

BAILLIE GIFFORD HIGH YIELD BOND FUND - GBP

INVESTMENT RESEARCH NOTE
FEBRUARY 2024

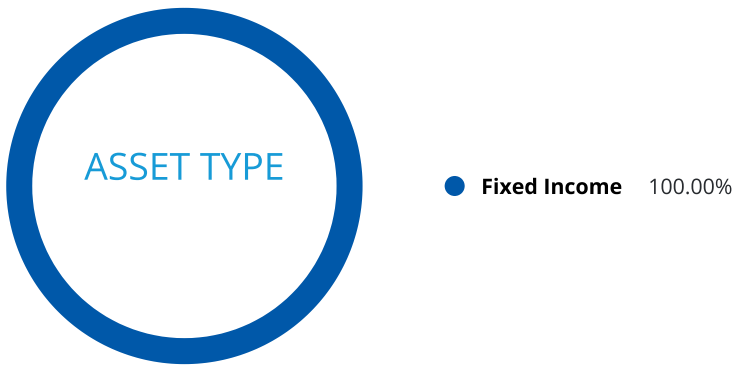
Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

SUMMARY

Baillie Gifford is an established UK asset manager based in Scotland and founded as an investment partnership which still exists today. It has a particular expertise in equities and a strong regional knowledge of Asia/Emerging Markets. They take a predominantly bottom-up, fundamental approach to investing with a long-term investment horizon and outlook.

Investors should be aware that this is a directional fixed income strategy which can deliver attractive returns but for a higher level of risk given the nature of the high yield asset class being a high risk segment of the fixed income market. This is by driven by high yield securities typically having higher default rates and being lower quality bonds as reflected by lower credit ratings compared to higher grade fixed income instruments. The fund is managed by Robert Baltzer (18 years experience) and Lucy Isles (7 years). Baltzer heads the 6-strong High Yield team. The analysts cover 20-25 holdings each and generate 5-10 new ideas a year.

The fund is typical of many Baillie Gifford products in advocating a low turnover, long term, through the cycle approach to investing. The fund aims to invest in under appreciated resilient businesses achieved through a diverse portfolio of mainly European currency sub-investment grade bonds, with 70-80 positions. ESG is embedded within the process, with the emphasis on governance and sustainability. The research process is very focused on long term analysis and also likely trends in cash flows and balance sheet structure.



INVESTMENT PROCESS

The process has considerable philosophical overlaps with the Baillie Gifford equity team, more so than many investment houses. This extends to join company meetings across both teams and the team also benefits from the additional company management access derived from this joint approach. The first stage is to test the resilience of the business model and/or industry of any potential investment. This is the first and most important barrier to overcome. There are 3 elements to this analysis - Durable company position; Good governance and sustainable approach and Appropriate capital structure. Companies are scored across all 3 variables and only those with higher scores are considered for further analysis. This then involves extensive due diligence in terms of analysis of the report and accounts, downside scenario analysis and further side channel due diligence.

ESG is embedded in the process, initially focused on governance, but since 2018 this has also involved a wider assessment of the sustainability of the company and an assessment of their contribution to society in the widest sense.

