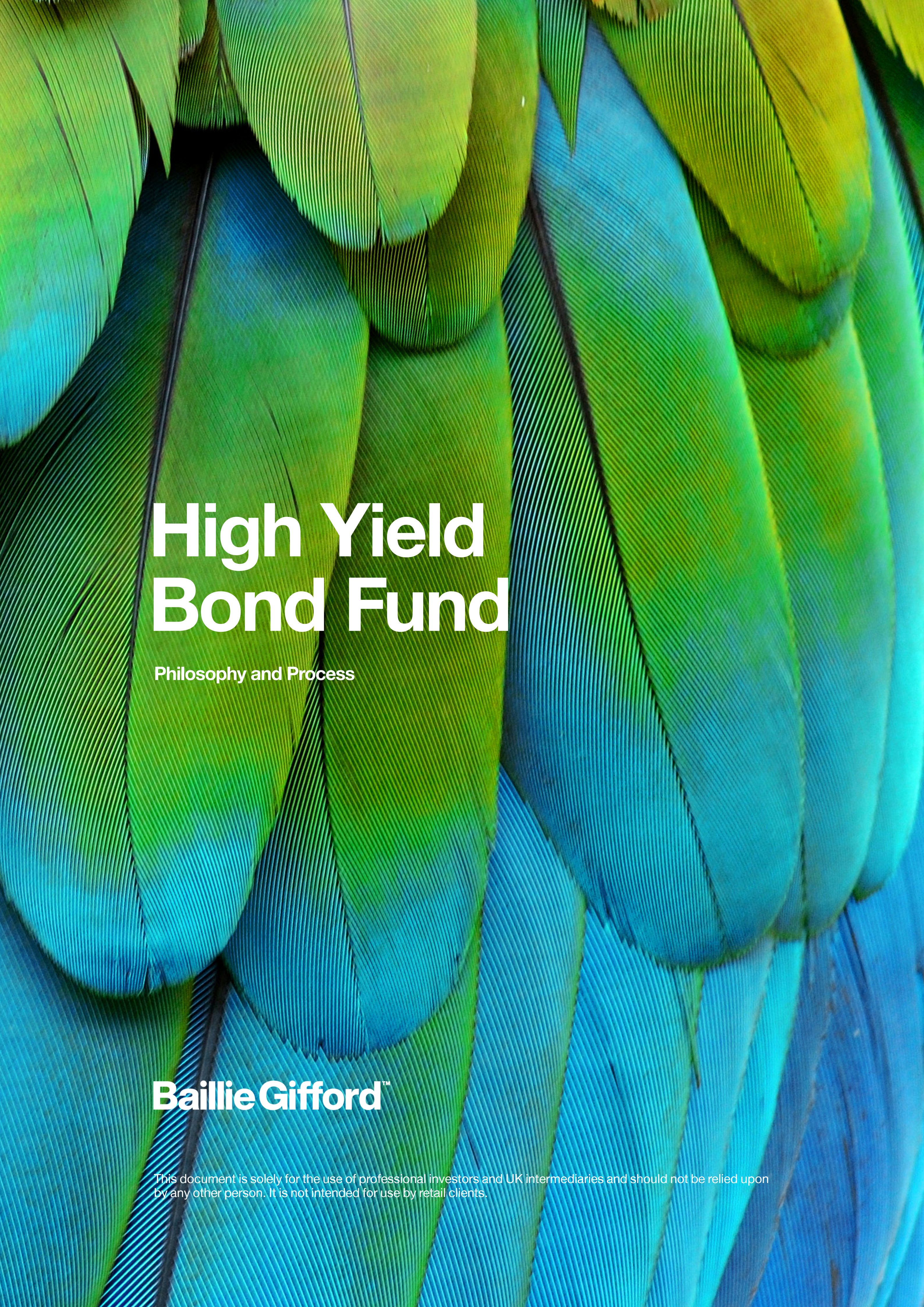

High Yield Bond Fund

Philosophy and Process

Baillie Gifford™

Regulatory information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs. Persons resident or domiciled outwith the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances. This document contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford & Co.

