Baillie Gifford Strategic Bond B Inc

October 2021
Investment Research

Opinion

Square Mile rating

A

Exclusion | Sustainable
Responsible Practices | Impact

FE fundinfo crown rating

FE fundinfo Crown Fund Rating

Performance

Yield

3.39%

% of time met performance objective over 3 years

45.3%

Risks

Risk of asset class

1 2 3 4 5 6 7 8 9 10

Risk of fund within asset class

1 2 3 4 5

SRRI

4

-15.30%

3 years max drawdown

Costs

Ongoing charges

0.52%

Transaction costs

0.28%

Total cost of investment

0.80%

ESG

Company

0 1 2+ 3

Fund

0 1 2 3

Overview

This fund invests mainly in corporate bonds across the credit rating spectrum, with a focus on providing income, although the level of income is not guaranteed and will vary depending on the market cycle. Through the process of identifying and investing in undervalued bonds, there is potential for some capital appreciation, although this is a secondary consideration.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
		●	

Square Mile Expected Outcome

We believe outperforming the fund's composite index, 70% ICE BofA Sterling Non Gilts/ 30% ICE BofA European CCY HY Constr. (hedged to GBP), on a rolling three year basis is a reasonable expectation.

Active/Passive: Active	**Domicile:** United Kingdom
Asset Class: Fixed Income	**IA Sector:** IA Sterling Strategic Bond
Launch Date: 26/02/1999	**Fund Size (as at 13 Oct 2021):** £1320.2m
Yield: 3.39%	**Distribution Pay Date:** Monthly
Fund Manager: Lesley Dunn, Torcail Stewart	**Ongoing Charge Figure:** 0.52%
	Transaction Cost ex Ante: 0.28%

Fund Opinion

This fund provides exposure to corporate bonds across the ratings spectrum through a process which is both robust and slightly different to many of its competitors. The actual allocation to investment grade and sub-investment grade bonds will vary depending on where the managers see the most value, and is mostly a result of bottom-up stock picking rather than an asset allocation decision.

Due to the process used, the fund may look and perform in a way which is different to both the peer group and the benchmark. The focus on identifying and investing in undervalued securities means that performance can be somewhat more volatile than other funds investing in similar instruments, with the fund tending to underperform in a falling market and outperform in a rising market. The managers seek bonds which they believe to be undervalued and which they think will re-price. These opportunities may take some time to play out, however, and investors will therefore need some patience at times in order to fully benefit from the strategy. The fund would be most suitable for investors who are looking for a level of income higher than that on comparable investment grade bonds, with the potential for some capital growth, and who are prepared to hold the fund over longer time periods (at least one full market cycle).

We like the focus on resilient businesses and undervalued bonds applied to the fund, as well as the team approach. We believe the fund could be an attractive option for income-hungry investors. Baillie Gifford has an experienced credit team and we have confidence that the managers will continue to follow their process and generate a good level of income for investors.

Fund Description

Baillie Gifford was founded in 1908 and is one of the largest independent active investment managers in the UK, investing across fixed income and equities globally. This fund is managed by Torcail Stewart and Lesley Dunn. Mr Stewart started his career at Alliance Trust in 2006, where he worked on the UK large capitalisation equity team for two years. He joined Baillie Gifford in 2008 and is an investment manager on the credit team. Ms Dunn is Head of the Credit Team at Baillie Gifford, having joined from Aberdeen Asset Management in 2016 and has over 20 years' investment experience. The managers can also draw upon the expertise of the wider investment resources at Baillie Gifford.

Baillie Gifford believe that the corporate bond markets are inefficient and often fail to reflect all relevant information. This, combined with the segmented nature of the markets, frequently causes bonds to move away from their fair valuations, creating opportunities for investors who can analyse the relevant information and take advantage of such mis-pricings. As active managers, the corporate bond team at Baillie Gifford seeks to benefit from opportunities in the market, closely analysing a company's creditworthiness and the characteristics of individual securities in order to identify suitable opportunities. The credit analysis scores companies on the basis of their resilient business models, durable competitive positions, the strength of their capital structures and their governance and sustainability. The team is prepared to go against market consensus in order to follow its investment philosophy.

