

# Baillie Gifford UK Equity Alpha Fund

a sub-fund of Baillie Gifford UK & Balanced Funds ICVC



## Authorised Corporate Director's Annual Short Report for the year ended 31st January 2012

### Investment Objective

To achieve a total return, before charges and expenses payable out of the Fund, in excess of the total return on the FTSE All Share Index.

### Investment Policy

To invest principally in equities of UK companies and, in particular, generally invest at least 90% in value of the Fund in securities of companies listed in the FTSE All Share Index. The Fund will invest in a concentrated portfolio, typically comprised of between 25 and 35 holdings. Up to (but no more than) 10% in value of the Fund may be invested in collective investment schemes and deposits.

### Risk Profile

Investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in the Fund, and any income from it, can fall as well as rise and investors may not get back the amount invested. The Fund's concentrated portfolio and long-term approach to investment may result in large movements in the share price. Further details of the risks associated with investing in the Fund can be found in the Simplified Prospectus, copies of which are available at [www.bailliegifford.com](http://www.bailliegifford.com), or the full Prospectus which is available by calling the Authorised Corporate Director ('ACD').

### Investment Report

For the year to 31st January 2012, the A Net Income Shares delivered a total return of 4.0%<sup>1</sup>, compared to the FTSE All Share Index return of -0.3%<sup>2</sup>.

After a favourable run over the last few years our relative performance remains reasonable. As usual the outcome over such a short period demonstrates little. Mercifully though, it hasn't been bad enough to undermine the portfolio's performance over more meaningful periods of 3 and 5 years. In terms of very recent notable performers, it was hard to pick out significant themes. Towards the end of the year several stocks such as Weir Group and Wood Group plc recovered ground from the previous quarter, when they performed poorly because international cyclical companies in general were out of favour, but over the year little has changed for either in terms of their long term prospects.

In what we hope is an unjustified sharp reversal of its recent fortunes, the share price of the online fashion retailer ASOS did us no favours in the very recent period. The company reported a slowing of its previously stellar rate of expansion in the domestic UK market. In the context of what has clearly been a challenging period of weak demand for UK retailers this seems far from calamitous. In any case, any UK disappointment has been offset by the rapid expansion in the overseas business, which now accounts for over half the total business. It will of course depend on successful execution but the potential for ASOS to build a very large business in Europe, Australia and especially in America is huge and we remain excited by its prospects.

We are not blind to the issues facing many western economies but, seeking comfort from the fact that over half the world continues to grow at an impressive rate, the portfolio remains skewed to international growth companies. In our judgment most of those companies are well positioned within their industries and we expect that they will continue to prosper in the years ahead. A glance at pedestrian historic equity market returns might highlight how frustrating a place it has been to invest money over the last decade, but that compression of valuations on some fantastic businesses leaves us even more optimistic about the future.

Baillie Gifford & Co, 27th February 2012

### Net Asset Values

Share Class	Net Asset Value per Share 31.01.12	Net Asset Value per Share 31.01.11
A Net Income	230.3p	229.2p
A Net Accumulation	289.4p	283.3p
B Net Income	230.1p	229.1p
B Net Accumulation	323.1p	313.9p
C Net Income	230.1p	229.0p
C Net Accumulation	343.2p	331.1p

### Total Expense Ratios

Share Class	Total Expense Ratio 31.01.12	Total Expense Ratio 31.01.11
A Net Income	1.56%	1.55%
A Net Accumulation	1.56%	1.54%
B Net Income <sup>3</sup>	0.72%	0.55%
B Net Accumulation <sup>3</sup>	0.71%	0.55%
C Net Income	0.07%	0.04%
C Net Accumulation	0.06%	0.06%

### Standardised Past Performance Record<sup>1</sup>

Share Class	31.01.11 to 31.01.12	31.01.10 to 31.01.11	31.01.09 to 31.01.10	31.01.08 to 31.01.09	31.01.07 to 31.01.08
A Net Income	4.0%	23.1%	24.9%	-24.8%	-8.8%

The performance figures shown in this table are for Class A Net Income Shares. Performance figures reflect the annual charge of 1.5%, but exclude any initial charge paid. More recent performance for Class A Net Income Shares and the other share classes in issue can be obtained by calling the ACD. Your call may be recorded for training or monitoring purposes. Please note past performance is not a guide to future performance.

### Fund Facts

XD Dates: 31st July and 31st January

Distribution Payment Dates: 30th September and 31st March

### Distributions (for the Financial Year)

Share Class	Net Income per Share 31.01.12	Net Income per Share 31.01.11	Net Income per Share 31.01.10	Net Income per Share 31.01.09	Net Income per Share 31.01.08
A Net Income	3.86p	3.42p	3.62p	3.95p	3.32p
A Net Accumulation	4.78p	4.19p	4.40p	4.68p	3.88p
B Net Income <sup>3</sup>	5.80p	5.50p	5.32p	5.95p	5.73p
B Net Accumulation <sup>3</sup>	8.01p	7.37p	6.90p	7.45p	7.01p
C Net Income	7.33p	6.59p	6.11p	6.92p	6.87p
C Net Accumulation	10.65p	9.24p	8.32p	9.07p	8.78p

<sup>1</sup>Source: FE – bid to bid (10am prices), net income reinvested. <sup>2</sup>Source: FE – net income return. <sup>3</sup>Please refer to 'Change to ACD's Annual Fee' over the page. Please note past performance is not a guide to future performance. Please note that the Fund's name, investment objective and policy were amended on 1st September 2010.