Potential for profit and loss

All investment strategies have the potential for profit and loss.

This document contains information on investments which does not constitute independent 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.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this document are for illustrative purposes only.

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Baillie Gifford

Since 1908, when Baillie Gifford was founded as an investment partnership, the firm has been wholly owned by the people who invest for and look after our clients.

Through each successive generation of partners our focus has been on generating superior, long-term investment results for our clients.

Partnership defines us

Our partnership structure allows us to put our clients' needs first rather than being beholden to external shareholders. It brings stability and a long-term time frame to everything we do in our business, whether choosing the best investments for our clients' portfolios or continually investing in the firm and developing our people.

The independence that partnership brings, also allows us to be truly active investors. Our portfolios are shaped by where we believe the best investment opportunities lie, rather than where the index dictates. We encourage personal responsibility, creating a strong culture of inquisitiveness, debate and respectful trust.

Our investment approach

Curious about the world

The best investment ideas spring from analysis of future possibilities, not short-term probabilities. We set no barriers to the imagination of our investors, encouraging fresh perspectives and the use of diverse sources of information.

Fundamentally driven

The world is complex. We believe that the best way to generate long-term returns for our clients is to focus on the seemingly simple task of identifying and investing in those companies which have the potential to grow on a more sustainable basis, than their peers.

We conduct rigorous qualitative research to establish whether prospective investments have the competitive, financial and strategic advantage to deliver on that potential.

Collaborative research

We like to share. Investment ideas are discussed and debated across our investment teams, who are primarily based in one location, from those of the most junior analysts to partners of the firm. We are always looking for that novel insight, offbeat observation or penetrating challenge to help round out the investment case and enhance our collective knowledge. There are no enduring right answers in investment, so we never stop asking questions.

High Yield overview

Our 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.

A focus on fundamentals and individual bond selection

High Yield is a strategy where the primary driver of outperformance, relative to the market, is active bond selection driven by company fundamentals. In-depth fundamental analysis can identify pricing anomalies and idiosyncratic risks at a company level which are well rewarded through the credit cycle.

A long-term perspective

We are investors, not speculators. We believe that patience and a long-term investment horizon are vital to adding value for our clients. Our typical investment time horizon is three years.

An experienced team

The two lead investment managers are Robert Baltzer, Head of Credit Research, and Lucy Isles. This experienced pairing has full ownership and accountability for all strategy decisions. The lead investment managers draw on the research and insights of the Baillie Gifford Credit department and the wider firm.

Suitability

Our High Yield strategy should appeal to any organisation that is prepared to tolerate short-term volatility in order to gain longer-term rewards from return seeking investments in the High Yield bond market.

It may not be an appropriate choice for those with low risk appetites, short-term performance time horizons, or a desire for smoothed returns.

Fund facts

Inception date	30 November 2001
Comparator index	IA Sterling High Yield Bond Sector
Vehicle	UK OEIC

Investment philosophy

In the long run, investment outcomes for corporate bond investors are determined by companies' fundamental resilience. Over shorter time periods, fickle investor sentiment means that valuations can diverge from reasonable assessments of fundamental value. We believe that fundamentally driven investors with clear and positive selection criteria, strong risk control, and a multi-year investment horizon, can capitalise on these opportunities to generate attractive returns from the High Yield market over the cycle.

Fundamentals win out over the long term

We believe that over the long term, an issuer's fundamental resilience will be reflected in the performance of its bonds. Over the life of a high yield bond, investors will be repaid in most instances, suffer a default on occasion, or sell their holdings at a price reflecting one of those two expected outcomes. Repayment or default will depend on the fundamental performance of each company and are only weakly linked to investor sentiment. Our in-depth analysis focuses on building a comprehensive understanding of a company's long-term prospects and its underlying fundamental characteristics.

