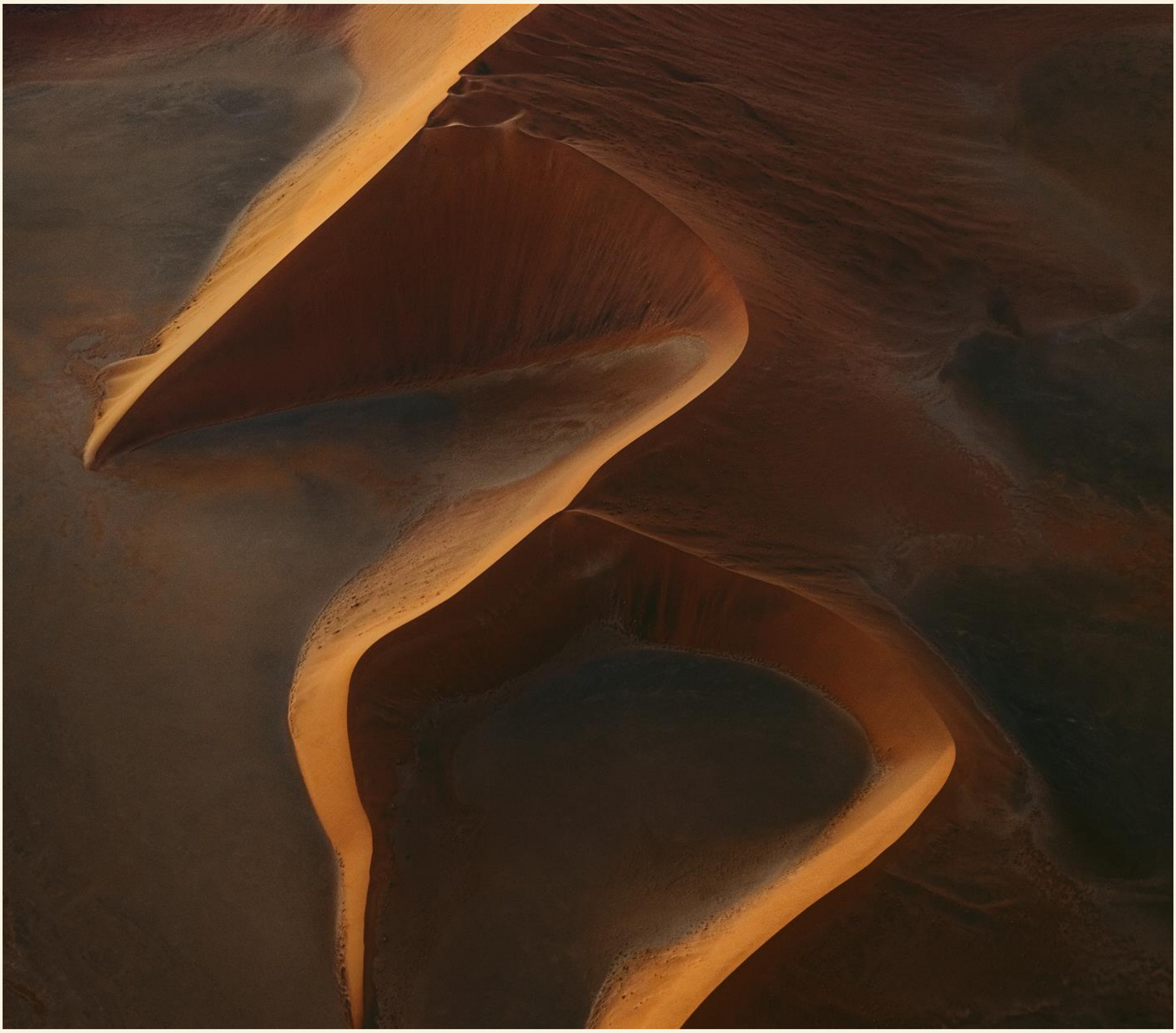
BAILLIE GIFFORD

Global Strategic Bond Quarterly Update

30 June 2021



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Important Information and Risk Factors

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Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co.