## Major Holdings

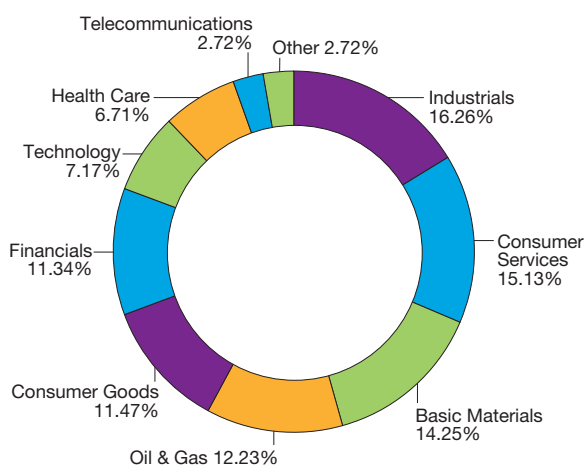
The Fund's 10 largest holdings at the end of this year and the previous financial year end are shown below.

Holdings	% of Fund Value as at 31.01.12
1 BG Group	6.38
2 Imperial Tobacco	5.57
3 BHP Billiton	5.35
4 Rightmove	5.29
5 GlaxoSmithKline	5.02
6 Johnson Matthey	4.40
7 Standard Chartered	4.22
8 Diageo	4.08
9 Pearson	2.74
10 Vodafone	2.72

Holdings	% of Fund Value as at 31.01.11
1 BG Group	7.02
2 BHP Billiton	5.65
3 Imperial Tobacco	4.97
4 Rightmove	4.64
5 GlaxoSmithKline	4.48
6 Diageo	4.44
7 Standard Chartered	4.41
8 Johnson Matthey	3.51
9 Vodafone	3.44
10 Smith & Nephew	3.20

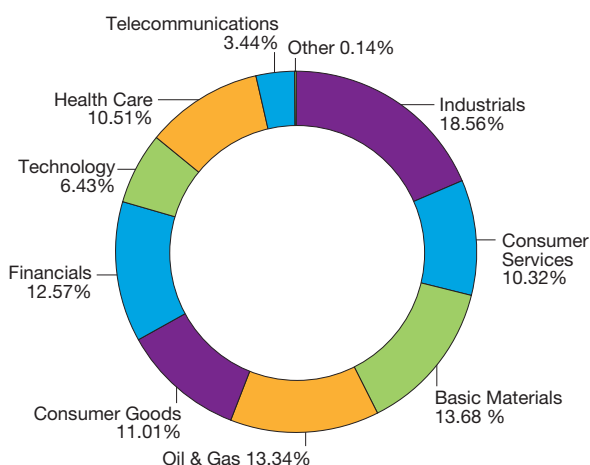
## Classification of Investments

### 31st January 2012



Net assets: £80,672,000

### 31st January 2011



Net assets: £87,499,000

## Change to ACD's Annual Fee

With effect from 1st February 2011 the annual fee rate of Class B Shares was increased from 0.50% to 0.65%.

## Report and Accounts

Copies of the annual and interim Long Report and Financial Statements of the Fund are available free of charge on request by calling the ACD.

## Other Information

The Fund is a UCITS scheme under the Financial Services Authority's Collective Investment Schemes Sourcebook ('COLL'). Shareholders are not liable for the debts of the ICVC beyond the amount subscribed. The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Fund during the year it covers and the result of those activities at the end of the year. For more information about the activities and performance of the Fund during this and previous years, please contact the ACD. Any comments expressed in this report should not be taken as a recommendation or advice.

## Minimum Investment Levels

The minimum initial investment is £1,000 for Class A Shares (£50 per month for the Monthly Savings Plan) and £250,000 for Class B Shares. Class C Shares are only

available to persons to whom an associate of the ACD provides services under an investment management agreement. Details of the minimum holding and redemption levels can be found in the Simplified Prospectus and full Prospectus.

## Change of Depositary

As part of an internal re-structuring in 2011 The Royal Bank of Scotland Group Plc transferred its Trustee and Depositary Services business from The Royal Bank of Scotland Plc to National Westminster Bank Plc and consequently National Westminster Bank Plc was appointed as Depositary of the Fund on 23rd September 2011.

As Depositary, National Westminster Bank Plc has the same duties and responsibilities as The Royal Bank of Scotland Plc and the change of Depositary has no impact on the way the Fund is operated.

## Replacement of Simplified Prospectus

Under the UCITS IV rules, the Simplified Prospectus ('SP') will be replaced by the Key Investor Information Document ('KIID') together with a Supplementary Information Document ('SID'). The KIID is designed to replace the SP and to provide investors with clearer information. The SID ought to be read in conjunction with the KIID. This document includes additional information which an investor needs to be aware of and which is not in the new KIID. We will replace the SP with the KIID with effect from 4th June 2012.

### Authorised Corporate Director

Baillie Gifford & Co Limited  
(Authorised and regulated by the  
Financial Services Authority,  
FSA Register No. 119179)  
Calton Square,  
1 Greenside Row,  
Edinburgh EH1 3AN  
Telephone: 0800 917 2113  
Fax: 0131 275 3955

### Depositary

National Westminster Bank Plc  
(Authorised and regulated by the  
Financial Services Authority,  
FSA Register No. 121878)  
Trustee & Depositary Services  
The Broadstone,  
50 South Gyle Crescent,  
Edinburgh EH12 9UZ

### Investment Manager

Baillie Gifford & Co  
(Authorised and regulated by the  
Financial Services Authority,  
FSA Register No. 142597)  
Calton Square,  
1 Greenside Row,  
Edinburgh EH1 3AN

### Auditor

KPMG Audit Plc  
Saltire Court,  
20 Castle Terrace,  
Edinburgh EH1 2EG

### Registrar

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by the Financial Services  
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