Fickle investor sentiment creates opportunity

Price movements of high yield bonds are more volatile than changes in company fundamentals alone merit. Investors with shorter time horizons or a focus on top-down rather than bottom-up evaluations may trade for reasons and at prices having little connection with a given company's fundamentals. These moments of disconnection create opportunities for us to add value.

Positive selection, risk control and patience combine to capture reward

Having the confidence to invest against the crowd requires a clear set of objective criteria against which to evaluate potential investments and a time horizon long enough to allow fundamentals to assert themselves over fluctuating market sentiment. Our best ideas together form a well-diversified portfolio with deliberately limited exposure to single risk factors. These characteristics of our approach allow us to capitalise on the opportunities in the High Yield market.

Our credit investors

Experienced decision makers

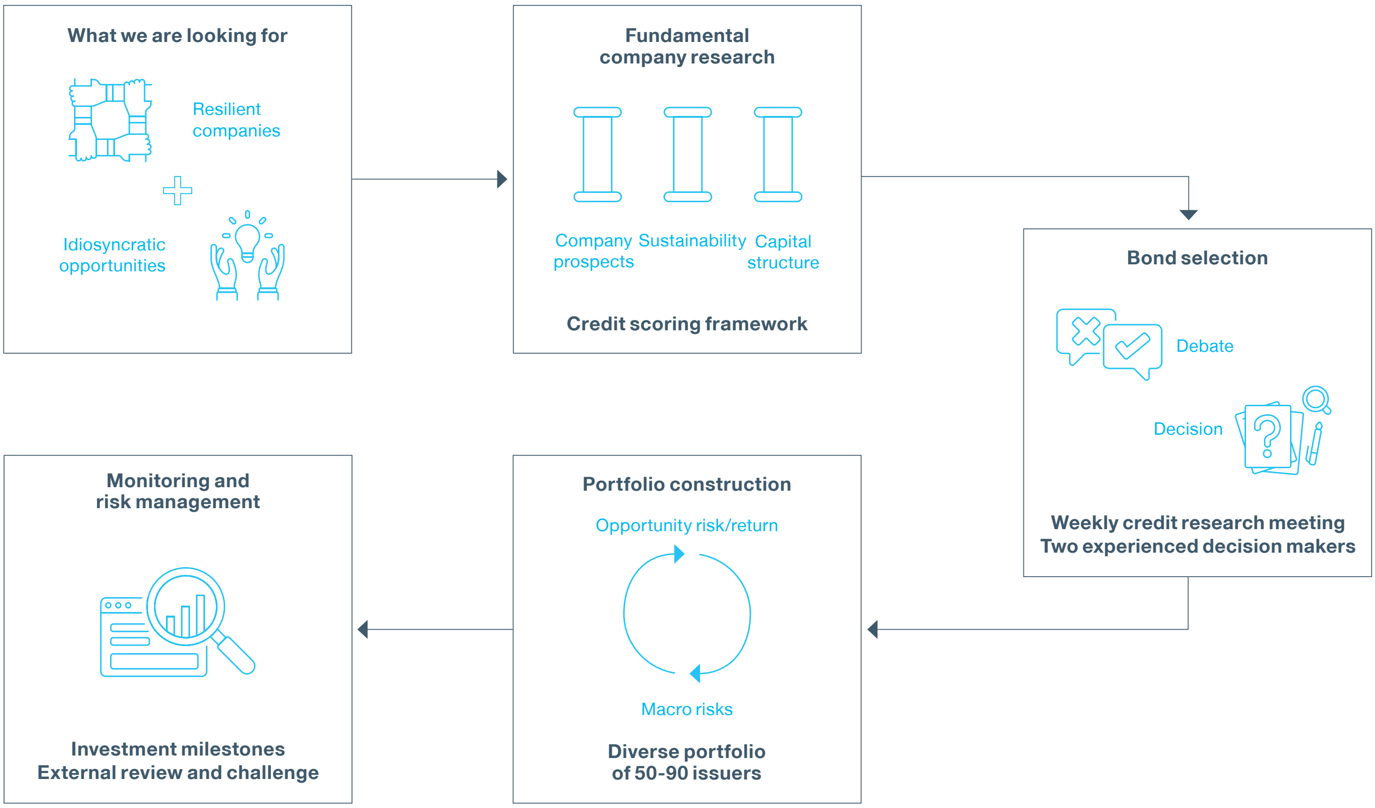
Robert Baltzer, Lucy Isles and Arthur Milson are the co-managers of our High Yield strategy, providing clear ownership and accountability for all investment decisions.

