

# 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 2014

### Investment Objective

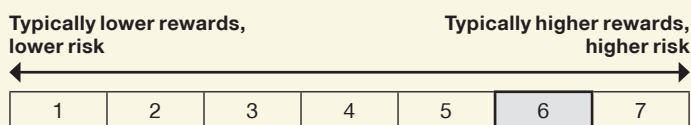
The Fund aims to achieve a total return, mainly through capital growth, before charges, which exceeds that of the FTSE All Share Index over the long term.

### Investment Policy

To invest mainly in shares of UK companies. At least 90% in value of the Fund will generally be invested in shares of companies listed in the FTSE All Share Index. The Fund will be concentrated and comprise of between 30 and 40 holdings.

### Risk and Reward Profile

The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the Risk and Reward Indicator.



Please note that even the lowest risk class can lose you money and that extreme adverse market circumstances can mean you suffer severe losses in all cases. The Fund is classified in the category above because it invests in company shares which generally provide higher rewards and higher risks than other investments such as bonds or cash. As the Fund changed its objective and policy on 1st September 2010, the returns of the Fund's comparative index are used in its place prior to this date to calculate the Risk and Reward Indicator. The indicator does not take into account the following material risks of investing in this Fund: 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 you may not get back the amount invested. Custody of assets may

involve a risk of loss if the custodian becomes insolvent or breaches duties of care. The Fund's concentrated portfolio and long-term approach to investment may result in large movements in the share price. Where possible, all charges are taken from the Fund's revenue. Where there is insufficient revenue, the remainder will be taken from capital. This will reduce the capital value of the Fund.<sup>1</sup>

### Investment Report

For the year to 31st January 2014 the return on A Net Accumulation Shares was 15.9%<sup>2</sup> compared to the return on the FTSE All Share of 10.1%<sup>3</sup>. That is nice, although the numbers over such a short period are always random: we would strongly encourage anyone not to get too excited or dismayed when things go up or down over annual periods. The surprising continuation of our recent successes does however mean that relative performance over a more meaningful five year period now looks quite respectable. Please do not use the last five years as a guide to the future however. We will try our best, but it is unlikely to be as good in the next five.

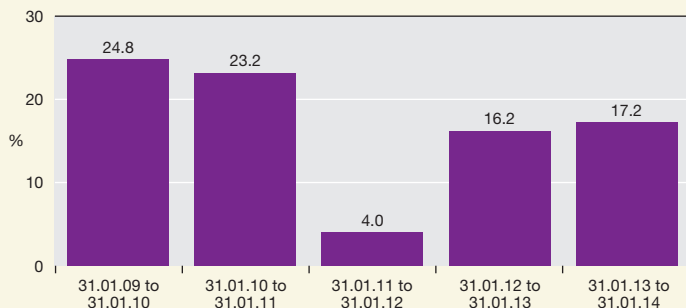
Notable features during this 12 month period included a welcome contribution from the online food retailer Ocado Group. It is unencumbered by the legacy of physical stores, so seems especially well positioned to benefit from the structural growth in online grocery shopping. Perhaps more importantly, a significant agreement with Wm Morrison during the year was not only financially favourable, but also helped to underpin its status as a pre-eminent logistics provider in this exciting growth segment.

The holding in online fashion retailer ASOS also helped: its share price more than doubled last year. We have been reflecting even more than usual on the difficult question of valuation, mindful that a swathe of e-commerce related businesses have enjoyed a positive reappraisal recently. There are however some quite dramatic changes afoot in the market for apparel retailing and the ASOS brand is already showing that it could be a significant global player. There is a reasonable chance this business could be many times its current size in 10 years.

With all the usual caveats relating to our predictive inadequacies – we simply don't and can't know what will happen to the stock market over the next 6 or 12 months – we do however remain optimistic that we are selecting stocks in a positive environment for long-term growth investors. We are confident that you own some fantastic growth businesses.