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All information is based on a representative portfolio, new client portfolios may not mirror the representative portfolio exactly. As at 30 June 2021, in US dollars and sourced from Baillie Gifford & Co unless otherwise stated.

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Past Performance

Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

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Product Overview

Global Strategic Bond is a best ideas corporate bond strategy where bond selection is driven by company fundamentals. The strategy is highly differentiated from its benchmark and peers, investing in a focused portfolio of 60–85 companies' bonds.

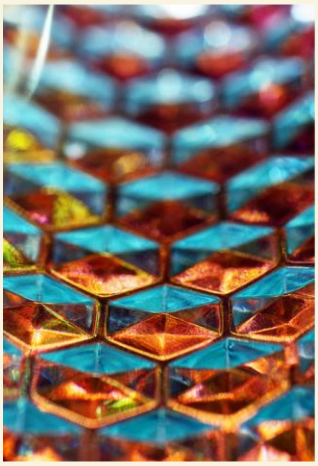
Risk Analysis

Key Statistics	
Number of Issuers	82
Typical Number of Issuers	60-85
Tracking Error	1.3%
Tracking Error Range	0-4%

Vaccination progress has been mixed in different countries - global travel remains complicated and virus risks still present

The US economy is performing well and, with inflation rising, the focus has moved to the removal of monetary stimulus

Government bonds yields are likely to rise further, reflecting a positive economic outlook, with corporate bonds supported by this backdrop



Baillie Gifford Key Facts

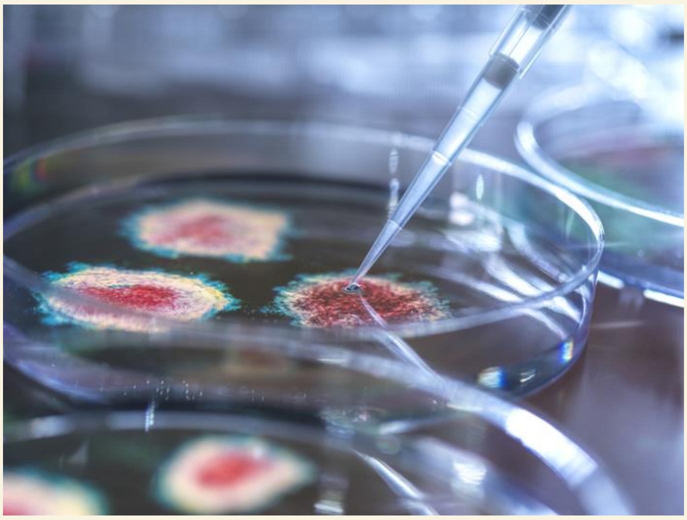
Assets under management and advice	US$486.8bn
Number of clients	730
Number of employees	1488
Number of investment professionals	300

Market background

The global vaccination programme has largely been successful across the developed world, with many countries giving at least the first dose to more than 50% of their adult populations. This success should not be downplayed but as new strains of Covid-19 have evolved it has become more apparent that not all vaccines are equally effective. Some countries using different vaccine mixes have seen case numbers rise sharply again while others have not. Furthermore, vaccination progress across most of the emerging world has been much slower. This varied progress makes a return to global travel complicated and, more importantly, with the virus still very much 'live' the risk of a more virulent or dangerous strain evolving is a continuing tail risk.

The vaccination success in some major countries has allowed a steady release of restrictions and a surge in growth. In the US this boost has been compounded by the generous Covid support package from the government, which had resulted in a huge pot of excess savings, now being spent. Core inflation in the US has risen to multi-decade highs as this surge in demand has met supply constraints, forcing a sharp rise in prices and raising the prospects of monetary tightening.

Optimism about the recovery led to sharp moves in bond and currency markets at the start of the year but these have since stabilised or retraced somewhat. The US Federal Reserve is now talking about 'tapering' its quantitative easing programme and has allowed improving economic sentiment to reprice expectations of interest rate rises. Meanwhile the ECB has largely done the opposite, increasing its asset purchases to prevent a rise in bond yields.