A dedicated and well resourced research base

The High Yield fund primarily draws on the research generated by our Credit team. In total, the team consists of 11 investors, who are supported by two ESG (Environmental, Social and Governance) specialists. The Credit team shares an in-depth, fundamental, bottom-up bond picking investment approach. The focused nature of our strategy means it is the 50-90 companies that we invest in which drive our relative performance, not the hundreds of bonds that we do not own. Analysts typically monitor 20-25 holdings each and generate 5-10 new investment ideas a year. The Credit team is, in turn, supported by a dedicated dealing resource, a specialist Client Service team and our Investment Risk, Analytics & Research Department.. This enables the investors to devote their time and efforts to company analysis, bond selection and the continuous monitoring of investments.

Investment process

The High Yield investment process is designed to build a portfolio containing a diverse range of bonds that offer excellent rewards for lending to the issuing companies.



What are we looking for?

Companies in the High Yield market are typically less creditworthy than their investment grade rated counterparts. Investing in this market, the risk of default and permanent loss of capital is material. To ensure our research is targeted correctly our first step is to narrow the field of potential investments, focusing on identifying issuers with resilient fundamental characteristics. Those ideas that clear the initial bar for fundamental strength, and also offer a compelling return for the risks involved, are shortlisted for further analysis.

Fundamental company research

Every member of the team is first and foremost an analyst and spends the majority of their time analysing and debating company research. We allocate research responsibilities by sector on a global basis. These responsibilities are rotated every 2 -3 years to provide analysts with a breadth of experience, to avoid entrenched views that become impervious to challenge and to ensure that investment managers can draw on multiple knowledgeable voices in any discussion.

A detailed understanding of the factors driving the fortunes of the companies in which we invest is crucial to our long-term success. The Credit Team assesses the resilience of each investment based on the analysis of three key factors: company prospects, sustainability, and capital structure. Each pillar of resilience is scored on a 5-point scale from 0-4.

To be considered for selection, a bond must attain a score of at least 1 for company prospects and sustainability. Our approach is designed to ensure our portfolios offer through the cycle resilience built from the bottom up. Together with valuation, this assessment informs portfolio position sizing and sell discipline.

Our focus on resilience provides the common language for our team, which uses a wide range of inputs to inform the overall view – from company meetings and reports to competitor and industry analysis and the work of independent research providers and academic experts.

Bond selection

Once research has been completed by the analyst, it is subjected to robust discussion and debate by the wider Credit team. These meetings are attended by all those investors for which the company under discussion is pertinent and investable, allowing representatives of the Credit team to gain insight and share views. We consider these discussions as part of the research stage, so the emphasis is on using the wider department's experience to identify areas for more work and explore counter arguments to the investment case. In particular, we seek to consider and challenge the milestones set out by the analyst as these will drive our monitoring and sell discipline should we invest in the issuer.

Following debate and completion of any necessary follow-up work Robert and Lucy, as the decision makers for the strategy, express their individual views and discuss the merits of the investment in the context of the overall portfolio. Their respective levels of enthusiasm for the investment will influence position sizing.

Due to the limited upside and the larger downside of bond returns, if one investment manager vehemently disagrees with the other, this will usually result in the bond not being included in the strategy.

Portfolio construction

The High Yield portfolio construction process involves thoughtfully and deliberately choosing the risks we take in pursuit of long-term returns. The possibility of loss among high yield bond investments cannot be avoided entirely, without also avoiding any possibility of reward, so risk management is an integral element of our process.

