

Baillie Gifford High Yield Bond

Opinion

- This Recommended fund is managed according to a clear, fundamentally driven approach whereby the managers seek out high yielding securities issued by companies with “underappreciated resilience”.
- The team is methodical and diligent in its credit research. They are prepared to take high conviction positions in names where they believe corporate resilience to be high. Equally, they are prepared to withstand the additional volatility that may result from this selective approach.
- The credit analysis is long term in nature and the portfolio construction and turnover are in keeping with this.

Characteristics and Utility

- This is a best ideas fund, investing across global high yield markets without benchmark constraints.
- The team analyses and invests with a long-term mindset. They are prepared to take larger position sizes where their confidence is high. By the same token, they are prepared to exercise patience and weather price volatility when they have a clear picture of a company’s resilience and sustainability.
- Therefore, investors should invest with a long-term mindset and be prepared to tolerate periods of drawdown. The high conviction nature of the approach also means that there is scope for the fund to display idiosyncratic behaviour when compared to peers and benchmarks.
- Investors who are concerned about relative risk and return may wish to blend the fund with a more index-aware offering.

Risk Commentary

The fund’s KIID Synthetic Risk and Reward Indicator (SRRI) is 4. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 4 means the fund’s historic volatility is between 5% and 10%.

The fund’s risk score is in keeping with the sector. Mainstream fixed income benchmarks and IA fixed income sectors are shifting to higher scores because of the increased volatility that has been registered by markets, based upon 5 years of standard deviation data. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	30 November 2001
Manager(s) Since:	Robert Baltzer (Jun 10) Arthur Milson (Jan 23) Faisal Islam (Feb 24)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	BofAML Global High Yield 50% European – 50% North American Constrained
IA Sector:	£ High Yield

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager’s website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A globally invested high yield bond fund. With fundamental credit analysis at its heart, it is managed with a long-term mentality and is fully invested in the team’s best ideas. Within its sector, the fund features in our ‘Global High Yield, High Conviction’ category.

Investment Team

The fund is co-managed by Head of Credit Research, Robert Baltzer, and Investment Managers, Arthur Milson and Faisal Islam. Mr Baltzer joined the firm as a graduate in 2001, while Mr Milson joined in 2022 and Mr Islam joined in 2018. Lesley Dunn heads Baillie Gifford’s well-resourced credit team, which combines high yield and investment grade capabilities. The team-members combine analysis and portfolio management responsibilities with sector responsibilities. They work closely with Baillie Gifford’s equity teams.

Investment Philosophy

The team believes that, in the long run, investment outcomes for corporate bond investors are determined by a company’s fundamental resilience. Furthermore, over shorter time periods, changing sentiment means that valuations can diverge from reasonable assessments of fundamental value. The team seeks to take advantage of such situations, building a portfolio of under-appreciated resilient businesses.

Investment Process

The investment process relies heavily upon detailed credit research, while the top-down influences upon portfolio positioning is limited. The team seeks to identify underappreciated bonds that are trading below their view of fair fundamental valuations and which have identifiable catalysts that will trigger a market revaluation.

The core of the team’s credit analysis is the assessment of corporate resilience. They do this by scoring companies based upon three areas of analysis: competitive advantage; standards of governance; and capital structure. The portfolio features companies whose resilience scores are described as high, medium and acceptable, with the medium cohort being the largest component. This approach provides them with the confidence to hold larger positions in the most resilient companies and helps to limit the downside risk of the portfolio in aggregate.

Ongoing monitoring of companies is a crucial part of the investment process and they have a special focus upon any deterioration in resilience. Credit “milestones” support the team’s monitoring process, helping them to assess a company’s progress with reference to the initial investment case.

Portfolio Construction and Risk Controls

The fund is invested globally, but mainly in pan-European and US high yield bonds. Emerging market bonds can also feature. Foreign currency holdings are hedged back to sterling. Although performance is measured against a customised 50:50 benchmark, they invest flexibly according to the opportunity set. The portfolio is relatively concentrated, comprising 50-90 issuers which are sized according to the nature of the opportunity. The team seeks to diversify the portfolio by business model and by the type of opportunity.

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