Baillie Gifford & Co, 28th February 2014

### Past Performance<sup>4</sup>



The performance figures shown in this graph are for Class A Net Accumulation Shares. Performance figures reflect the ACD's annual fee of 1.5%, but exclude any initial charge paid. Please note these returns differ from the return quoted in the Investment Report, which is based on the closing net asset value at the year end. In addition please note that the Fund's name, investment objective and policy were amended on 1st September 2010. Performance figures for the other share classes in issue can be obtained by calling Client Relations. Your call may be recorded for training or monitoring purposes. You should be aware that past performance is not a guide to future performance.

### Net Asset Values (as at the Year End)

Share Class	Net Asset Value per Share 31.01.14	Net Asset Value per Share 31.01.13
A Net Income	308.7p	267.9p
A Net Accumulation	394.3p	340.2p
B Net Income	308.7p	267.9p
B Net Accumulation	447.8p	383.1p
C Net Income	308.9p	268.0p
C Net Accumulation	481.8p	409.5p

### Distributions (for the Calendar Year)

Share Class	Net Income per Share Period to 31.01.14	Net Income per Share Year to 31.12.13
A Net Income	1.14p	1.78p
A Net Accumulation	1.30p	2.70p
B Net Income	2.33p	4.62p
B Net Accumulation	3.35p	6.59p
C Net Income	3.31p	6.22p
C Net Accumulation	5.69p	9.34p

### Ongoing Charges Figures (for the Financial Year)<sup>5</sup>

Share Class	Ongoing Charges Figure 31.01.14	Ongoing Charges Figure 31.01.13
A Net Income	1.60%	1.56%
A Net Accumulation	1.56%	1.53%
B Net Income	0.70%	0.71%
B Net Accumulation	0.70%	0.68%
C Net Income	0.06%	0.06%
C Net Accumulation	0.06%	0.06%

### Highest and Lowest Prices (for the Calendar Year)

Share Class	Highest Price per Share 2014	Lowest Price per Share 2014	Highest Price per Share 2013	Lowest Price per Share 2013
A Net Income	331.3p	308.4p	325.0p	260.8p
A Net Accumulation	421.5p	392.4p	413.5p	329.6p
B Net Income	332.5p	309.5p	326.0p	261.9p
B Net Accumulation	478.7p	445.6p	469.3p	370.9p
C Net Income	333.7p	310.7p	327.0p	262.5p
C Net Accumulation	514.9p	479.5p	504.7p	396.3p

<sup>1</sup>Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by calling Client Relations on 0800 917 2113.

<sup>2</sup>Source: Baillie Gifford & Co Ltd, closing net asset value, net income accumulated. <sup>3</sup>Source: FE, net income. <sup>4</sup>Source: FE, 10am dealing prices, net income accumulated.

<sup>5</sup>The ongoing charges figure is based on the expenses for the financial year and may vary from year to year. It excludes the cost of buying and selling assets for the Fund. You should be aware that past performance is not a guide to future performance.

## Major Holdings

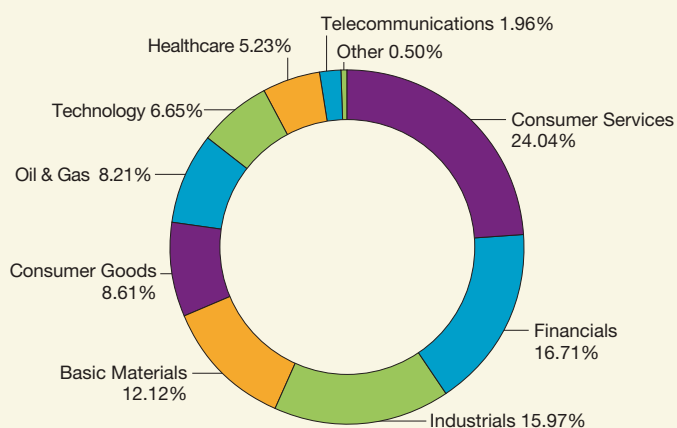
The Fund's 10 largest holdings at the end of this year and the previous year end are shown below.

