

**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.

**Investment proposition**

Performance is driven by bond selection and active management of portfolio credit risk. 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 combining the "best ideas" we can find across the high yield and investment grade markets with top-down management of portfolio risk.

**Periodic performance**

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Inc (%)	1.0	5.8	8.8	1.2
Index (%)*	1.2	5.1	8.4	0.9
Sector Average (%)**	1.9	5.2	7.3	2.0

**Annual discrete performance**

	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24	30/09/24- 30/09/25
Class B-Inc (%)	4.3	-21.1	7.7	13.0	5.8
Index (%)*	2.8	-20.0	9.1	11.1	5.1
Sector Average (%)**	4.6	-14.5	4.9	11.8	5.2

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.

**Fund facts**

Managers	Lesley Dunn* / Robert Baltzer / Theo Golden
Fund launch date	26 February 1999
Fund size	£340.0m
IA sector	£ Strategic Bond
Current number of issuers	77
Typical number of issuers	60-85
Structure	OEIC
Duration	4.5
Average credit rating	BBB
Tracking error	0.8
Tracking error range	1-4%
Redemption Yield	5.5
Running Yield	5.4

\*Partner.

Source: Baillie Gifford & Co.

**Top ten issuers\***

	% Total assets
Barclays	3.0
Telereal Securitisation PLC	3.0
DNB Bank ASA	2.5
Pension Insurance Corp	2.4
Rothsay Life Plc	2.3
KfW	2.2
HM Treasury	2.2
Pershing Square Capital Management, L.P.	2.2
Realty Income Corporation	2.1
Investec Plc	2.0

\*The Fund may also hold derivative positions for hedging purposes.

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**Distribution of portfolio by asset class**

	Fund weight* (%)
Sterling	
Conventional Sovereign	2.3
Conventional Non Sovereign	69.1
Index Linked	0.0
Total Sterling	71.4
Cash & Derivatives ***	
Cash	3.0
Cash	0.3
	1.4
Total Cash & Derivatives ***	4.7
Foreign Currency	
Conventional Sovereign	0.0
Conventional Non Sovereign	23.9
Index Linked	0.0
Total Foreign Currency	23.9
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	8.0
AA	3.6
A*	12.8
BBB*	45.5
BB*	15.8
B	9.7
CCC-D*	0.0
Cash & Derivatives	4.7

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

**Distribution of portfolio by industry**

	Fund weight (%)
Financial Services	15.6
Banking	12.3
Insurance	11.6
Real Estate	11.5
Asset Backed	8.2
Commercial Mortgage Backed	4.6
Retail	4.3
Agency	3.6
Media	3.5
Utility	2.9
Telecommunications	2.3
Services	2.3
Government Guaranteed	2.2
Sovereign	2.2
Supranational	2.0
Others	6.7
Cash & Derivatives	4.4

**Distribution of portfolio by region**

	Fund weight (%)
United Kingdom	56.3
Europe	17.4
North America	14.1
Developed Asia	3.6
Supranational	2.1
Emerging Markets	1.8
Cash & Derivatives	4.7
Total	100.0

## Market environment

Following the initial wave of tariff-driven volatility earlier in the year, the most recent period has given way to a more resilient and relatively subdued backdrop. From a fixed income perspective, the big picture developments are all about the market's assessment of the Federal Reserve delivering a soft landing and the relative health of corporates following big shifts in the international tariff regime. The quarter saw inflation moderate and labour data soften enough for the Fed to cut interest rates for the first time this year. The market priced in a gradual easing, and company results were solid, leading to stable returns across most asset classes.

In Europe, the European Central Bank (ECB) held rates steady at 2 per cent this quarter. The Eurozone economy has been resilient in the face of tariffs, and inflation is tracking in line with objectives. The Bank of England (BOE) held rates at 4 per cent in September. The BOE has a tough task. UK inflation remains well above target, growth expectations are low, and the traditional buyer base for gilts is changing, putting upwards pressure on yields.

In corporate bond markets, September saw the strongest supply of new corporate bonds this year, while demand remained high. This dynamic, paired with good economic data and benign defaults, saw credit spreads (the risk premium investors get paid for lending to companies over governments) continue to grind tighter over the quarter.

## Performance

The Fund's total return was positive in the third quarter. This was primarily driven by tightening credit spreads (there is an inverse relationship between tightening spreads and bond prices) and coupon income. The Fund underperformed the comparator index and the peer group average return. Returns from asset allocation were flat, reflecting neutral risk positioning overall. The contribution from bond selection was also neutral, with strong performance from a range of holdings offset by weak returns from US railroad Brightline East.

It is hard to attribute performance relative to the peer group average return due to the diversity of its constituent strategies. However, given the strong performance of corporate credit over the quarter, it is likely that the average peer took greater risk over this period. Relative returns over the last 12 months have been solid, with bond selection the key return driver. The Fund's allocation to recovering positions in the property sector was a key contributor. Over the last

three years, Fund returns have been ahead of the comparator index and peer group, predominantly driven by strong contributions from bond selection.