The UK has seen a strong growth recovery because of its success in rapidly rolling out the vaccination programme. Although the Indian or 'Delta' strain has recently caused a rise in cases, hospitalisation rates are far lower than prior waves, giving room for the government to continue reducing restrictions in coming months. This success has also allowed the start of a return to a market-based economy in the UK with the furlough programme unwinding from the start of quarter two, amongst the earliest of the developed market countries.

Performance

In aggregate, corporate bonds produced positive returns during the quarter. High yield bonds continued to perform strongly within credit markets as the economic recovery gathered pace following vaccination success in many developed countries.

The portfolio outperformed the benchmark index over the quarter (in sterling). This was primarily driven by credit selection, with a wide range of bonds adding value. Among these was German airport operator, Fraport.

Over longer periods, asset allocation has made a meaningful contribution, in keeping with our strategic approach, with the portfolio profiting from a dynamic approach to allocation between investment grade and high yield bonds. However, individual bond selection has continued to make the largest contribution to relative returns. Examples among the top performers in the past three years include subscription streaming service, Netflix.

Portfolio positioning

We believe corporate bonds can continue to perform well given the positive economic backdrop. However, valuations are high and further interest rate rises may impact longer-dated bonds. For this reason we have continued to trim some long-dated investment grade exposure, for example selling AT&T 2059 bonds during the quarter. We favour shorter-dated higher yielding bonds where the risks are more idiosyncratic in nature. Consequently, the weight in high yield bonds has risen to 46% of the portfolio, close to our limit of 50%.

We typically look for companies which can improve their balance sheets over time and currently some examples are ones which we expect to build market share as the survivors from the pandemic. A purchase we made during the quarter is Live Nation, the dominant player in the live music industry, which, over several years, has increased revenues, profits, festivals, fans, venues, artists, and managers by >10% compound annual growth rate. The pandemic has demonstrated the company's resilience and, despite continued uncertainty, vaccination rates in its two key markets (US and UK) are positive for the investment case. With independent competitors weakened, Live Nation will likely emerge in a stronger position. Another example is Nielsen, which supports the media industry by providing viewing data and insights. We believe Nielsen has unique data assets, customer relationships, and industry entrenchment, which will support its competitive position for many years to come, despite structural changes in viewing habits. Having divested its lower margin, growth-challenged business (Global Connect), we are further attracted to the excellent financial profile of the remaining core business, its growth prospects, and the de-leveraging catalyst that this sale provides.

We are often attracted to convertible bonds where we identify the opportunity to lend to quality businesses. These idiosyncratic opportunities can offer significant upside potential. During the quarter, one such purchase was SmileDirectClub. We believe that SmileDirectClub is at the forefront of two layers of innovation/disruption relating to the treatment of malocclusion. First, in the provision of clear aligners for teeth straightening (which is taking share from metal braces) and second, in its unique teledentistry approach to care (which is taking share from orthodontists). With a significant first-mover advantage in the D2C space, we think there will be reflexive benefits to scale for SmileDirectClub, which is vertically integrated from manufacturing to customer acquisition. We believe that these convertible bonds could deliver meaningful upside in a bull scenario and respectable returns in a bear/base scenario.

Outlook

The global recovery is likely to broaden as vaccination programmes reach more of the global population, enabling a steady relaxation of restrictions. Although fiscal stimulus will wane, these are largely automatic stabilisers rolling off after successfully protecting people's income through the Covid lockdowns. The stock of household savings that has been boosted by government spending, quantitative easing, and an inability to spend on leisure and tourism should provide the perfect conditions for a vigorous consumer-led economic expansion. Considerable uncertainty remains over whether this handover from government support to private spending will be seamless. One area of concern is the rise of semi-structural unemployment that will come from the weakness in global travel and tourism and from the jump higher in online shopping.