Holdings	% of Fund Value as at 31.01.14
1 Rightmove	7.03
2 ASOS	6.18
3 Johnson Matthey	5.14
4 Hargreaves Lansdown	4.88
5 Ocado Group	4.80
6 Standard Chartered	4.08
7 Schroders	4.08
8 BG Group	4.05
9 Abcam	3.65
10 BHP Billiton	3.50

Holdings	% of Fund Value as at 31.01.13
1 Rightmove	6.18
2 BG Group	5.62
3 Standard Chartered	5.09
4 BHP Billiton	5.04
5 Imperial Tobacco	4.87
6 Johnson Matthey	4.87
7 Spectris	3.72
8 Schroders	3.47
9 ASOS	3.36
10 Diageo	3.33

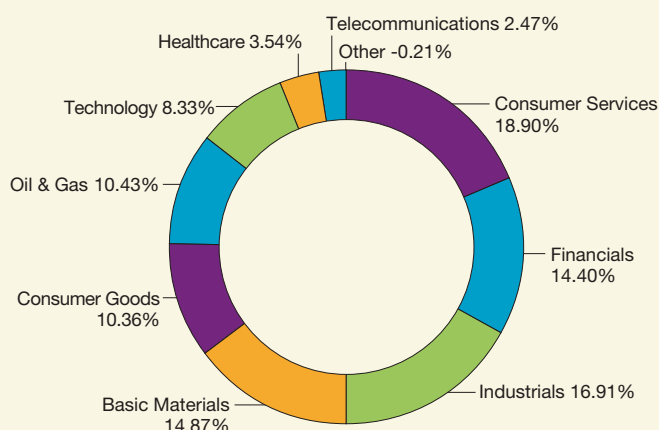
## Classification of Investments

### 31st January 2014



Net assets: £105,672,000

### 31st January 2013



Net assets: £114,483,000

## 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 Client Relations.

## Protected Cell Regime

With effect from 12th December 2013, the ACD moved the ICVC to the 'protected cell regime'. The new rules limit the recourse of creditors to just the assets of the relevant sub-fund and not all the sub-funds of the umbrella company.

## Fund Charges and Costs

We are obliged to quote performance based on the Class A Shares, which have the highest management fee. Our Class B Shares carry a lower annual management fee as well as a lower initial charge, than the equivalent Class A Shares, and associated distributions may be higher than the equivalent Class A Shares. If you have any questions on the merits of a conversion to the Class B Shares we would suggest that you contact a financial adviser. Performance numbers for Class B Shares are available by contacting the Client Relations Team on 0800 917 2113.

A further explanation of charges and costs relating to the Fund can be found in the Enhanced Disclosure of Fund Charges and Costs document on our website at [www.bailliegifford.com](http://www.bailliegifford.com).

## Fund Facts

XD Dates: 31st January, 31st July.

Distribution Payment Dates: 31st March, 30th September.

## Minimum Investment Levels

The minimum initial investment is £1,000 for Class A Shares (£50 per month for the Monthly Savings Plan) and £10,000 for Class B Shares (£500 per month for the Monthly Savings Plan). 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 Supplementary Information Document and Prospectus.

## Amendment to the Depositary's Fee

With effect from 1st February 2014, the fee charged by the Depositary was reduced from a rate of 0.045% plus VAT per annum of the first £50,000,000 and a sliding scale thereafter, to a flat rate of 0.01% plus VAT per annum.

## Other Information

The Fund is a UCITS retail scheme under the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL'). Shareholders are not liable for the debts of the Fund 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 call Client Relations: 0800 917 2113 (fax 0131 275 3955) or visit our website at [www.bailliegifford.com](http://www.bailliegifford.com) or email us at [trutenquiries@bailliegifford.com](mailto:trutenquiries@bailliegifford.com). Any comments expressed in this report should not be taken as a recommendation or advice.

## Authorised Corporate Director

Baillie Gifford & Co Limited  
(Authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 119179)  
Calton Square,  
1 Greenside Row,  
Edinburgh EH1 3AN

## Depositary

National Westminster Bank Plc  
(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, Financial Services Register No. 121878)  
Trustee & Depositary Services,  
The Younger Building,  
3 Redheughs Avenue,  
Edinburgh EH12 9RH

## Investment Manager

Baillie Gifford & Co  
(Authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 142597)  
Calton Square,  
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## Auditor

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Saltire Court,  
20 Castle Terrace,  
Edinburgh EH1 2EG

## Registrar

Baillie Gifford Savings Management Limited  
(Authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 150233)  
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1 Greenside Row,  
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