness (there is an inverse relationship between low credit spreads and valuations). Given increasing political uncertainty and the prospect of higher for longer interest rates across markets, current valuations give cause for caution. We therefore took action to protect clients from downside risk this quarter by reducing the Fund's exposure to potential market volatility at portfolio level.

This was primarily achieved by reducing banking exposure and using index-level credit default swaps (a derivative) to decrease aggregate credit risk. Using this instrument allows us to adjust positioning without selling out of the cash bonds that hold the potential to add value through bond selection. The Fund ends the quarter with high yield exposure of c. 25% (below the Fund's typical strategic allocation of 30%) and no exposure to the lowest quality CCC-rated bonds. The portfolio continues to hold dry powder in the form of a c. 24% allocation to A-rated and above investment-grade bonds ready to be deployed in the event of volatility. We expect bond selection to be the main driver of relative returns in 2025 as was the case in 2024.

Significant new additions this quarter included new issues from UK parcel delivery company Evri and specialist UK insurer Domestic and General (D&G). We believe the market has failed to fully recognise Evri's improving trajectory creating a valuation opportunity. This is a resilient high yield issuer that stands to benefit from e-commerce growth. It has long-tenured blue-chip customers and a recent history of gaining market share. D&G provides a valued and successful extended warranty offering in

the UK that has potential in other markets. These B-rated bonds offer an attractive yield for the rating and meet our resilience criteria. D&G is a leading player in a growing market with scale and strong partnerships. Its liquidity position and low cyclical risk help to offset the risks associated with its high working capital requirements.

## 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. So, what can corporate bond investors expect in 2025? Broadly, yields start the year at similar levels to where they were 12 months ago. In this context, we continue to believe corporate bonds offer attractive return potential for patient income investors. High coupon income provides a solid base for total returns. Where tightening credit spreads offset the impact of rising government bond yields in 2024, falling government bond yields hold the potential to offset the impact of any spread widening in 2025. As always, our portfolio is well-equipped to add value through bond selection no matter the market conditions.

## Distribution of Portfolio by Asset Class

	Fund Weight*(%)
<b>Sterling</b>	
Conventional Sovereign	1.6
Conventional Non Sovereign	63.1
Index Linked	0.0
<b>Total Sterling</b>	<b>64.7</b>
<b>Cash &amp; Derivatives</b>	
<b>Total Cash &amp; Derivatives</b>	<b>8.0</b>
<b>Foreign Currency</b>	
Conventional Sovereign	0.0
Conventional Non Sovereign	27.3
Index Linked	0.0
<b>Total Foreign Currency</b>	<b>27.3</b>

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

## Distribution of Portfolio by Credit Rating Band

	Fund Weight (%)
AAA	7.0
AA	2.8
A*	11.8
BBB*	45.3
BB*	12.2
B	12.9
CCC-D*	0.0
Cash & Derivatives	8.0

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

## Top Ten Issuers

	Fund Weight (%)
Barclays	3.5
Annington Finance	3.5
Telereal Securitisation PLC	3.1
Rothsay Life Plc	2.7
DNB Bank ASA	2.6
Banco Santander	2.4
Berkeley Group	2.1
KfW	2.0
Investec Plc	2.0
Realty Income Corporation	2.0

## Distribution of Portfolio by Industry

	Fund Weight (%)
Financial Services	13.4
Real Estate	12.2
Insurance	11.3
Banking	11.2
Retail	6.6
Asset Backed	5.7
Commercial Mortgage Backed	4.1
Telecommunications	3.4
Transportation	3.1
Agency	3.1
Services	2.9
Utility	2.8
Health Care	2.5
Capital Goods	2.4
Technology & Electronics	2.1
Government Guaranteed	2.0
Others	8.2
Cash & Derivatives	3.0

## Distribution of Portfolio by Region

	Fund Weight (%)
United Kingdom	50.2
Europe	19.1
North America	12.3
Emerging Markets	4.9
Developed Asia	3.7
Supranational	1.9
Cash & Derivatives	8.0