Through their analysis the team's members invest across both steady bonds, which are not expected to re-rate in price but which should produce a steady income stream for investors, and those which are trading below their fair fundamental valuations and have an identifiable catalyst that will trigger a market revaluation. Position sizes vary from 1% to 5% depending on the relative risk of the bond, the size of the mis-valuation, the conviction which the team have in the catalyst occurring and the correlation of the position to other positions in the portfolio. The turnover of the portfolio tends to be low as it generally takes some time for the identified catalysts to occur and for bonds to return to fair value. The portfolio tends to be fairly concentrated with around 60 to 80 issuers.

The fund can invest in both investment grade and sub-investment grade corporate bonds. Allocations across the ratings spectrum are a result of bottom-up positioning and are not specifically targeted. This said, there is always likely to be a focus on the BBB and BB rated parts of the markets; this is usually where the greatest mis-pricings occur as the line between investment grade and sub-investment grade bonds gets blurred. The fund will usually be underweight lower quality bonds (those with CCC ratings), as the risk-adjusted payoff is often lower for such securities. Interest rate risk tends to be maintained relatively near to that of the fund's composite index.

Risk Summary

This fund's managers invest in fixed income instruments, and so the main risks are likely to be interest rate risk and credit risk. Although the managers look to mitigate these risks through careful security selection as well as some active asset allocation, investors should be aware that, over time, they are likely to be significant.

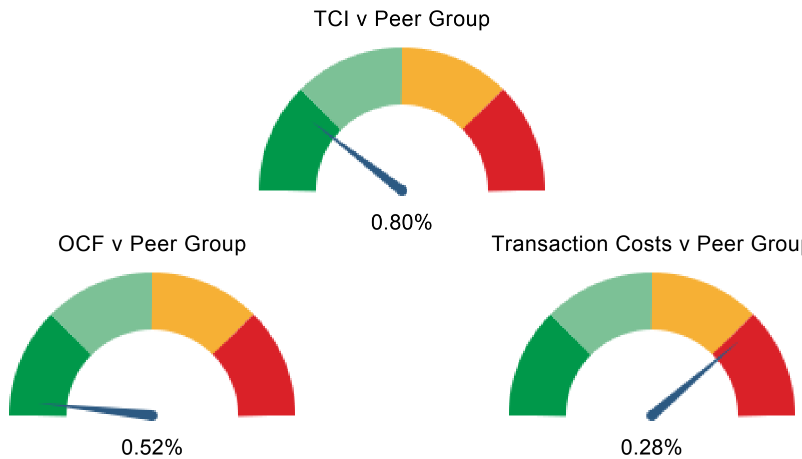
The managers invest across the ratings spectrum in both investment grade and sub-investment grade credit, so if default rates increase in these areas of the market, it is likely to have an adverse impact on the fund. Indeed, whilst any impact should be softened by the extensive credit research which the team undertakes, there is always a possibility that a bond in the fund could default on its obligations. However, as the fund is well diversified, the impact of any individual bond defaulting should be small.

The interest rate risk of the fund will vary over time, but there is always likely to be interest rate risk present through the fund's holdings in higher quality, investment grade corporate bonds. Overall we believe that the managers are very capable of balancing and managing the risks inherent in the fund in the best interests of investors.

Value for Money

The total cost of investment (TCI) of the clean shareclass of this fund is well below the sector median and represents, in our opinion, excellent value for money. Corporate bonds require a high level of analysis and due diligence and the fact that Baillie Gifford provide this, with access to a well-regarded analyst team and a robust process, should be very attractive to investors in our view.