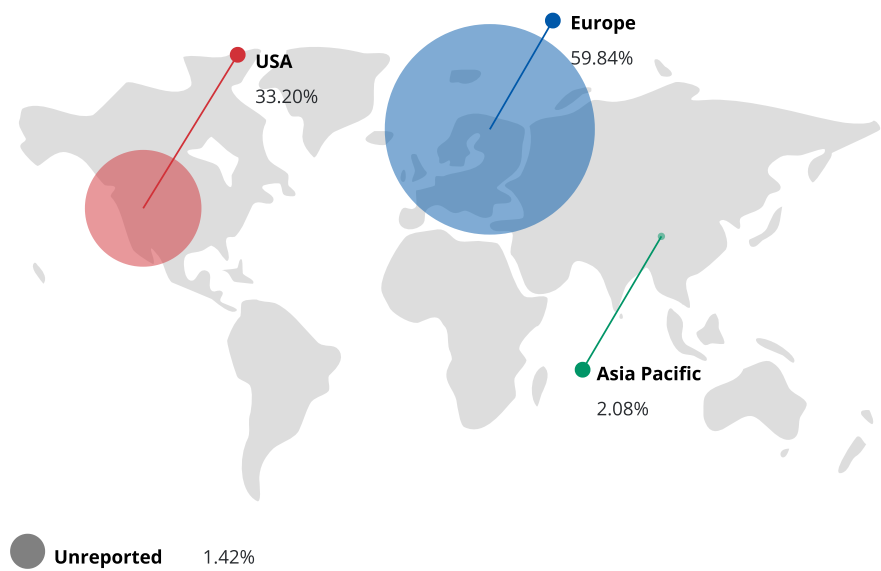
With a bottom-up focus, valuations are based on forward looking scenario analysis, based around comparing the valuation of a bond today with where it could trade a few years further out should the balance sheet process that the team has forecast come to pass. Turnover is low, averaging below 30% over the last 5 years. A focus on downside risk protection has resulted in the fund experiencing no defaults across the portfolio over the last 3 years, verses an average of 2% for the European High Yield market. This reflects a combination of avoiding default risk in initial purchases and selling out of any positions that start to exhibit such risks.

Position sizing is a key factor in risk control. With between 50-90 companies invested in average size per issuer is between 1-2%. The team believe this 'flatter' portfolio leads to greater resilience in more volatile markets. There are strict risk guidelines for the strategy adhered to, restricting maximum holding size by issuer, exposure to lower grades (i.e. CCC and lower) as well as to investment grade and non-sterling bonds. Derivatives are used mainly to reduce 'unwanted risks' such as currency and interest rate exposure.

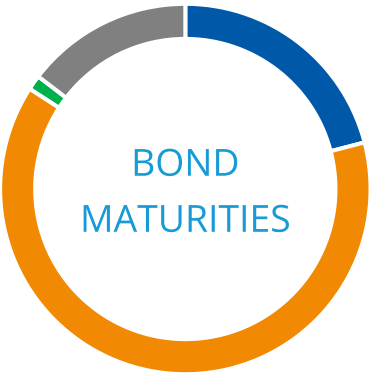
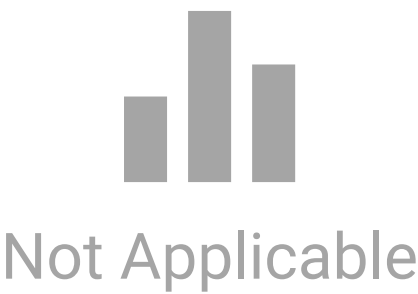
While this is a process driven by long term analysis and a strong aversion to risk results the underlying asset class is a higher risk strategy. Investors should be aware that the strategy can generate strong returns but for a much higher level of associated risk and be adversely impacted in a severe market crisis.

AGGREGATED NET EXPOSURE

REGIONAL EXPOSURE



EQUITY MARKET CAP (%)



Short Term (1-3 yr)	20.95%
Intermediate Term (3-10 yr)	63.16%
Long Term (>10 yr)	1.29%
Unreported	14.60%



Speculative Grade/High Yield	92.72%
Investment Grade	5.83%
Unreported	1.45%

OVERALL PERFORMANCE

● BAILLIE GIFFORD High Yield Bond Fund B-Inc ● Barclays Global Aggregate High Yield TR GBPH Benchmark