We are guided by four principles when considering the shape of the portfolio:

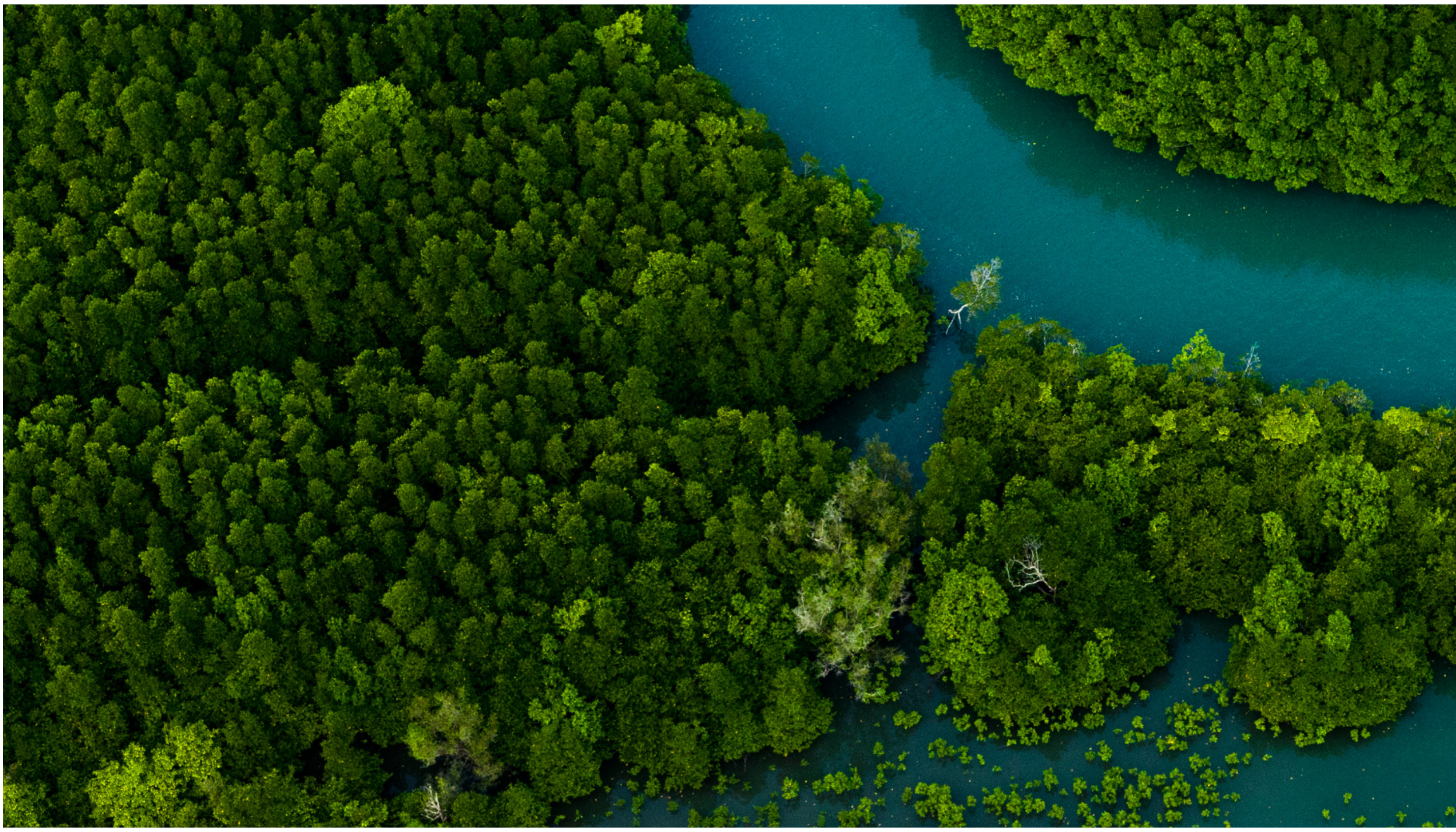
- Genuine diversification
- Positive bond selection
- Careful position sizing
- Strong sell discipline

Diversity through idiosyncratic risks

Portfolio construction is focused on building a portfolio that gives exposure to pure, well-rewarded credit risk. To this end, our High Yield strategy does not take active duration risk or currency risk relative to the index. In addition, we seek to limit other thematic exposures, such as macroeconomic risks, that might swamp bond specific performance. A focused portfolio of 50 -90 issuers means we have a detailed and comprehensive understanding of each individual issuer's risk profile and likely drivers of performance. We seek to understand these factors and how they might interact with risks and drivers across other investments in the portfolio.