In line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of their funds, which can include items outside of the OCF, such as research costs. This will be done at the discretion of individual fund groups, but the majority have decided to absorb these costs. Indeed, Baillie Gifford has absorbed the costs associated with their research, which slightly reduces the overall fee paid by investors.



ESG Integration

Company Assessment	0	1	2+	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision.				

Responsible Investing Approach

Exclusion	**Responsible Practices**	**Sustainability**	**Impact**
☐	☐	☐	☐

Additional Information

Annualised Return	5.44%
Annualised Volatility	8.33%
Max Drawdown	-15.30%
Max Gain	8.04%
Max Loss	-15.30%
Sharpe Ratio	0.62
Sortino Ratio	0.48

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 13 Oct 2021)

90.0 pence

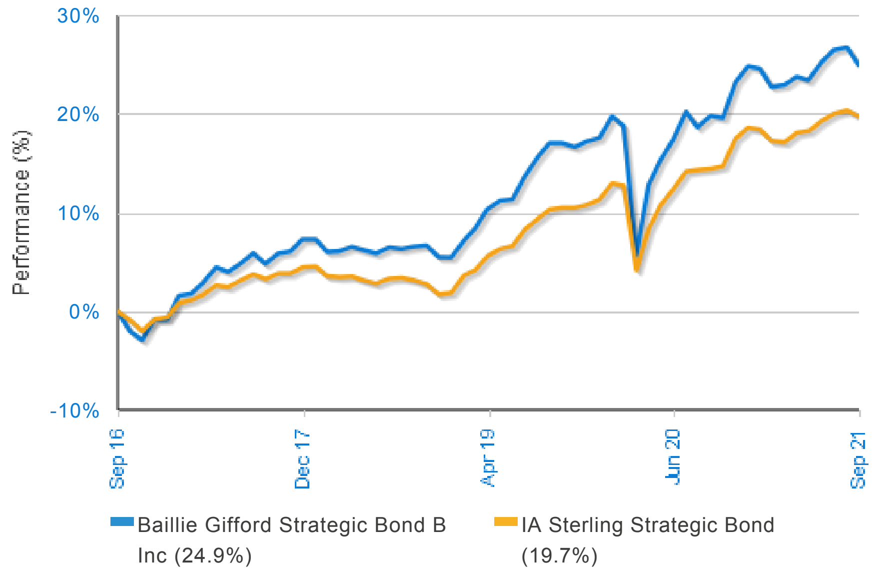
Benchmark

Composite: 70% Merrill Lynch Sterling Non-Gilts Index, 30% Merrill Lynch European Currency High Yield Constrained Index

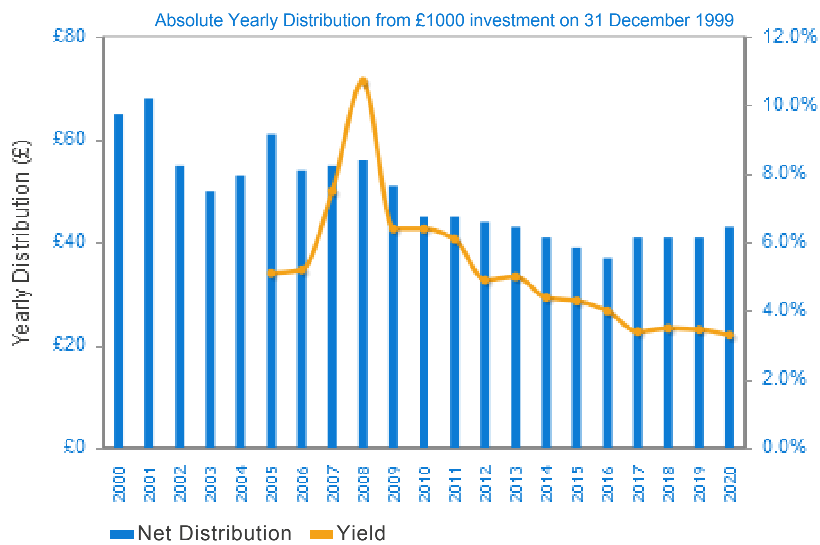
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	4.3	4.6	2
12-24m	2.4	3.6	3
24-36m	9.9	7.1	1
36-48m	1.7	-0.1	1
48-60m	4.8	3.3	2