GROWTH (%) - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024



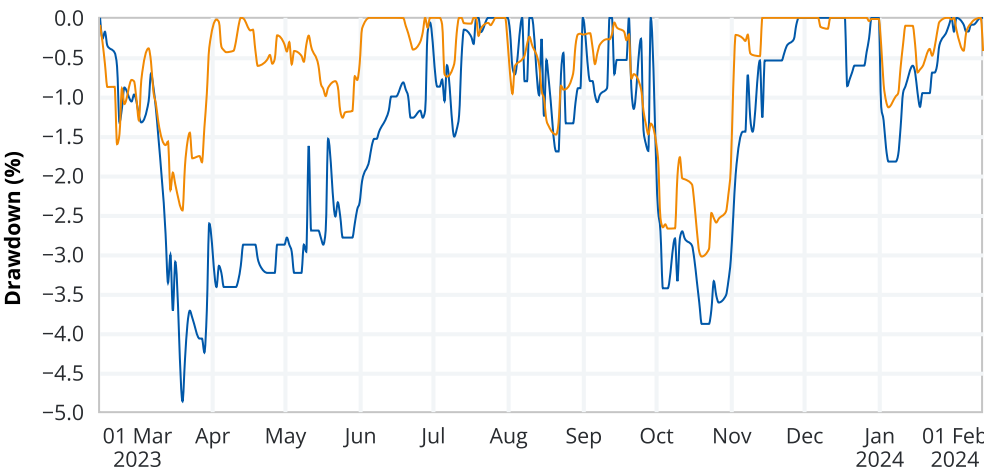
GROWTH (%) - FROM INCEPTION

4 Mar 2002 - 13 Feb 2024



DRAWDOWN (%) - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024



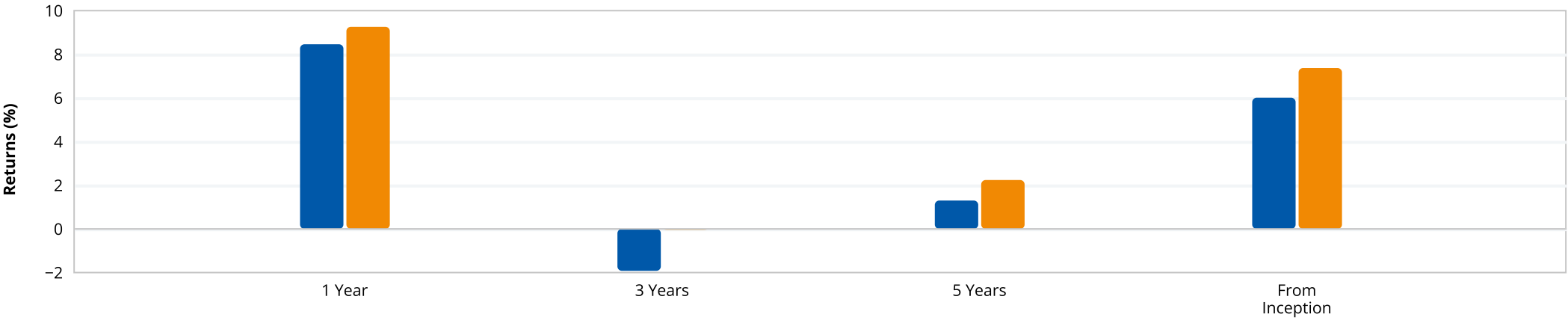
DRAWDOWN (%) - FROM INCEPTION

4 Mar 2002 - 13 Feb 2024



RETURNS

● BAILLIE GIFFORD High Yield Bond Fund B-Inc ● Barclays Global Aggregate High Yield TR GBPH Benchmark



MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	0.00	0.09											0.09
2023	2.64	-0.71	-1.65	-0.28	0.46	2.43	0.72	-0.18	2.31	-3.34	4.02	4.62	11.29
2022	-2.69	-3.08	0.44	-2.79	-2.78	-6.15	3.41	-0.35	-3.83	-1.49	4.62	-0.90	-14.96
2021	-0.52	0.52	-0.15	0.07	0.15	1.43	-0.58	0.73	0.07	-2.62	-1.05	1.78	-0.23
2020	0.18	-0.58	-15.43	7.60	3.49	3.10	1.30	1.29	1.41	-1.88	3.14	1.60	3.47
2019	1.10	1.85	0.98	0.90	-0.37	2.57	0.37	0.51	0.29	0.01	0.66	1.65	11.00

Capped to 6 years.