For financial markets a strong growth recovery has now been priced into most assets, with some valuations inflated by the high levels of liquidity in the global economy and resulting speculation. The potential removal of monetary stimulus poses more of a risk to asset prices than the real economy, as savings are spent and liquidity is reduced. We continue to expect government bond yields to rise to better reflect the improving economic situation but remain positive on corporate bonds for largely the same reason.

The views expressed reflect the personal opinion of the author and should not be considered as advice or a recommendation to buy, sell or hold a particular investment.

Periodic Performance

	Composite Net (%)	Benchmark %	Difference (%)
3 Months*	2.4	2.5	0.0
YTD*	1.2	0.2	1.0
1 Year*	8.1	5.4	2.8
3 Years	7.9	6.8	1.2
5 Years	6.3	5.0	1.3
Since Inception	5.9	4.7	1.2

Annualised periods ended 30 June 2021. *Not annualised.
Inception date: 30 September 2012.
Figures may not sum due to rounding.
Benchmark is Bloomberg Barclays Global Credit (hedged to US dollars) Index to 15/01/2021 thereafter 70% ICE BofAML Global Corporate Index/30% ICE BofAML Global High Yield Index (Hedged to US dollars).
Source: StatPro, Bloomberg Barclays, ICE Data Indices.
US dollars.

Discrete Performance

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Composite Net (%)	6.7	1.0	8.9	6.7	8.1
Benchmark (%)	3.9	0.9	9.3	5.7	5.4

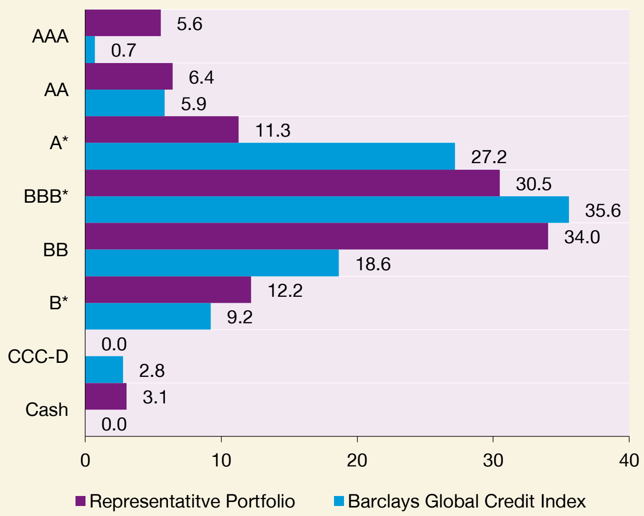
Benchmark is Bloomberg Barclays Global Credit (hedged to US dollars) Index to 15/01/2021 thereafter 70% ICE BofAML Global Corporate Index/30% ICE BofAML Global High Yield Index (Hedged to US dollars).
Source: StatPro, Bloomberg Barclays, ICE Data Indices.
US dollars

Top Ten Physical Bond Holdings†

Holdings		%
1	Netflix 4.625% 2029	2.2
2	EIB 4.875% 2036	2.2
3	Enel 8.75% 2023/2073 (144A)	2.2
4	Time Warner Cable 6.55% 2037	2.0
5	Fidelity 2.5% 2026	1.9
6	Svenska Handelsbanken 4.375% 2027 Perp	1.8
7	EDF 6% 2026 Perp	1.7
8	Co-operative Group 7.5% 2026	1.7
9	Cheniere Energy 4.625% 2028 (144A)	1.7
10	Nordstrom 4.375% 2030	1.6