Positive bond selection drives portfolio shape

The attractions of individual companies, and the risk and return profile of their associated bonds, are the driving factors behind the shape of our High Yield strategy. We do not seek to impose a top-down view on the portfolio, but rather consider the market and its constituents from the ground up. This gives us the flexibility to pursue well-rewarded credit risk wherever we see it. We consider thematic exposures when it comes to risk management and may adjust individual holdings as a result.



Positions sized to curb behavioural challenges

We typically lend to 50 -90 companies, with an average holding size in each issuer of 1-2% of the strategy. We believe a flatter portfolio helps us hold our nerve and make better decisions in periods of market volatility, understanding that no single bond's performance will dominate returns.

Companies that we know particularly well, and whose bonds offer compelling valuation opportunities for their risks, make up the group of larger holdings.

Sell discipline

We are likely to adjust our position size or sell out of the security if any of the following conditions are met: we recognise early signs of fundamental deterioration from milestone monitoring; the bond is fully valued; cash needs to be raised for a better opportunity; or our thematic sense check indicates a potential exposure, which may swamp bond specific outperformance.

Monitoring

We continually re-evaluate the performance of the companies and bonds we invest in and the balance of the portfolio as a whole. This ensures we make the most of the opportunities our research identifies and adapt to changes in the risk environment.

Investment cases evolve over time. Through our in-depth analysis, we identify objective markers against which to measure the progress of each investment case, asking ourselves `What would need to happen to make us wish to own more of these bonds? What would make us want to sell?' We refer to these fundamental signposts as `milestones'. Clearly defined milestones allow us to hone in on investment signals rather than market noise, and provide an indicator when an investment case is deteriorating or improving.

We monitor our holdings on a continuous basis through regular updates and news sharing. Even if a change in milestones does not necessitate a review, we aim to formally review each investment held every twelve months.

In addition to continuous monitoring, we hold a quarterly portfolio review meeting. This meeting provides an opportunity for the team to review the shape of the portfolio as a whole, ensuring that any thematic exposure is scrutinised. The conclusions from this thematic sense check influence the type of bond we select as new ideas into the portfolio and may result in reducing or selling out entirely of current holdings, if other investment conditions are met.

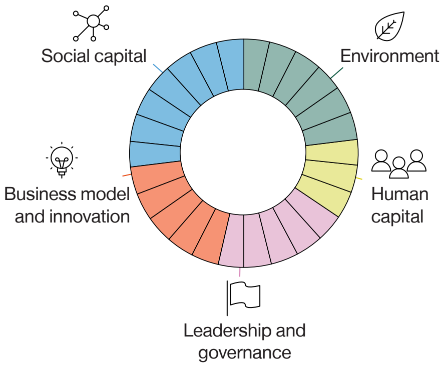
Sustainability

In our view, the transition to a sustainable economy, one which achieves a balance between economic, environmental and social needs, has begun. We believe this is a material shift that will affect all companies, creating long-term investment opportunities as well as risks. In addition, as stewards of our client's capital, we regard it as our responsibility to steer businesses away from destructive practices and towards activities that create genuine economic value.