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
Baillie Gifford High Yield Bond Fund B-Inc	8.46	-1.92	1.30	6.01
Barclays Global Aggregate High Yield TR GBPH Benchmark	9.26	-0.04	2.24	7.37

CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
Baillie Gifford High Yield Bond Fund B-Inc	8.43	-5.64	6.62	258.31
Barclays Global Aggregate High Yield TR GBPH Benchmark	9.22	-0.12	11.64	373.04

● BAILLIE GIFFORD High Yield Bond Fund B-Inc ● Barclays Global Aggregate High Yield TR GBPH Benchmark

PERFORMANCE - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024

RETURNS (%)	8.46	9.26
VOLATILITY (%)	7.96	4.18
ALPHA	-0.19 *	
BETA	0.83 *	1.00
CORRELATION	0.86 *	1.00
SHARPE RATIO	0.43	1.13
SORTINO RATIO	0.60	1.78
MAX DRAWDOWN (%)	-4.86	-3.03

*Calculated over a 3 year period where history permits.

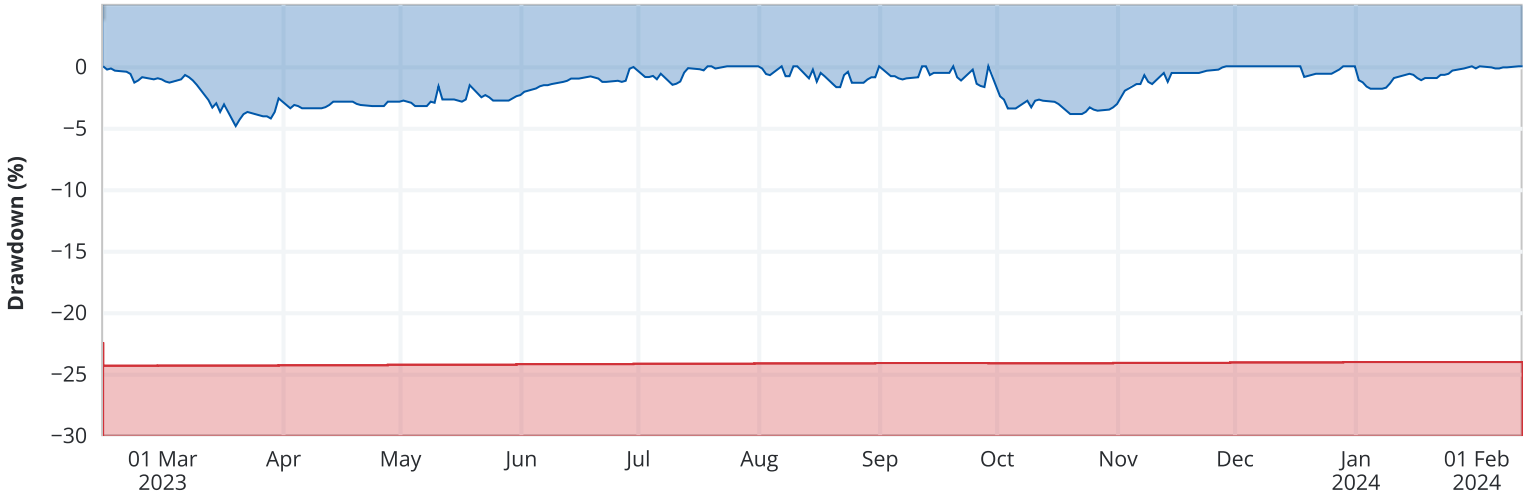
PERFORMANCE - FROM INCEPTION

4 Mar 2002 - 13 Feb 2024

RETURNS (%)	6.01	7.37
VOLATILITY (%)	11.38	5.10
ALPHA	-0.04	
BETA	0.84	1.00
CORRELATION	0.83	1.00
SHARPE RATIO	0.34	1.01
SORTINO RATIO	0.47	1.33
MAX DRAWDOWN (%)	-35.56	-34.98

SIMPLE STRESS TEST DRAWDOWN (%)

14 Feb 2023 - 13 Feb 2024



Stress test notes

The chart shows the calculated drawdown over the last year. The Review Point is the fund intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown hit the review point, then this indicates that market conditions may be abnormal. This is the point that we would consider taking immediate action for an extreme market event.

DISCLAIMER

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