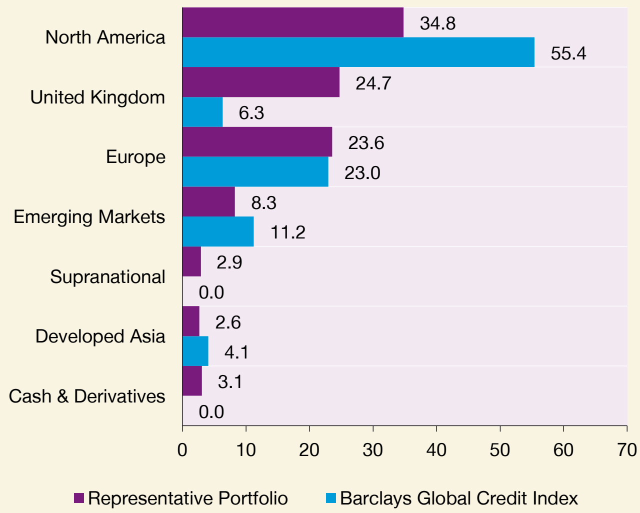
†The portfolio may also hold derivative positions for hedging purposes.

Credit Ratings (%)



*Includes Baillie Gifford internally rated bonds where there is no official rating.

Regional Split (%)



Totals may not sum due to rounding.
Source: Baillie Gifford & Co, ICE Data Indices.

Voting Activity

Votes Cast in Favour	
Companies	None
Resolutions	None

Votes Cast Against	
Companies	None
Resolutions	None

Votes Abstained/Withheld	
Companies	None
Resolutions	None

«Unrecognised Field»

Company Engagement

Engagement Type	Company
Environmental/Social	Alibaba Group Holding Limited, Enel SpA, Ryanair Holdings plc
AGM or EGM Proposals	NextEra Energy, Inc., Vonovia Finance B.V.

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Rights, responsibilities and sustainable returns

The oldest known bill of rights is thought by many historians to be the Cyrus Cylinder. Following the conquest of the City of Babylon by the armies of Cyrus the Great, the first king of ancient Persia, Cyrus apparently freed the slaves, declared that all people had the right to choose their own religion and established racial equality. These and other decrees were recorded on a baked-clay cylinder in the Akkadian language with cuneiform script.

Recognising this ancient object, now residing in the British Museum, as the world's first charter of human rights, the script has been translated into all official languages of the United Nations and its provisions parallel the first four Articles of the 1948 Universal Declaration of Human Rights.

Many centuries later, the adoption of the Universal Declaration of Human Rights by the United Nations General Assembly on 10 December 1948 was the final act in one of the most remarkable achievements in human history. Out of the ashes of the second world war, an international committee headed by the charismatic and dynamic former US First Lady Eleanor Roosevelt and Vice Chair PC Chang of China managed to draft a 'universal bill of rights' that was endorsed by almost every country in the world (there were a small number of abstentions).

Before then, there had been a number of hugely significant milestones towards universal rights such as the Magna Carta (1215), the French Declaration of the Rights of Man and of the Citizen (1789), and the US Bill of Rights (1791), but there had never before been a declaration of rights that explicitly applied to everyone, regardless of race, gender, economic circumstance and beliefs.

Members of the United Nations Commission on Human Rights rehearsing in the Delegates Lounge for a television show *You and Human Rights.*

Left to right are: Professor Rene Cassin, France; Dr PC Chang, China; Quincy Howe, CBS (Columbia Broadcasting Service), moderator; Mrs Eleanor Roosevelt, US, Commission Chairman; Dr Charles Malik, Lebanon, and Mr E Kelen of UN Radio Division.

Despite being over 70-years-old today, the Universal Declaration is still the foundation for all international human rights law, and the fundamental rights that it sets out are as relevant as ever. One of the reasons for the Declaration's ongoing significance and longevity is the principle of 'universalism' that runs through the document. At the insistence of Vice Chair PC Chang, the Chinese diplomat, philosopher and playwright whose membership of the drafting committee was of pivotal importance, there was no direct mention of any specific religion with respect to the principles, only freedom of religion as a right. This ensured that the principles in the Declaration were articulated as natural, inalienable rights that could not be arbitrarily revoked by monarchs, clerics or politicians.

While this brief history of rights is of innate academic interest, human rights is a topic of rapidly growing currency and importance in investment management and the wider business community.