Capital Growth



Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

Asset Allocation Positioning

Name	%
Global Fixed Interest	97.5
Money Market	2.5

(Data as at 31 Aug 2021)

Top Ten Holdings

(Data as at 31 Aug 2021)

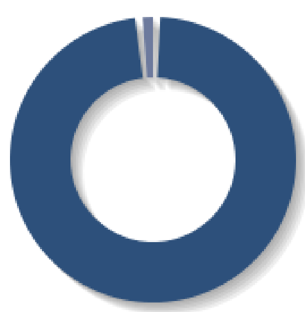
Company Name	%
EIB 0.75% 2024	2.5
SVENSKA HANDELSBANKEN 6.25% 2024 PERP	2.5
NAT. GRID 5.625% 2025	2.4
NETFLIX 4.625% 2029	2.4
RABOBANK 6.5% PERP	2.3
VIRGIN MEDIA SECURED FINANCE PLC 5% BDS 15/04/27 GBP1000144A	2.0
J.P. MORGAN 1.895% 2033	1.9
EDP 4.496% 2024/79	1.8
EUROPEAN INVESTMENT BANK 3.875% BDS 08/06/37 GBP1000	1.8
LEASEPLAN 7.375% 2024 PERP AT1	1.7

Sector Breakdown

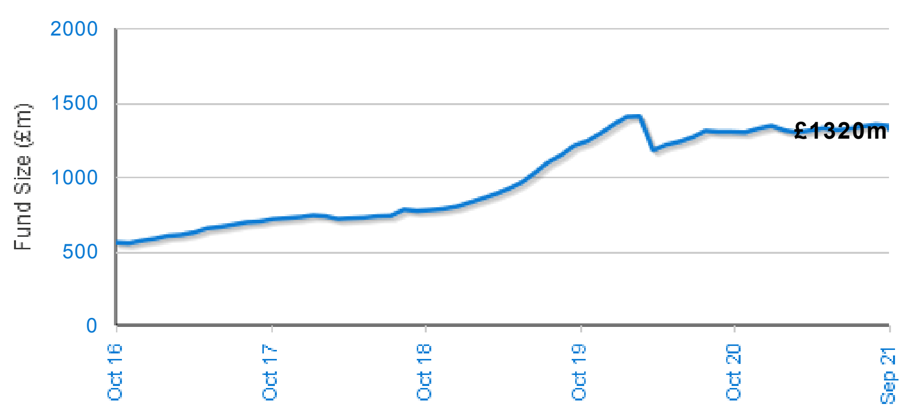
(Data as at 31 Aug 2021)

Geographic Breakdown

(Data as at 31 Aug 2021)



Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			●
Interest Rate Risk	●		
Credit Risk	●		
Exchange Rate Risk			●
Liquidity Risk		●	
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk		●	

Equity Risk
The fund has no material direct exposure to shares.

Interest Rate Risk
The fund is predominately invested in fixed interest markets. The fund price may fall if interest rates climb more rapidly than expected.

Credit Risk
The fund can take exposure to both investment grade and sub-investment grade credit. Credit defaults and downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

Exchange Rate Risk
The fund has exposure to assets denominated in foreign currencies but the manager intends to largely hedge the foreign exchange risks away.

Liquidity Risk
The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

Emerging Markets Risk
The fund predominantly invests in securities issued by governments or companies in developed markets.

Derivative Risk
The portfolio is predominantly invested in underlying cash securities.

Manager Risk
The managers are seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. A reappraisal of the rating following a manger departure is likely.

FE Risk Rating: 39.00

SRRI: 4

Disclaimer