## Positioning

Reflecting the continued resilience of corporate bond issuers as a whole, credit spreads remain tight relative to history (there is an inverse relationship between credit spreads and corporate bond prices). However, we have seen evidence of distress at the speculative end of the market. In this context, from a portfolio positioning perspective, our objective is to balance caution and optimism, recognising the supportive backdrop but the potential, given tight credit spreads, for price volatility.

Our increasingly cautious stance led us to adjust the balance of the Fund's high yield allocation, increasing the credit quality of this part of the portfolio by rating. The Fund ends the quarter with high yield exposure of c. 25% (below the Fund's typical strategic allocation of 30%). In addition, we continue to hold dry powder in the form of a c. 27% allocation to A rated and above investment grade bonds, ready to be deployed when credit spreads are more attractive further down the risk spectrum. Importantly, the strategy continues to outyield the index, driven by a significant overweight to BBB rated bonds and our enthusiasm for the total return potential of the asset class, given the attractive yields on offer.

We are optimistic about the portfolio's potential to add value from the bottom up. We continue to diligently reassess the strength of the portfolio's companies and believe that each holding offers resilience at an attractive price. We also continue to identify new bonds with high potential. We seek to lend to companies that can adapt to change and steer away from declining and disrupted businesses. A good example of what we are looking for is new addition Axon Enterprise, previously known as Taser International. Axon has a close-to-monopoly position in its historic business, a dominant position in bodycams and an expanding software business that provides an increasing recurring revenue base. We see a path to investment-grade credit ratings for Axon and good value in its bonds.

## Market Outlook

While market conditions are currently largely benign, there are significant risks to contend with. Valuations in corporate bond markets are relatively tight,

increasing the potential for volatility in the event of bad news. Risks include higher-than-expected inflation in the US, escalating geopolitical instability, and greater government bond volatility resulting from poorly managed fiscal deficits in a number of Western economies.

Positively, resilient economic growth and broadly healthy company fundamentals give us cause for optimism. High all-in yields should continue to support the asset class, and we continue to find attractive opportunities to add value for clients from the bottom up. In this context, we remain patient and disciplined, focused on capturing attractive income by owning attractively valued bonds issued by resilient companies while maintaining low exposure to the most material systematic risks at the portfolio level.

**Company engagement**

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Engagement type	Company
Governance	Close Brothers Group plc, Worldline SA