Sustainability assessment

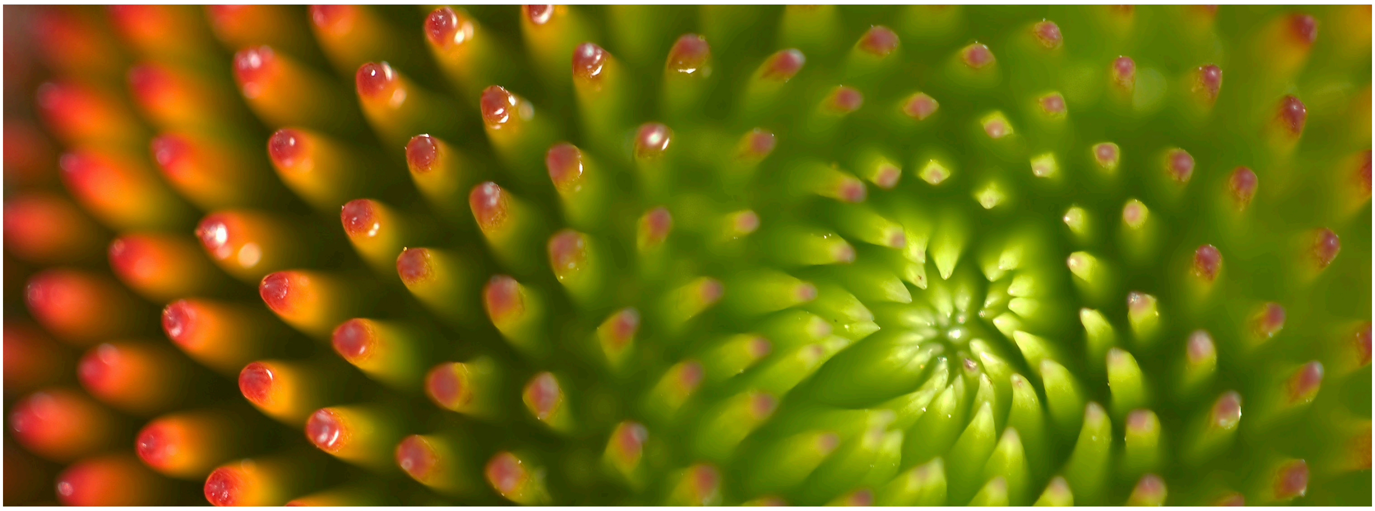
To determine sustainability, we seek to answer the question: is the company compatible with a sustainable economy? To help formalise our response and to ensure consistency of analysis, we consider five dimensions of materiality in our assessment. This approach is designed to encourage in-depth, forward-looking analysis and identify sustainability risks and opportunities as an input to our overall assessment of a company's resilience.

Five sustainability dimensions



Engagement

Our proprietary scoring system drives the Strategy's ESG engagement and monitoring process, prioritising those investments identified as Adapting. Here, we apply objective markers, or milestones, against which to measure and monitor the progress for each investment. All of the Fund's investments are subject to the required due diligence before investing and ongoing review of the investment case. We regularly engage with key stakeholders to ensure alignment of interests and execution of appropriate policies.



Risk management

Our risk management processes ensure we know the risks we are taking, that we are only taking risks that we choose to, and that we have informed challenge and oversight of our decision making.

There are three pillars to our management of investment risk:
- Knowing our companies well
- Clear investment guidelines
- Review and challenge

Knowing our companies well

Knowing the risks associated with each investment and how these risks interact with those of other investments within the strategy is our first line of defence. Our initial research is thorough, our debate is rigorous, and we continually review and monitor the investment cases for each company we invest in by monitoring investment milestones and valuations on a continuous basis.

Clear investment guidelines

We manage the High Yield strategy within a range of clear investment guidelines aimed at ensuring sufficient diversification while providing protection against unwanted risks. For example, our guideline on low quality credits – those rated CCC and below – limits the extent of aggregate credit risk to which clients are exposed, and thereby minimises the scope for overconfidence to produce significant losses.

Number of bond issuers	50–90
Maximum holding size (by issuer)	+3% relative to reference index, capped at 5% absolute
Exposure to low grade issuers	Maximum +10% relative to reference index in CCC and lower rated bonds
Exposure to investment grade issuers	Maximum 20%
Guideline tracking error range	0–5%

The ICE BofA Global High Yield 50% European–50% North American Constrained Index is used as a reference point for risk monitoring.