Until relatively recently, the responsibility for protecting human rights fell on sovereign states, supported by a number of international agencies and non-governmental organisations (NGO). However following several high profile incidents in the latter 20th century, not least the perceived lack of intervention by oil and gas companies during the trial and execution of Nigerian community activist and environmental protestor Ken Saro-Wiwa in 1995, the United Nations became increasingly interested in the role that businesses could play in supporting the protection of human rights. This culminated in human rights being specifically included in the United Nations Global Compact, launched in 2000 as a framework for socially responsible business operations, embodied in the first two of 10 principles:

"Businesses should support and respect the protection of internationally proclaimed human rights (Principle One); and businesses should make sure that they are not complicit in human rights abuses (Principle Two)".

This was followed up by the much more detailed United Nations Guiding Principles on Business and Human Rights, endorsed in 2011. More recently, many businesses have also recognised the role that they can play in supporting the achievement of the UN Sustainable Development Goals, particularly with respect to basic universal needs such as primary healthcare, nutrition and sanitation.

From this relatively recent, tentative start, human rights awareness, and many accompanying dilemmas, are now everywhere in business, not least because of the role of social media and increasing NGO and employee activism in holding companies to account. The resulting reputational risk from the mishandling of human rights issues is ensuring that the 's in esg' – social – is rapidly reaching parity with the environmental ('e') and governance ('g') issues in terms of commercial importance. Whether this is considered by all to be appropriate or not, many businesses have learned the hard way that stakeholder expectations have changed beyond all recognition from the Milton Friedman thesis that the sole responsibility of the corporation was to make money for shareholders.

In the past few years alone, Rio Tinto's Chief Executive Jean-Sébastien Jacques was forced to resign after a number of aboriginal cultural sites were destroyed during the company's mining operations; numerous fashion companies have been publicly named and shamed for allegedly having forced labour in their supply chains; companies providing products or services linked to detention centres in the US and China have found themselves in the cross-hairs of campaign groups around the world; and corporations have been accused of being tacitly 'part of the problem' in the lack of progress in improving the human rights and economic empowerment of black, minority and first nation citizens in a number of countries.

While many people tend to think of issues as modern slavery and discrimination against minority groups when they think of human rights in the economy, there are also a range of evolving areas where different conceptions of employee and consumer rights are coming to the fore. These include the right to digital privacy, gender and identity rights in the workplace and the right to safer working conditions for all, the latter starkly highlighted by some of the inequalities of the pandemic. Human rights are also increasingly relevant to discussions on the best way to 'net-zero' emissions, taking account of issues such as the economic rights of workers in the fossil fuel industry during a 'just transition' and the right to protection from the adverse physical impacts of climate change. Technology platforms are also grappling with the at times competing rights of free speech on one hand and a content stewardship duty of care towards protected characteristics groups and vulnerable users online.

For all of the above reasons, we are engaging with our holdings on business and human rights issues, supported by additional research in this area being undertaken by the Baillie Gifford Governance and Sustainability Team and a newly established Investment Human Rights Research Group. We encourage all management teams to understand the growing expectations on their business to understand their obligations and support the protection of human rights within their sphere of influence.

Our experience to date is that the ambitious, innovative and growth-oriented kinds of companies that we aim to hold typically have no interest whatsoever in being even remotely connected to human rights abuses, and are often passionate to do what they can to support progress in this area. While it can be hard (and at times counter-productive) to take bold public positions in highly sensitive areas, very considerable amounts of thought and commitment are discretely going into improving human rights standards across international business and supply chains, much of this taking place under the auspices of invaluable initiatives such as the UN Global Compact, to which we are a long-standing signatory.

Human rights are at their most difficult and contentious when countries at different stages of development place differing emphasis on the trade-offs between individual rights and collective national security or economic development goals. Investors and companies alike are nevertheless still expected to be positive advocates for human rights in these circumstances, or at the very least not complicit in abuses, even though most rightly understand the limitations of their sphere of influence and the very significant risks from missteps in this arena. For our part, we will report back on our work in this critically important and rapidly evolving area in our client and regular investment stewardship reporting.

