

# Baillie Gifford British Smaller Companies 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 good returns, principally through capital growth.

### Investment Policy

To invest in UK equities, principally in smaller companies in any economic sector. Up to (but no more than) 10% in value of the Fund may be invested in each of the following: 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 share prices of smaller companies may vary more than those of larger companies and they may be harder to sell. Smaller companies may do less well in unfavourable economic conditions. 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 return on A Net Accumulation Shares was 4.8%<sup>1</sup> compared to the return on the FTSE Small Cap (ex Investment Trusts) Index of -9.9%<sup>2</sup>.

This strong relative performance translated into a top decile performance versus the Fund's peer group. While it is pleasing to see the Fund deliver robust performance in the continued tricky macro-economic environment, we continue to believe that shorter-term performance measurements are of limited relevance in assessing investment ability. In this regard we are satisfied that the long-term performance remains good, with the Fund having returned 20.0%<sup>1</sup> over the last five years compared to the return on the FTSE Small Cap (ex Investment Trusts) Index over the same period of -29.0%<sup>2</sup>.

We believe that what makes smaller companies interesting is not that they are small but that some of them are immature and have significant growth potential. We routinely observe that it is these less mature, more entrepreneurial companies that tend to shape the evolution of an industry. It is striking how little innovation originates directly from large businesses. Size and market dominance often create a formidable barrier to competition but the cultural baggage and management dislocation that inevitably builds can be a significant impediment to change. With technology, innovation and globalisation making for an ever more dynamic business environment, we believe that the opportunities available through stock picking in the smaller companies' area remain strong.

Within the Fund we continue to identify well managed, soundly financed companies with strong, long-term structural growth potential. We continue to believe that the portfolio of stocks in your Fund can continue to deliver attractive investment returns over time.

Douglas Brodie, 10th 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 Accumulation	327.7p	317.9p
B Net Income	276.9p	271.5p
B Net Accumulation	362.4p	348.6p
C Net Income	277.1p	271.8p
C Net Accumulation	391.5p	374.0p

### Total Expense Ratios

Share Class	Total Expense Ratio 31.01.12	Total Expense Ratio 31.01.11
A Net Accumulation	1.55%	1.53%
B Net Income	0.71%	0.69%
B Net Accumulation	0.71%	0.70%
C Net Income	0.05%	0.05%
C Net Accumulation	0.05%	0.05%

### 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 Accumulation	4.8%	34.7%	38.5%	-23.9%	-19.5%

The performance figures shown in this table are for Class A Net Accumulation Shares. Performance figures reflect the annual charge of 1.5%, but exclude any initial charge paid. More recent performance for Class A Net Accumulation 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 Date: 31st January  
Distribution Payment Date: 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 Accumulation	3.65p	4.48p	3.91p	3.49p	1.94p
B Net Income	5.52p	5.85p	4.47p	4.77p	3.92p
B Net Accumulation	7.02p	7.33p	5.72p	5.69p	4.59p
C Net Income	7.39p	7.40p	5.54p	6.06p	5.62p
C Net Accumulation	10.17p	9.90p	7.64p	7.59p	6.79p

<sup>1</sup>Source: FE – bid to bid (10am prices), net income reinvested. <sup>2</sup>Source: FE – net income return. Please note past performance is not a guide to future performance.

## Major Holdings

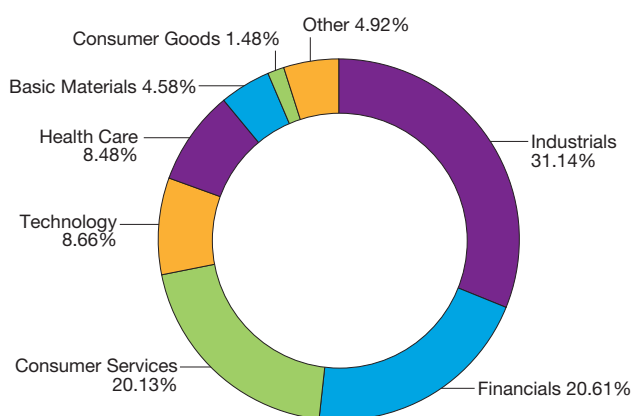
The Fund's 10 largest holdings at the end of this year and the previous financial year end are as shown below.

Holdings	% of Fund Value as at 31.01.12
1 SDL	4.33
2 Abcam	4.08
3 Victrex	4.05
4 ASOS	3.99
5 Rightmove	3.89
6 Genus	3.72
7 IP Group	3.39
8 Hardy Underwriting	3.34
9 Diploma	3.32
10 Oxford Instruments	2.99

Holdings	% of Fund Value as at 31.01.11
1 ASOS	4.80
2 Abcam	4.49
3 Victrex	4.41
4 Hardy Underwriting	3.44
5 SDL	3.39
6 Hargreaves Lansdown	3.14
7 Shaftesbury	3.10
8 Diploma	2.92
9 Rightmove	2.82
10 Genus	2.75

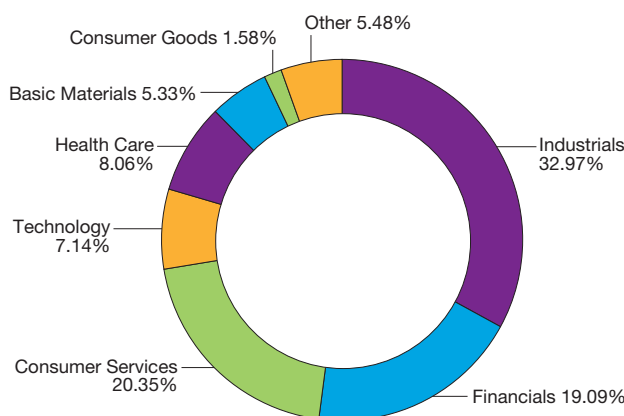
## Classification of Investments

### 31st January 2012



Net assets: £179,704,000

### 31st January 2011



Net assets: £233,679,000

## 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 the ACD.

## Other Information

The Fund is a UCITS retail 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

Baillie Gifford Savings  
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Calton Square,  
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