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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		Nationwide 7.875% 2031 Perp AT1	0.8
Conventional Sovereign		Nationwide Building Society 6.125% 2028	0.7
Long Gilt Future 10yr Dec 25	0.0	NatWest Group 3.619% 2028/29	0.7
UK Treasury 4.25% 07/12/2046	2.3	Pension Insurance 5.625% 2030 T2	0.5
Total Conventional Sovereign	2.2	Pension Insurance Corp 8% 2033 T2	1.9
		Pinewood 6% 2030	1.0
Conventional Non Sovereign		Pinewood Gp 3.625% 2027	0.5
Abrdn 5.25% 2026 Perp AT1	1.2	Rothesay Life 8% 2025	2.3
Admiral Group 8.5% 2034 T2	1.2	Schroders 6.346% 2029/34 T2	0.8
Anglian Water 6.25% 2044	0.9	Supermarket Income REIT 5.125% 2031	1.5
Assura Financing 1.625% 2033	1.3	Telereal 6.1645% 2031 (B4)	0.5
AT&T 5.5% 2027	0.7	Telereal FRN 2031 (C1)	2.5
B&M European Value Retail 8.125% 2030	1.3	TP ICAP Gp 2.625% 2028	0.2
Banco Santander 5.625% 2030/31	1.7	TP ICAP Gp 7.875% 2030	0.9
Barclays 1.7% 2025/26	1.4	University of Oxford 2.544% 2117	1.3
Barclays 8.375% 2031 Perp AT1	0.8	Wagamama 8.5% 2030	1.1
Barclays 9.25% 2029 Perp AT1	0.8	Weir Group 6.875% 2028	0.4
Berkeley Group 2.5% 2031	1.6	Welsh Water 2.375% 2034	1.4
Blackstone Private Credit 4.875% 2026	1.9	WH Smith 1.625% 2026 Convertible	0.9
Bunzl Finance 5.25% 2031	0.8	Yorkshire Water 6.375% 2034	2.0
CaixaBank 6.875% 2028/33 T2	1.2	Zurich Financial Services 5.125% 2032/52 T2	1.9
Canada Pension Plan 1.25% 2027	1.8	Total Conventional Non Sovereign	69.1
CK Hutchison Telecom 2.625% 2034	1.0	Total Sterling Bonds	71.4
Close Brothers 7.75% 2028	0.8		
Delamare 5.5457% 2029	1.0	Foreign Currency Bonds	
DNB Bank 4% 2026/27	2.5	Conventional Sovereign	
Domestic & General 8.125% 2029	1.2	Euro-Bund Future Dec 25	0.0
EDF 6% 2114	1.0	US 5yr Note Dec 25	0.0
EDF 7.375% 2035 Perp	0.9	Total Conventional Sovereign	0.0
EIB 4.625% 2054	1.7		
Evri 8.125% 2031	1.0	Conventional Non Sovereign	
Future PLC 6.75% 2030	1.0	Asmodee Group 5.75% 2029	0.1
Heathrow Airport 6.45% 2031/33	0.9	Axon Enterprise 6.125% 2030 (144A)	0.4
IBRD 5.75% 2032	0.3	Axon Enterprise 6.25% 2033 (144A)	0.4
Intesa Sanpaolo 6.625% 2033	1.3	BestSecret E+3.75% FRN 2029	1.0
Investec 10.5% 2030 Perp AT1	0.8	Blue Owl Credit Income 4.25% 2031	1.3
Investec 2.625% 2026/32 T2	1.3	Burford Capital 9.25% 2031 (144A)	1.2
JPMorgan 1.895% 2032/33	0.6	CDIB ITRX Crossover GOS	-1.8
KFW 5% 2036	0.2	Cirsa Finance 10.375% 2027	0.7
KFW 5.75% 2032	2.0	CPI Property 1.5% 2031	1.2
Legal & General 5.625% 2031 Perp RT1	1.5	DirecTV 10% 2031 (144A)	0.8
Longstone 4.896% 2031	0.7	Ford Motor Credit 3.815% 2027	0.8
Marston's FRN 2035 (B)	1.1	International Personal Finance 10.75% 2029	0.9
Mitchells & Butlers 6.469% 2030 (C1)	0.6	International Workplace Group 6.5% 2030	1.8
Mitchells & Butlers FRN 2033 (AB)	1.4	James Hardie 6.125% 2032 (144A)	0.5
Motability 6.25% 2045	0.7	Jefferies Finance 6.625% 2031 (144A)	0.3
National Grid ED E Midlands 5.75% 2040	1.1	Jefferies Finance Group 5% 2028 (144A)	0.6

Asset name	Fund %	Asset name	Fund %
Pershing Square 3.25% 2031 (RegS)	0.4	Total Cash & Derivatives	4.7
Pershing Square Holdings 3.25% 2030	1.8	<b>Total</b>	<b>100.0</b>
Public Property Invest 4.625% 2030	1.1	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.	
Realty Income 5.125% 2034	2.1		
Shift4 Payments 5.5% 2033	0.8		
Sitios Latinoamerica 5.375% 2032	0.6		
Softbank 5.875% 2031	0.8		
Sunrise Medical 6.5% 2031	1.2		
TAG Immobilien 4.25% 2030	1.0		
Temasek 0.5% 2031	0.9		
Temasek 3.5% 2033	0.9		
Teva Pharma 7.875% 2031	0.7		
Urbaser 5.5% 2032	0.2		
Virgolino De Oliveira 11.75% 2022	0.0		
Weir Group 5.35% 2030 (144A)	0.7		
Worldline SA 5.5% 2030	0.4		
Total Conventional Non Sovereign	23.9		
Total Foreign Currency Bonds	23.9		
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Cash & Derivatives			
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Forwards			
EUR Fwd Asset 20-Nov-2025 S	-17.1		
GBP Fwd Asset 20-Nov-2025 P	25.2		
USD Fwd Asset 20-Nov-2025 S	-8.3		
Total Forwards	-0.2		
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Swaps			
CDIB ITRX Crossover GOS	1.6		
IRS GBP PAY FLT 23/05/27	-12.1		
IRS GBP PAY FLT 26/07/29	-7.2		
IRS GBP REC FIX 23/05/27	12.1		
IRS GBP REC FIX 26/07/29	7.2		
Total Swaps	1.7		
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Cash			
Collateral Account Memo	0.5		
EUR Futures Initial Margin Account	0.0		
EUR Uncommitted Cash	0.0		
GBP BNY Revenue Uncommitted Cash	-1.6		
GBP CCP Cash Account	0.0		
GBP CCP Initial Margin	0.4		
GBP CCP Variation Margin	0.0		
GBP Futures Initial Margin Account	0.0		
GBP Uncommitted Cash	3.6		
USD Futures Initial Margin Account	0.1		
USD Uncommitted Cash	0.2		
Total Cash	3.3		

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	0.54	5.40	4.80
Class B-Acc	21 June 2000	GB0005947857	0594785	0.50	0.54	5.40	4.80

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 30 September 2025 and source is Baillie Gifford & Co unless otherwise stated.

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