Votes Cast in Favour

We did not vote in favour of any resolutions during the period.

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Gartner Inc 4.5% 2028 (144A)	Gartner is the world's leading technology research and advisory company. The business provides consultancy services to a wide range of enterprise areas including: information technology, supply chain management, marketing, HR, sales, finance and legal. With over 90 offices around the globe Gartner is seen as the go-to consultant for technology research. The rapid onset of the Covid crisis has further emphasised to many businesses the importance of an effective on-line presence. Given Gartner's ability to facilitate such on-line solutions the business is thus well positioned for long-term growth.
InPost 2.25% 2027	InPost is the leading parcel delivery business in Poland using an innovative parcel locker network to serve customers conveniently, at lower cost and with a lower environmental footprint. They have rapidly taken share in Poland and are investing to roll out a network in the UK too. The company recently listed in Amsterdam at an EUR8bn valuation and is now undertaking a EUR0.5bn debt-funded acquisition of a parcel 'pick up drop off' network in France whose existing network it aims to supplement with parcel lockers. We have purchased this debut bond issue because we expect continued growth in network, volumes, revenues and cash generation to allow for significant optionality including the ability to deleverage rapidly. Bonds could be upgraded in the years ahead or the company may become an acquisition target by a higher-rated logistics operator.
LeasePlan 7.375% 2024 Perp AT1	Leaseplan aims to become the world's first fully digital car-as-a-service company. The business has weathered the Covid crisis in rude financial health with strong capital levels and excellent liquidity. The company is therefore well positioned for a post Covid recovery in demand which we believe will ultimately be positive for the bonds. Having followed Leaseplan closely for a number of years, we believe now is an apt time to invest in the bonds for the strategy when the valuation looks compelling.
Live Nation 4.75% 2027 (144A)	Live Nation (LYV) is the dominant player in the live music industry and over several years, has increased revenues, profits, festivals, fans, venues, artists and managers by >10% compound annual growth rate (CAGR). The pandemic has demonstrated the business' resilience and, despite continued uncertainty, vaccination rates in LYV's two key markets (US and UK) are positive for the investment case. With independent competitors weakened, LYV will likely emerge in a stronger position.
Natwest 4.6% 2031 Perp AT1	Attractive opportunity in a core holding.
Nielsen 5.625% 2028 (144A)	Nielsen supports the media industry providing viewing data and insights. We believe Nielsen has unique data assets, customer relationships, and industry entrenchment which will support its competitive position for many years to come, despite structural changes in viewing habits. Having divested its lower margin, growth-challenged business (Global Connect), we are further attracted to the excellent financial profile of the remaining core business, its growth prospects, and the de-leveraging catalyst that this sale provides. With an attractive yield above 4% we decided to take a position in Nielsen bonds for the portfolio.
SmileDirectClub 0% 2026 Convertible (144A)	We believe that SmileDirectClub is at the forefront of two layers of innovation/disruption pertaining to the treatment of malocclusion - firstly, in the provision of clear aligners for teeth straightening (which is taking share from metal braces) and secondly, in its unique tele-dentistry approach to care (which is taking share from orthodontists). With a significant first-mover advantage in the D2C space, we think that there will be reflexive benefits to scale for SmileDirectClub who is vertically integrated from manufacturing to customer acquisition. If the company can achieve anywhere close to its 5-year target of 20-30% revenue growth and 25-30% EBITDA margins, then these convertible bonds have meaningful upside in a bull scenario and respectable returns in a bear/base scenario. Given the early-stage nature of the company (cash burning, fast-growth etc.), we have tempered our enthusiasm with a smaller-than-average position size, whilst we continue to monitor management's execution in the coming quarters.
Taseko Mines 7% 2026 (144A)	Despite being a fourth quartile copper producer, Taseko has a very promising low-cost mine development in Florence (USA) that could materially transform the company's fortunes. With adequate funding in place, a healthy equity cushion, and a very supportive copper price environment we believe the company has ample liquidity to portfolio the required capital expenditure programme, with approval from the EPA expected in June 2021. Bonds are priced attractively with >6% yields on offer for these heightened risks.