Review and challenge

Peer review sees the team and its investment decisions being constructively challenged by senior colleagues from elsewhere in Baillie Gifford. We think this is a valuable part of our process and helps the team avoid behavioural risks. The main forums for this peer review are quarterly meetings with the High Yield Bond Portfolio Review Group and our Investment Risk, Analytics & Research Department.

Our independent Investment Risk, Research & Analytics Department uses a range of tools and measures to monitor portfolio style exposures, diversification, tracking error and thematic risks. The Risk team's formal quarterly independent check provides challenge to the investment managers and is used in internal reporting to the firm's Investment Risk Committee. We also stress test the strategy using scenario analysis tools such as Bloomberg PORT.

Use of derivatives

The strategy uses derivatives principally to reduce unwanted risks such as foreign currency exposure. Foreign currency bond holdings will typically be hedged back into the client's base currency using currency forwards. In addition we may use bond futures and interest rate swaps to manage our interest rate exposure.

Biographies

Lesley Dunn

Lesley is Head of Credit and co-manager of the Strategic Bond Fund. She is a member of the Multi Asset and Income Leadership Group and the Multi Asset Income Portfolio Construction Group. Before joining Baillie Gifford in 2016, Lesley spent 15 years at Scottish Widows Investment Partnership, initially in the Investment Grade team then as a high yield manager. She graduated BSc (Hons) in Maths, Statistics & Economics from Strathclyde University in 2000 and is a CFA Charterholder.

Robert Baltzer

Robert is Head of Credit Research and co-manager of the Global Strategic Bond Fund and our high yield funds. He is a member of the Investment Grade, Crossover and High Yield Portfolio Groups. Robert joined Baillie Gifford in 2001 on the graduate scheme. He graduated MMath from Durham University in 2001 and is a CFA Charterholder.

Torcail Stewart

Torcail is an investment manager in the Credit Team and Co-Manager of our strategic bond funds. Torcail also leads the Crossover Portfolio Group and is a member of the Multi Asset and Income Leadership Group. He joined Baillie Gifford in 2008. Prior to joining the firm, he worked as an investment analyst for the Alliance Trust's UK large cap equity fund. He graduated BA in Geography from the University of Cambridge in 2002 and M.Phil in Management, Economics and International Relations from the University of St Andrews in 2005. He is a member of the CFA Society of the UK (CFA UK).

Lucy Isles

Lucy is an investment manager in the Credit Team. She is co-manager of our high yield bond funds and leads the High Yield Portfolio Group. Lucy joined Baillie Gifford in 2012 on the graduate scheme. She graduated MA (Hons) in International Relations and Modern History the University of St Andrews in 2011.

Paul Dilworth

Paul is an investment manager in the Credit Team. He joined Baillie Gifford in 2019, and prior to joining the firm he worked for almost 13 years at Kames Capital where he was responsible for managing a broad range of fixed income mandates, including Global Financial Credit, Global Absolute Return and Investment Grade Credit. Paul graduated BSc (Hons) in Mathematics from Heriot-Watt University in 2006 and is a CFA Charterholder.

Faisal Islam

Faisal is an investment manager in the Credit team and a member of the High Yield Portfolio Group. Before joining Baillie Gifford in 2018, he worked for four years at PwC where he qualified as a chartered accountant in corporate finance, before moving to Aberdeen Standard Investments in 2016 as a high yield credit analyst. Faisal graduated BSc in Economics from the London School of Economics and Political Science in 2011 and is a CFA Charterholder.

Arthur Milson

Arthur is an investment manager in the Credit Team. He is co-manager of our high yield bond funds and a member of the High Yield Portfolio Group. Before joining Baillie Gifford in 2022, Arthur worked for abrdn/Standard Life Investments for 16 years, where he was responsible for managing a number of high yield funds. Arthur graduated BSc Biological Sciences from The University of Edinburgh in 1992, has a postgraduate diploma in Commerce from The University of Wollongong and is a Chartered Accountant.

Supported by five credit analysts.