Company Engagement

Engagement Type	Company
Environmental	CTP N.V., Edge Finco PLC
Social	B&M European Value Retail S.A., CTP N.V., Edge Finco PLC
Governance	B&M European Value Retail S.A., Burberry Group plc, CTP N.V., Close Brothers Group plc, Edge Finco PLC
Strategy	CTP N.V., Edge Finco 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>	
Long Gilt Future 10yr Mar 25	0.01	Pension Insurance 5.625% 2030 T2	0.48
UK Treasury 4.25% 07/12/2046	1.60	Pension Insurance Corp 8% 2033 T2	1.32
<b>Total Conventional Sovereign</b>	<b>1.62</b>	Pinewood 6% 2030	0.92
<b>Conventional Non Sovereign</b>		<b>Conventional Non Sovereign</b>	
Abrdn 5.25% 2026 Perp AT1	1.00	Pinewood Gp 3.625% 2027	0.46
Admiral Group 8.5% 2034 T2	1.10	Rothsay Life 8% 2025	2.77
Annington Funding 2.308% 2032	1.95	Schroders 6.346% 2029/34 T2	1.86
Annington Funding 2.924% 2051	0.91	Telefonica 5.375% 2026	0.51
Annington Funding 3.935% 2047	0.72	Telereal 6.1645% 2031 (B4)	0.93
B&M European Value Retail 8.125% 2030	1.51	Telereal FRN 2031 (C1)	2.21
Banco Santander 1.5% 2026	2.39	TP ICAP Gp 2.625% 2028	0.17
Barclays 1.7% 2025/26	1.24	TP ICAP Gp 7.875% 2030	0.78
Barclays 7.125% 2025 Perp AT1	2.34	University of Oxford 2.544% 2117	1.22
Berkeley Group 2.5% 2031	2.15	Weir Group 6.875% 2028	1.21
Blackstone Private Credit 4.875% 2026	1.72	Welsh Water 2.375% 2034	1.21
Burberry 1.125% 2025	1.17	WH Smith 1.625% 2026 Convertible	0.77
CaixaBank 6.875% 2028/33 T2	1.01	Yorkshire Water 6.375% 2034	1.78
Canada Pension Plan 1.25% 2027	1.55	Zurich Financial Services 5.125% 2032/52 T2	1.64
CK Hutchison Telecom 2.625% 2034	1.57	<b>Total Conventional Non Sovereign</b>	<b>63.11</b>
Close Brothers 7.75% 2028	0.50	<b>Total Sterling Bonds</b>	<b>64.72</b>
Delamare 5.5457% 2029	1.02	<b>Foreign Currency Bonds</b>	
DNB Bank 4% 2026/27	2.63	<b>Conventional Sovereign</b>	
Domestic & General 8.125% 2029	1.03	US Ultra 10yr Note Future Mar 25	0.01
EDF 6% 2114	0.90	<b>Total Conventional Sovereign</b>	<b>0.01</b>
EDF 7.375% 2035 Perp	1.03	<b>Conventional Non Sovereign</b>	
EIB 4.625% 2054	1.57	Asmodee Group 5.75% 2029	0.23
Evri 8.125% 2031	1.12	Bath & Body Works 9.375% 2025 (144A)	1.00
Heathrow Airport 6.45% 2031/33	0.77	BestSecret E+3.75% FRN 2029	1.14
IBRD 5.75% 2032	0.29	Bharti Airtel 5.65% 2025 Perp	0.86
Investec 10.5% 2030 Perp AT1	0.69	Brightline East 11% 2030 (144A)	1.15
Investec 2.625% 2026/32 T2	1.36	Burford Capital 9.25% 2031 (144A)	1.20
J.P. Morgan 1.895% 2033	0.52	CDIB ITRX Crossover GOS	-5.99
KFW 5% 2036	0.22	Cirsa Finance 10.375% 2027	0.91
KFW 5.75% 2032	1.84	Concentrix 6.65% 2026	0.74
Legal & General 5.625% 2031 Perp RT1	1.55	Coronado 9.25% 2029 (144A)	0.56
Mitchells & Butlers 5.574% 2030 (A2)	0.16	CPI Property 1.5% 2031	1.55
Mitchells & Butlers 6.469% 2030 (C1)	0.53	Ctp N.V. 4.75% 2030	0.60
Mitchells & Butlers FRN (AB) 2033	1.26	DSV 3.25% 2030	0.29
Mobico Group 3.625% 2028	0.59	Helvetia 2.75% 2031/41 T2	0.52
National Grid ED E Midlands 5.75% 2040	0.94	IMA E+3.75% FRN 2029	1.18
		Infopro Digital 8% 2028	1.34
		International Personal Finance 10.75% 2029	0.78

Asset Name	Fund %
International Workplace Group 6.5% 2030	1.76
Intesa 3.75% 2025 Perp AT1	1.14
Jefferies Finance Group 5% 2028 (144A)	0.72
Mercer Intl 12.875% 2028 (144A)	0.55
Motability 4% 2030	1.76
Motel One 7.75% 2031	0.56
Neopharmed 7.125% 2030	0.75
OCI 6.7% 2033 (144A)	0.65
Pershing Square 3.25% 2031 (RegS)	0.38
Pershing Square Holdings 3.25% 2030	1.59
Public Property Invest 4.625% 2030	0.76
Realty Income 5.125% 2034	2.03
Sitios Latinoamerica 5.375% 2032	0.53
Sunrise Medical 6.5% 2031	1.20
TAG Immobilien 4.25% 2030	1.65
Temasek 0.5% 2031	0.77
Temasek 3.5% 2033	0.78
Teva 7.875% Pharma 2031	0.61
Virgolino De Oliveira 11.75% 2022	0.01
Walgreen Co 8.125% 2029	1.08
<b>Total Conventional Non Sovereign</b>	<b>27.33</b>
<b>Total Foreign Currency Bonds</b>	<b>27.34</b>

#### Cash & Derivatives

##### Forwards

EUR Fwd Asset 23-Jan-2025 S	-22.16
GBP Fwd Asset 23-Jan-2025 P	33.37
USD Fwd Asset 23-Jan-2025 S	-11.08
<b>Total Forwards</b>	<b>0.13</b>

##### Swaps

CDIB ITRX Crossover GOS	5.54
IRS GBP PAY FLT 26/07/29	-6.58
IRS GBP PAY FLT 26/07/42	-1.81
IRS GBP REC FIX 26/07/29	6.49
IRS GBP REC FIX 26/07/42	1.73
<b>Total Swaps</b>	<b>5.38</b>

##### Cash

Collateral Account Memo	0.35
EUR Futures Initial Margin Account	0.08
EUR Uncommitted Cash	0.05
GBP BNY Revenue Uncommitted Cash	-1.06

Asset Name	Fund %
GBP CCP Initial Margin	0.47
GBP CCP Variation Margin	0.18
GBP Futures Initial Margin Account	0.14
GBP Uncommitted Cash	2.09
USD Futures Initial Margin Account	0.12
USD Uncommitted Cash	0.02
<b>Total Cash</b>	<b>2.42</b>
<b>Total Cash &amp; Derivatives</b>	<b>7.94</b>
<b>Total</b>	<b>100.00</b>

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Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)	Distribution Yield (%)	Underlying Yield (%)
Class B-Inc	26 February 1999	GB0005947741	0594774	0.50	0.53	5.20	4.60
Class B-Acc	21 June 2000	GB0005947857	0594785	0.50	0.53	5.20	4.60

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

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

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