Complete Sales

Stock Name	Transaction Rationale
Aroundtown Properties 3% 2029	Given unattractive valuation and concerns around high leverage in light of the upcoming structural challenges to office property trends, we have decided to sell out of Aroundtown bonds in favour of other, more attractive opportunities.
AstraZeneca 6.45% 2037	With credit markets having performed strongly we have decided to reduce spread duration within the strategy and sell some of the longer-dated bonds within the portfolio. In particular bonds from companies where we do not perceive material balance sheet improvement to be likely and where valuations are no longer compelling. Proceeds from such sales are being directed to either bonds where we believe there is much greater potential for balance sheet improvement or shorter dated bonds with attractively priced yields. Overall, such actions aim to reduce beta within the strategy to broader market moves. In this respect AstraZeneca bonds have performed strongly since first purchase but we now see better opportunities elsewhere.
AT&T 3.65% 2059	With credit markets having performed strongly we have decided to reduce spread duration within the strategy and sell some of the longer-dated bonds within the portfolio. In particular bonds from companies where we do not perceive material balance sheet improvement to be likely and where valuations are no longer compelling. Proceeds from such sales are being directed to either bonds where we believe there is much greater potential for balance sheet improvement or shorter dated bonds with attractively priced yields. Overall, such actions aim to reduce beta within the strategy to broader market moves.
E.ON 6.65% 2038	With credit markets having performed strongly we have decided to reduce spread duration within the strategy and sell some of the longer-dated bonds within the portfolio. In particular bonds from companies where we do not perceive material balance sheet improvement to be likely and where valuations are no longer compelling. Proceeds from such sales are being directed to either bonds where we believe there is much greater potential for balance sheet improvement or shorter dated bonds with attractively priced yields. Overall, such actions aim to reduce beta within the strategy to broader market moves.
KFW 0.375% 2025	We sold the holding of KFW bonds, guaranteed by the German government, to raise cash levels in the portfolio. The bonds yield almost nothing more than US Treasuries.
MercadoLibre 2.375% 2026	With a range of new ideas being generated by the team, we have decided to sell out of the 2026 maturity MercadoLibre bonds and switch into attractively priced Gartner bonds offered on a much higher yield. Note the strategy continues to own the longer dated MercadoLibre bonds which are more attractively priced.
OCI 5.25% 2024 (144A)	OCI bonds have performed well since purchase. With limited upside given the structure of these bonds (callable very soon), we have decided to take profits to re-invest in more attractive opportunities.
Range Resources 4.875% 2025	Range Resources bonds have performed extremely well since purchase given the improvement in natural gas prices in the USA and a major improvement in liquidity/maturity wall profile. As such, we are taking profits on a higher risk name to re-invest in more attractive opportunities.
SoftBank 4% 2029	With credit markets having performed strongly we have decided to reduce spread duration within the strategy and sell some of the longer-dated bonds within the portfolio. In particular bonds from companies where we do not perceive material balance sheet improvement to be likely and where valuations are no longer compelling. Proceeds from such sales are being directed to either bonds where we believe there is much greater potential for balance sheet improvement or shorter dated bonds with attractively priced yields. Overall, such actions aim to reduce beta within the strategy to broader market moves.
Ziggo 4.875% 2030 (144A)	With credit markets having performed strongly we have decided to reduce spread duration within the strategy and sell some of the longer-dated bonds within the portfolio. In particular bonds from companies where we do not perceive material balance sheet improvement to be likely and where valuations are no longer compelling. Proceeds from such sales are being directed to either bonds where we believe there is much greater potential for balance sheet improvement or shorter dated bonds with attractively priced yields. Overall, such actions aim to reduce beta within the strategy to broader market moves.

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